

Hertel (UK) Retirement and Death Benefit Scheme

Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Stewardship Policy and related policies on Environmental, Social and Governance (“ESG”) factors and Climate Change set out in the Statement of Investment Principles (‘SIP’) have been followed during the year to 5 April 2020. 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.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. As set out in the SIP, the Trustees’ primary investment objective is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustees also aim to maximise returns at an acceptable level of risk, taking in to consideration the circumstances of the Scheme.

The objectives set out above provide a framework for the Trustees when making investment decisions.

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP dated 17 September 2019 first included the Trustees’ policies on ESG factors, stewardship and Climate Change, and these are set out in the Appendix to this Statement.

In order to establish these policies, the Trustees discussed ESG and the latest regulatory requirements governing the inclusion of ESG policies at the Trustee meeting of 7 May 2019

The Trustees keep their policies under regular review and will at least reconsider them at least annually alongside the production of this Statement.

Scheme’s Investment Structure

The Scheme’s only investment is a Trustee Investment Policy (TIP) with Mobius Life Limited (Mobius). Mobius provides an investment platform and enables the Scheme to invest in pooled funds managed by third party investment managers.

JLT Investment Management (JLT IM), now a part of Mercer, has fiduciary responsibility for the selection of pooled funds on the Mobius Platform.

As such, the Trustee has no direct relationship with the Scheme’s underlying investments managers.

Trustee engagement

In the year to 5 April 2020 the Trustees have not engaged with either Mobius, JLT IM, or the underlying pooled fund managers on matters relating to ESG, Stewardship or Climate Change.

The Trustee received training on ESG issues at their meeting on 7 May 2019, and as part of that training, Mercer's ESG scores were provided for the funds in which the Scheme was invested.

The Trustees notes that these scores will be included in Mercer's quarterly reports with effect from 30 September 2020, and they will review the development of the scores for the pooled funds in which the Scheme is invested and provide an update in the next Implementation Statement.

The ESG information provided by Mercer will help the Trustees to determine whether further action should be taken in respect of specific funds.

A further update will be provided in next year's Statement.

Voting Activity

Where the Trustees are specifically invited to vote on a matter relating to the corporate policy, they will exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's members.

Over the Scheme year, the Trustees have not been asked to vote on any specific matters and have therefore not cast any votes.

As noted earlier, the Scheme has no direct relationship with the pooled funds it is ultimately invested in, and therefore has no voting rights in relation to the Scheme's investments and no ability to influence the managers of the pooled funds.

Over the Scheme year, the Trustee did not consider in detail the voting activity of the pooled funds in which the Scheme's assets are ultimately invested, via the Mobius platform.

The Trustees intend to monitor how market practice develops in this regard and incorporate this in the approach for the Scheme going forwards and provide an update in next year's Implementation Statement.

Appendix – Trustees’ Policies on ESG factors, stewardship and Climate Change

Financially Material Considerations

The Trustees consider many risks which they anticipate could impact the financial performance of the Scheme’s investments over the Scheme’s expected lifetime. Such risks are set out in the next section of this statement.

The Trustees recognise that environmental, social and corporate governance (“ESG”) factors, such as climate change, can influence the investment risk and return outcomes of the Scheme’s portfolio and it is therefore in members’ and the Scheme’s best interests that these factors are taken into account within the investment process.

The Trustees further recognise that investing with a manager which approaches investments in a responsible way and takes account of ESG related risks may lead to better risk adjusted performance results as omitting these risks in investment analysis could skew the results and underestimate the level of overall risk being taken. Therefore, other factors being equal, the Trustees would seek to invest in funds which incorporate ESG principles.

In setting their investment strategy, the Trustees have prioritised funds which provide leveraged protection against movements in the Scheme’s liability value and also funds which provide actively managed diversification across a wide range of investment markets and consider the financially significant benefits of these factors to be paramount.

The Trustees note that ESG considerations are not paramount to the first level decision making process within the funds which provide either actively managed diversification or leveraged liability protection. However, in the actively managed Diversified Growth Funds in which the Scheme invests, whilst managers typically do not put ESG considerations at the heart of the asset allocation decision, they will embed ESG considerations into the management of the underlying asset classes where it is appropriate to do so.

The Trustees also receive ESG scores provided by the Investment Consultant in relation to the funds in which the Scheme is invested and will monitor how these develop over time.

The Trustees believe that the importance of ESG considerations will increase over time and have therefore built an ongoing review of this into their annual business plan to make sure that their policy evolves in line with emerging trends and developments.

The Trustees are therefore satisfied that ESG factors are appropriately reflected in the overall investment approach.

Non-Financial Matters

The Trustees have determined that the financial interests of the Scheme members are their first priority when choosing investments.

They have decided not to consider non-financial considerations, such as ethical views, or to take members’ preferences into account when setting the investment strategy for the Scheme.

Stewardship

The Scheme is invested solely in pooled investment funds. The Trustees' policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.

If the Trustees are specifically invited to vote on a matter relating to corporate policy, they would exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.