The Sanderson Group Retirement Benefits Scheme Implementation Statement

for the Year to 31 March 2021

isio.

Background and Implementation Statement

Background

The Department for Work and Pensions (DWP) has introduced regulation to improve disclosure of financially material risks for UK pension schemes. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and pension schemes need to consider how these factors are managed as part of their fiduciary duty.

The regulatory changes require that pension schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Trustees of The Sanderson Group Retirement Benefits Scheme ("the Scheme") have updated their 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 below and changes to the SIP are detailed on the following pages.

https://www.civica.com/globalassets/7.document-downloads/2.uk-docs/corporate/sanderson---sip-2020-final.pdf

Implementation Statement

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

- actions the Trustees have 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 Trustees have 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's reporting year

- During the reporting year, the Trustees agreed to implement a new investment strategy for the Sanderson Scheme. This will involve disinvesting from the current strategy, and investing in new strategic allocations to Diversified Growth Funds, Absolute Return Bonds, Diversified Alternatives, Liability Driven Investments ('LDI') & Equity-Linked LDI.

- The new strategy is expected to be implemented after the reported year in H2 2021.

Implementation Statement

This report demonstrates that The Sanderson Group Retirement Benefits Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, and the Trustees' policies for managing these risks are outlined in the Scheme's SIP.

These were updated in September 2020 and are summarised in the table below.

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 Trustees are currently considering increasing the level of interest rate and inflation hedging from the Scheme's investment strategy	In May, the Trustees conducted a review of the liability-driven investment ('LDI') hedging and agreed to increase the target hedge ratio. The change is part of the new strategy and will be implemented post accounting year-end.
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).	No actions taken over the period.
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.	During the period, the Trustees undertook a strategy review to ensure the Scheme's portfolio continues to operate in an effective and efficient manner, as well as, to increase the diversification of the Scheme's growth portfolio. The new strategy will be implemented post accounting year-end.
Environmental, Social and Governance (ESG)	Exposure to ESG 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 criterion:	As part of the investment management of the Scheme's assets, the Trustee expects the investment managers to make decisions on:

		1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees' have delegated day-to-day responsibility of incorporating ESG factors to the Scheme's investment managers	• The selection, retention and realisation of investments taking into account all financially material considerations. • The exercise of rights (including voting rights) attached to these investments • Undertaking engagement activities with investee companies and other stakeholders where appropriate. This is reflected in the SIP which was updated in September 2020.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income. To invest in funds that hedge the majority of currency risk as far as possible	The agreed strategy only invests in GBP hedged mandates, which will eliminate the currency risk going forward.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No actions taken over the period.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest 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 Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees do 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 Trustees review 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 Trustees evaluate performance over the time-period stated in the investment managers' performance objective, which is typically 3 to 5 years.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do 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 open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy regarding ESG as a financially material risk, and this page details how the Schemes' ESG policy is implemented. The following page outlines Isio's assessment criteria used in evaluating the Schemes' managers' ESG policies and procedures.

The Trustees delegate the management and monitoring of ESG risks and engagement to the investment managers. The below table outlines the areas which the Schemes' investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	• Through the manager selection process ESG considerations will form part of the evaluation criteria. • The Schemes' investment advisor Isio will monitor the managers' ESG policies on an ongoing basis.	• The manager has not acted in accordance with their policies and frameworks.

Implementing the current ESG policy and approach (cont.)

Areas of assessment and ESG beliefs

These are the implicit Trustees' investment beliefs which we have derived from the criterion used by Isio to assess the investment managers' ESG policies:

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Schemes 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees
Approach / Framework	3. The Trustees should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustees will receive training as required to develop their knowledge. 8. The role of the Schemes' asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustees will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.

Collaboration	11. 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. 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.

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 Diversified Fund	LGIM currently do not provide details of their engagement activities at Fund level, however, this is something they are looking to implement going forwards. Isio remains in contact with LGIM surrounding the firm's engagement reporting.	• LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness. • LGIM share their finalised ESG ratings/scorecards with companies, identifying which metrics are used, LGIM's key focus areas and the improvements companies could make to improve their score.
LGIM Multi Asset (formerly Consensus)	LGIM currently do not provide details of their engagement activities at Fund level, however, this is something they are looking to implement going forwards, and Isio remains in contact with LGIM surrounding the firm's engagement reporting.	• LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness. • Engagement activity is recorded in a dedicated data management system. This system is also used to oversee progress and quantify engagement effectiveness. • LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.

Voting

As the Schemes invest via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	Meetings eligible to vote for: 11.362 Resolutions eligible to vote for: 115,604 Resolutions voted for: 114,425 Resolutions voted with management: 93,508 Resolutions voted against management: 20,265 Resolutions abstained from: 641	**Plus500 Ltd -** LGIM voted against a resolution to approve a special bonus payment to the CFO. Plus500 Ltd had originally proposed several pay-related proposals for shareholder approval. Among these, the board recommended the approval of a substantial discretionary bonus to the CFO for his successful work with Israeli tax authorities over several years, resulting in a significant tax saving for shareholders. LGIM does not support one-off discretionary bonuses based on the belief that such transaction bonuses do not align with the achievement of pre-set targets. Moreover, LGIM believe discussions with tax authorities for the company are part of a CFO's day-to-day job and should not be remunerated separately. LGIM will continue to monitor the company.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds.

		International Consolidated Airlines Group - LGIM voted against a remuneration report which was submitted to a shareholder vote. LGIM were concerned about the level of bonus payments which were 80% to 90% of their salary for the executive directors and 100% of the salary for the departing CEO despite significant cuts to the workforce and poor financial performance because of COVID-19. LGIM note that this highlights the importance of monitoring investee companies' responses to COVID-19, noting that they will engage closely with the renewed board on this.	
LGIM Multi Asset (formerly Consensus)	Meetings eligible to vote for: 11.238 Resolutions eligible to vote for: 114,616 Resolutions voted for: 114,341 Resolutions voted with management: 93,451 Resolutions voted against management: 20,250 Resolutions abstained from: 640	**Whitehaven Coal –** Shareholders asked the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders. LGIM voted for a resolution to approve capital protection, LGIM have been advocates of a managed decline in fossil fuels and were in favour of winding down the company's coal operations, with capital being returned to investors instead of spent on diversification projects. LGIM were concerned that there was a risk that the diversification and growth projects could become stranded assets. LGIM viewed this as a significant vote due to the topical relevance of 'green' shareholder activism as well as the wider media scrutiny it received.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds.

		Imperial Brands plc - LGIM voted against a remuneration report and policy which was submitted to a shareholder vote. LGIM were concerned that the company did not follow best practice in granting a new CEO significantly higher base salary than their predecessor. Prior to the AGM, LGIM and the Investment Association also engaged with the company outlining their concerns over the remuneration structure were. LGIM note this as a significant vote because they have concerns over ratcheting of executive pay and believe executives should be better incentivised to take long-term views in their decision making.	

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