



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

12 months to 31 March 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ('ESG') factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles ('SIP') and demonstrate adherence to these policies in an implementation report.

This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by The Pensions Regulator (TPR).

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address:

https://www.itochu.com/uk/en/link/_icsFiles/afieldfile/2020/10/14/MCL_Group_Pan_dA_Scheme_SIP_August2020.pdf

Changes to the SIP are detailed on the following pages.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustee 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 Trustee 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 they invest
- voting behaviour covering the reporting year up to 31 March 2021 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

- In December 2020, the Scheme rebalanced its portfolio back to its strategic benchmark asset allocation as stipulated in the Statement of Investment Principles. The aim of this procedure was to maintain the portfolio return target of Gilts +1.5% p.a.

Implementation Statement

This report demonstrates that the MCL Group Limited Pension and Assurance Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change over the 12 months to 31 March 2021.

Signed **Amanda Osborne**

Position **Trustee Director**

Date **29 October 2021**

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Scheme 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 that is Implemented via the Investment Process	Further detail provided later in this report.

		<p>2. A track record of using engagement and any voting rights to manage ESG factors</p> <p>3. ESG specific reporting</p> <p>4. UN PRI Signatory</p> <p>The Trustee monitor the managers on an ongoing basis.</p>	
<p>Currency</p>	<p>The potential for adverse currency movements to have an impact on the Scheme's investments.</p>	<p>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.</p>	<p>No actions or changes to policy.</p>

Changes to the SIP

Policies added to the SIP

The following policies were added to the SIP following the reporting period in September 2020.

How Scheme's investment strategy and objective was derived

- The Scheme undertook an investment strategy change over the 12 months to 31 March 2020 and the SIP and IID have been updated to reflect this.
- The Trustee takes a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.
- The Scheme's investment strategy was derived following careful consideration of the factors set out in the SIP. The considerations include the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Scheme, and also the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.
- The Scheme significantly de-risked its investment strategy which is reflected in a lower investment objective. The current objective is to achieve a return of around 1.5% per annum above the return on a liability matching portfolio of UK Government bonds.

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

- As the Scheme is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

- The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustee monitors the investment managers' engagement and voting activity on a periodic basis as part of their ESG monitoring process.
- The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

- The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.
 - For closed-ended funds or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements.
 - For open-ended funds, the holding periods are flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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Implementing the 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.

Risk Management	<ol style="list-style-type: none"> Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none"> The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. ESG factors are relevant to investment decisions in all asset classes. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none"> Ongoing monitoring and reporting of how asset managers manage ESG factors is important. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge. 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.
Voting & Engagement	<ol style="list-style-type: none"> The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none"> Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 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.

ESG summary and engagement with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
LGIM – LDI Funds	<p>LGIM have a team dedicated to understanding and assessing the impact of ESG factors for the wider business.</p> <p>LGIM use proprietary tools to quantify and monitor ESG risk. LGIM believe engaging with regulators, governments and other industry participants will help mitigate ESG risk.</p> <p>We believe LGIM have a strong ESG framework relative to their competitors</p>	<p>LGIM should include the ESG scoring of counterparties in regular client reporting of LDI Funds.</p>	<p>Isio engaged with LGIM in Q2 2020 on the Trustee’s behalf to review their ESG policies and set actions and priorities.</p>
LGIM - Diversified Fund	<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>LGIM should introduce exclusions into the indexes which the fund invests in will help to further integrate ESG into the investment process to the extent possible given the investment philosophy.</p> <p>LGIM should look to expand the standard fund reporting to include the ESG risks / metrics identified at fund level as part of their risk management process.</p>	<p>Isio engaged with LGIM in Q2 2020 on the Trustee’s behalf to review their ESG policies and set actions and priorities.</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 months to 31 March 2021.

Fund name	Engagement summary	Commentary
LGIM - LDI Funds	<p>LGIM have engaged with a number of industry participants on long term strategic issues in relation to LDI, including:</p> <ul style="list-style-type: none"> - The introduction of central clearing - The LIBOR transition - Recognising the pricing issues with bilateral RPI swaps 	<p>LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments, and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>
LGIM- Diversified Fund	<p>Total engagements: 923 Environmental: 447 Social: 247 Governance: 404 Other: 229</p> <p>Total % of eligible fund engaged: 33%</p> <p>Top 3 engagement topics:</p> <ol style="list-style-type: none"> 1. Climate Impact 2. Remuneration 3. Transparency 	<p>We note that this is the first year in which LGIM have been able to provide this level of engagement data for the fund.</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 the metrics which are used, LGIM's key focus areas and the improvements companies could make to better their score.</p> <p>LGIM produce an annual Active Ownership report to summarise how they have worked towards creating sustainable value for clients.</p>

Voting

The Scheme invests via fund managers and, for those that are eligible, have provided details on their voting actions. A summary of the activity covering the reporting year up to 31 March 2021 is shown below. Examples of any significant votes are shown below if applicable.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	<p>Voteable Proposals: 115,604</p> <p>Proposals Voted: 99%</p> <p>For votes: 82.0%</p> <p>Against votes: 17.7%</p> <p>Abstain votes: 0.5%</p>	<p>Pearson: Despite shareholder support following a series of profit warnings from the previous CEO, the company put forward an all-or-nothing proposal in the form of an amendment to their remuneration policy. If this was not passed, the company confirmed that the proposed new CEO would not take up the role. LGIM believed shareholders were backed into a corner; many were in favour of the new CEO but not the proposed amendments. LGIM voted against the policy and spoke with the chair of the board on succession plans and shortcomings of the current remuneration policy.</p> <p>SIG plc: LGIM voted against a one-off £375,000 payment to the company's interim CEO for work carried out over two months. LGIM does not generally support one-off payments, believing that a remuneration policy which is appropriate for the role and responsibility level should be in place – negating the need for one-off payments. LGIM was concerned with the payment's size (65% of full-time salary over 2 months). The resolution was passed, despite 44% of shareholders not supporting it.</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. 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>

This report has been prepared for the sole benefit of the Trustee of MCL Group Limited Pension and Assurance Scheme and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited's services contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited accepts no responsibility or liability to that party in connection with the Services.

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