

# Lucideon Group Pension Scheme

## Statement of Investment Principles - Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated 1 October 2019 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period 1 January 2020 to 31 December 2020.

### Investment managers and funds in use

Asset Class	Fund	Target Asset Allocation
Risk-controlled multi-asset	Baillie Gifford Diversified Growth Fund	30.0%
Risk-controlled multi-asset	Barings Dynamic Asset Allocation Fund	30.0%
Risk-controlled multi-asset	LGIM Dynamic Diversified Fund	20.0%
Liability Driven Investment (LDI)	LGIM Matching Core Funds	20.0%
<b>Total</b>		<b>100.0%</b>

### Strategy Review

There have been no changes to the investment managers or target asset allocation over the year.

### Scheme Governance

The Trustee board is responsible for making investment decisions, and seeks advice as appropriate from Broadstone, as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP as the Trustees' primary objective is to meet the benefits of the Scheme as they fall due, and the current investment strategy in place is intended to meet this objective.

There were no changes to the investment consultancy objectives put in place for Broadstone which were agreed in October 2019. The Trustees are due to formally review these objectives by October 2022, or earlier.

There were no changes to the investment management agreements with Baillie Gifford, Barings, or LGIM during the year.

## Statement of Investment Principles

The Trustees last reviewed the Statement of Investment Principles (SIP) in October 2019, which was updated to reflect the updated investment disclosure regulations.

The Trustees have a policy on financially material considerations relating to Environmental, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out below and are detailed in the SIP.

There were no departures from the policies set out in the SIP, including the Trustees' policies on financially and non-financially material considerations, during the year.

### Policy on financially and non-financially material considerations

**Trustees' Policy:** *The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets. The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.*

*The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues, but will review this position from time to time. The Trustees receive information on request from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues.*

*With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a longer term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area with its investment adviser.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

The Trustees note that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustees are satisfied that the funds currently invested in by the Scheme are managed in accordance with their views on financially material considerations, as set out below, and in

particular with regards to the selection, retention, and realisation of the underlying investments held.

The Trustees have access to updates on governance and engagement activities by the investment managers, and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers, given they are investing in pooled funds.

A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Asset Class	Actively or Passively Managed?	Comments
Risk-controlled multi-asset funds	Active	The Trustees expect the investment managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use their discretion to generate higher risk adjusted returns. The Trustees also expect their investment managers, to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.
LDI	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

### Policy on the exercise of voting rights and engagement activities

**Trustees' Policy:** *Responsibility for engagement with the issuers of the Scheme's underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustees can therefore only influence engagement and voting policy indirectly.*

*The Investment Managers provide, on request, information to the Trustees on their actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Managers.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have any legal right to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

The Trustees currently invest in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager.

However, the Trustees periodically meet with their investment managers, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustees. As part of this, the Trustees will seek to challenge their investment managers on these matters where they think this is in the best interests of members.

To complement this monitoring, the Trustees receive stewardship and governance reports from LGIM and Baillie Gifford on a quarterly basis, and from Barings as required.

Within the current investment arrangements, all of the risk-controlled multi-asset funds contain equity holdings. Therefore these funds have voting rights attaching these underlying equities.

Some of the investment managers use the voting policy of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. Where an investment manager uses the voting policy of a third party proxy voter, the third party proxy voters used are confirmed in the table below.

The Trustees have delegated engagement activities to their investment managers, Baillie Gifford and LGIM report quarterly to the Trustees on how they have voted on behalf of the Trustees for the underlying holdings. Barings report to the Trustees on how they have voted on behalf of the Trustees for the underlying holdings as and when required.

A summary of the votes made by the investment managers from 1 January 2020 to 31 December 2020 on behalf of the Trustees (where the investment owns equities) is provided in the table below. The analysis is based on the latest information available from each investment manager.

Manager	Pooled or Segregated?	Third Party Proxy Policy Used	Resolutions Voted On	Resolutions Voted:		
				For	Against	Abstained
Baillie Gifford	Pooled	Not used – in house	836	92%	6%	2%
Barings	Pooled	ISS	87,251	90%	8%	2%
LGIM	Pooled	Not used – in house	66,242	82%	17%	1%

The voting activity set out above is presented at the company level, rather than being scheme or fund specific. The Trustees will work with their investment managers to obtain more detailed fund-specific voting information in future years.

The Trustees have requested details of the significant votes made on behalf of the Trustees (where voting rights are attached). Details of these significant votes are provided below, together with engagement activities where voting rights are not held by the investment managers. The notable engagement activities of the investment managers are provided below:

- **Baillie Gifford** engaged with Ryanair’s new senior independent director during the year, joining the company’s annual corporate governance forum. Baillie Gifford raised the issues of board composition and succession, executive remuneration, auditor rotation, the engagement process with shareholders, and the improvement in disclosure of the votes cast by company appointed proxy at shareholder meetings. The company has since improved on this disclosure as requested, and Baillie Gifford continue to engage on the other issues that have been raised.
- **Barings** engaged with a US chemicals firm with large fertiliser businesses to push them towards shifting more of their business towards carbon-neutral products. Barings have actively engaged to make this transition as quickly as possible, as doing so will cut the company’s carbon footprint, and help to decarbonise the food chain.

- **LGIM** put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. BP has announced new targets including net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

The Trustees are comfortable with each of the investment manager's approaches for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

The Trustees also consider each investment manager's policy on stewardship and engagement when selecting and reviewing investment managers.

### **Monitoring of Investment Arrangements**

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustees receive performance reports on a quarterly basis from Baillie Gifford, Barings and LGIM, together with performance reports from Broadstone on a quarterly basis to ensure the investment objectives set out in their SIP are being met.

**Signed: Dr Neil Sanderson**

**Date: 28 June 2021**

**On behalf of the Trustees of the Lucideon Group Pension Scheme**