

# MCL Group Limited Pension and Assurance Scheme ("the Scheme") Implementation Report

July 2023

# Background and Implementation Statement

## Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

## Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address [MCL\\_SIP\\_2023\\_2.pdf \(itochu.com\)](#) changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 31 March 2023 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

### **Summary of key actions undertaken over the Scheme reporting year**

- As at March 2023, the Scheme has a legacy holding of c.£0.1m with Schroders (formally R&M). Effective 30 September 2021, Schroders ceased charging a management fee over the holdings.
- The Trustee completed an ESG Impact Assessment on the Investment Managers, which highlighted key areas for investment managers to change in order to align with the Trustee's agreed ESG beliefs. The Trustee's investment consultant continues to monitor the investment managers from an ESG perspective and provide annual updates.

### **Implementation Statement**

This report demonstrates that MCL Group Limited Pension and Assurance Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change over the 12 months to 31 March 2023.

**Signed**      Amanda Osborne

**Position**    Trustee Director

**Date**        10 August 2023

# Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	The Trustee aims to hedge this risk both directly and indirectly where appropriate and affordable through an allocation to Liability Driven Investments ('LDI') with a 100% asset hedge target.	No actions or changes to policy.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	No actions or changes to policy.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable.	No actions or changes to policy.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.  To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	No actions or changes to policy.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:  1. Responsible Investment ('RI') Policy / Framework  2. Implemented via Investment Process	The Trustee updated the SIP to include criteria 6. Further detail provided later in this report.

		<p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>6. UK Stewardship Code signatory</p> <p>The Trustee monitor the managers on an ongoing basis.</p>	
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To largely invest in GBP share classes where possible to eliminate direct currency risk. To largely invest with managers that hedge exposure to foreign currency risk in underlying holdings, except where active currency positions are held.	No actions or changes to policy.

# Changes to the SIP

Over the period to 31 March 2023, the Trustee made changes to the SIP to reflect the recent regulatory requirements around stewardship.

## Policies added to the SIP

Date updated: April 2023

**Voting Policy - How the Trustee expect investment managers to vote on their behalf**

- The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

**Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'**

- The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

# Current ESG policy and approach

## ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. The Scheme has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Scheme's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

<b>Risk Management</b>	<ol style="list-style-type: none"><li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme</li><li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee</li></ol>
<b>Approach / Framework</b>	<ol style="list-style-type: none"><li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li><li>4. ESG factors are relevant to investment decisions in all asset classes.</li><li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li></ol>
<b>Reporting &amp; Monitoring</b>	<ol style="list-style-type: none"><li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li><li>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</li><li>8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.</li></ol>
<b>Voting &amp; Engagement</b>	<ol style="list-style-type: none"><li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li><li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li></ol>
<b>Collaboration</b>	<ol style="list-style-type: none"><li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li><li>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.</li></ol>

# ESG summary and actions with the investment managers

Manager, Fund	ESG Summary	Actions identified	Engagement with manager commentary
<b>LGIM Matching Core LDI Funds</b>	<p>We believe that LGIM have evidenced their ability to integrate ESG factors into their Matching Core LDI funds range through counterparty review and engagement.</p> <p>LGIM's ESG approach brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company.</p>	<p>Isio would like to see LGIM enhance the ESG scoring of counterparties within regular client reporting of LDI funds.</p>	<p>Since Isio's review, LGIM note they are working to improve their reporting processes and are looking to provide more granularity on ESG metrics in their standard reporting across all their funds.</p> <p>Enhanced ESG counterparty reporting is a priority for delivery to clients and LGIM are having internal discussions around how best to present this information in a meaningful way. LGIM provided Isio with an example of current thinking around this, with this detailing the LGIM ESG score for the counterparty, and engagement highlights.</p>
<b>LGIM Diversified Fund</b>	<p>LGIM have clearly identified firm-wide sustainability goals and have a dedicated team responsible for engaging with portfolio companies.</p> <p>At a firm level LGIM is a market leader in their approach to ESG and voting/engagement, Given the underlying philosophy of the Fund, it is limited in how far it can prioritise ESG, however it is able to leverage LGIM's engagement platform.</p>	<p>Isio would also like LGIM to continue to expand reporting capabilities over time to meet TCFD requirements.</p>	<p>LGIM are continuing to develop their reporting offering, in line with TCFD requirements.</p> <p>LGIM's reporting now includes report metrics such as: carbon footprint, total carbon emissions and temperature alignment. LGIM believe these metrics meet government best practice under TCFD for Trustee to monitor two emissions-based metrics, and one additional metric.</p>



# Engagement

As the Scheme invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 month period to 31 March 2023.

Manager, Fund	Engagement summary	Commentary
<b>LGIM Matching Core LDI Funds</b>	<p><i>Matching Core Fix Short</i>  <i>Matching Core Fix Long</i>  <i>Matching Core Real Short</i>  <i>Matching Core Real Long</i></p> <p>Total Engagements: 33            Environmental: 23            Social: 1            Governance: 8            Other: 1</p>	<p>LGIM engage with counterparties, regulators, governments, and other industry participants with the aim of influencing and instigating change.</p> <p>ESG engagement with counterparties is through LGIM's Investment Stewardship team, analysts, portfolio managers and traders. Information from these engagements is used to identify ESG risks which are embedded within LGIM's counterparty review process.</p>
<b>LGIM Diversified Fund</b>	<p>Total Engagements: 973            Environmental: 429            Social: 226            Governance: 281            Other: 37</p>	<p>LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness.</p> <p>LGIM share their finalised ESG ratings/scorecards with companies, identifying which metrics are used, LGIM's key focus areas and suggestions to companies that could improve their score.</p>

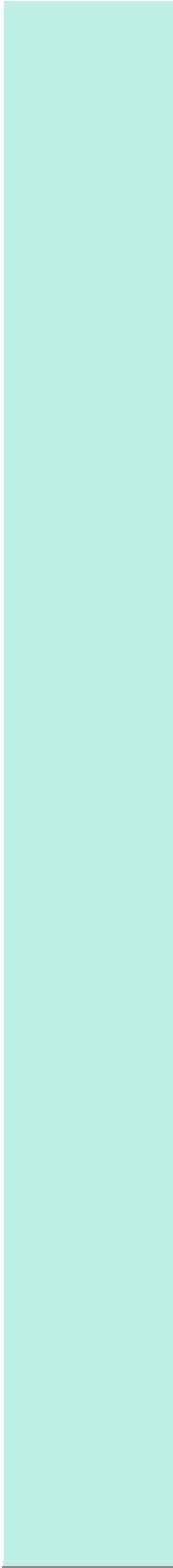
# Voting (for equity/multi asset funds only)

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2023.

The Trustee has adopted the managers definition of significant votes and has not set stewardship priorities. The managers have provided examples of votes they deem to be significant, and the Trustee has shown the votes relating to the greatest exposure within the Scheme's investment.

Manager, Fund	Voting summary	Examples of most significant votes	Commentary
LGIM Diversified Fund	<p>Voteable Proposals: 99,252</p> <p>Proposals Voted: 99.8%</p> <p>Proposal voted with management: 77.4%</p> <p>Proposals voted against management: 21.4%</p> <p>Abstain votes: 0.7%</p>	<p><b>BP Plc.</b></p> <p>LGIM voted in line with management for a resolution to approve a Net Zero from Ambition to Action paper.</p> <p>LGIM note that the vote, though not without reservations, is in line with LGIM's expectation for companies to set a credible transitions strategy, consistent with the Paris Alignment of limiting global average temperature increase to 1.5°C. LGIM believes that BP has taken significant steps to progress towards its net zero pathway, as demonstrated by a strategic update the company shared which highlighted key elements were strengthened.</p> <p>LGIM continue to engage with BP on the matter and publicly advocate for the implementation of the company's net zero strategy, with a particular focus on its downstream ambition and approach to exploration.</p>	<p>LGIM's Investment Stewardship team uses International Shareholder Services' (ISS) 'Proxy Exchange' electronic voting platform to electronically vote in line with LGIM's policies.</p> <p>All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with LGIM's position on ESG, they put in place a custom voting policy with specific voting instructions.</p>



LGIM considers this vote to be significant as it is an escalation of the manager's climate-related engagement and LGIM's public call for high quality and credible transition plans to be subject to shareholder vote.

#### **Abbott Laboratories**

LGIM voted against with management for a resolution to require Independent Board Chair.

LGIM voted against a shareholder resolution to appoint a Joint Chair/CEO position as LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. LGIM view these two roles as substantially different, requiring distinct skills and experiences. Since 2015, LGIM have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 have voted against all combined board chair/CEO roles.

#### **American Tower Corporation**

LGIM voted against the election of a male director, applying this vote as the company has an all-male Executive Committee.

LGIM considers this vote to be significant as the manager views diversity as a financially material issue, with implications for the assets they manage.

