

Hertel (UK) Retirement and Death Benefit Scheme

ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 5 April 2024

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 2024 (Scheme Year). 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, as amended, 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 into consideration the circumstances of the Scheme.

The Trustees also ensure that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

Investment Strategy

Early in the Scheme Year, the Trustees implemented a low risk, fully bond based investment strategy. The purpose of this strategy is to help protect funding gains that had been made when rises in gilt yields led to a significant fall in the value of the Scheme's liabilities.

Policy on ESG, Stewardship and Climate Change

The Trustees understand that they must consider all factors that have the potential to impact upon the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Scheme's SIP includes the Trustees policies on ESG factors, stewardship and climate change. These policies are also set out in Appendix 1 to this Statement. The Trustees keep their policies under regular review, with the SIP subject to review at least triennially.

The SIP was updated over the Scheme Year, and approved on 2 November 2023, primarily to reflect the new lower risk strategy. The SIP is available online at the following link: <https://uk.altradservices.com/wp-content/uploads/2023/12/Hertel-SIP-November-2023-Approved.pdf>

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.

As such, the Trustees have no direct relationship with Legal and General Investment Management (LGIM), the manager of the pooled funds in which the Scheme is invested through Mobius. The Trustees have the

responsibility of monitoring the pooled funds, in conjunction with advice received from their investment advisor, Mercer.

Trustees' Engagement

The Scheme is mostly invested in pooled funds containing gilts and index-linked gilts issued by the UK Government. There is therefore very limited ability to influence behaviour by engagement.

The Trustees therefore invest with an investment manager where responsible investment is embedded appropriately in its approach to investment; including monitoring and engaging with investee companies.

Mercer's quarterly performance reporting includes Mercer's ESG scores for the funds in which the Scheme is invested. These scores reflect Mercer's view on how the investment manager incorporates ESG factors into the management of the funds and helps the Trustees to determine whether further action should be taken in respect of specific funds.

The Trustees monitor the development of these scores over time, and also consider Mercer's ESG scores when undertaking an investment strategy review and considering new investment funds, as was done when the investment strategy was revised.

The Trustees are satisfied that Mercer's ESG scores for the funds invested in are satisfactory in the context of the mandates of the funds.

As the Trustees have no direct relationship with the Scheme's underlying investment manager (LGIM) the engagement initiatives are driven by the investment manager.

In relation to the c.20% invested in corporate bonds, the Trustees acknowledge that they cannot directly influence the ESG policies and practices of the companies in which the pooled fund invests. However, they note that further information on LGIM's approach to responsible investment and engagement is available at the following website:

<https://www.lgim.com/uk/en/capabilities/investment-stewardship/>

The Trustees also note that LGIM has been a signatory of the UK Stewardship Code since 2021. (Source FRC Website.)

Taking all the above into consideration, the Trustees are satisfied that responsible investment and engagement is embedded appropriately into the investment manager's approach to investing.

Voting Activity

The Scheme disinvested from pooled funds with exposure to equities and therefore no longer holds assets with voting rights. As such, the Trustees do not assess any form of voting information as it is not applicable to the Scheme's investments.

Assessment of how the Engagement Policies in the SIP have been followed for the year to 5 April 2024

The Trustees are satisfied that the Engagement Policies set out in the SIP, which was in place over the year have been followed.

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

The policies below are included within the 2 November 2023 SIP:

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.

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.

As noted earlier, the Scheme’s assets are invested in pooled funds through the Mobius TIP. The Trustees therefore have very limited ability to influence the ESG policies and practices of the companies in which its manager invests. Furthermore, given the Trustees’ key objective is to reduce risk relative to the value of the Scheme’s liabilities, the Scheme’s assets are largely invested in pooled funds containing gilts and index-linked gilts issued by the UK Government, and ESG considerations do not readily apply to these investments.

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 will also review ESG considerations at future updates of this Statement 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 through the Mobius TIP and the Trustees therefore have no direct ability to influence the ESG policies and practices of the companies in which its manager invests.

All the Scheme’s assets are invested in bond based pooled funds. There are therefore no voting rights in relation to these investments.

Furthermore, the Scheme is mostly invested in pooled funds containing gilts and index-linked gilts issued by the UK Government. There is therefore very limited ability to influence behaviour by engagement.

The Trustees' policy is therefore to invest with an investment manager where responsible investment is embedded appropriately in its approach to investment; including monitoring and engaging with investee companies.

Information on the investment manager's approach to responsible investment, voting and engagement with the investee companies is available at the following website:
<https://www.lgim.com/uk/en/responsible-investing/>

Mercer's quarterly reporting to the Trustees includes Mercer's ESG score for the funds in which the Scheme is invested. The ESG score incorporates an assessment of engagement and voting as part of the process.

Receipt of this score on a quarterly basis enables the Trustees to monitor that these scores remain appropriate in the context of the fund mandates.

Taking all the above into consideration, the Trustees are satisfied that stewardship and responsible investment is embedded appropriately in the investment manager's approach to investing.

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.

If a new investment manager is selected, the Trustees would consider Mercer's ESG score for the new manager as part of their decision making process.