

# Scholl Pension Plan (“the Plan”)

## Annual Engagement Policy Implementation Statement

Year Ending 5 April 2024

### **Introduction**

This Statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (“SIP”), produced by the Trustee, has been followed during the year to 5 April 2024. The SIP is a document drafted by the Trustees in order to help govern the Plan’s investment strategy. It details a range of investment-related policies, a summary of which is included below alongside the relevant actions taken by the Trustees in connection with each of these policies.

This Statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Plan’s (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The Plan has both a Defined Benefit (“DB”) section and a Defined Contribution (“DC”) section. The table later in the document sets out how, and the extent to which, the policies in the DB and DC Sections of the SIP have been followed.

Members should be aware that this Statement is part of a wider set of information available on the Plan’s governance and investment responsibilities undertaken by the Trustees:

- Members can view the Plan’s SIP (mentioned above) [here](#). It discloses, in detail, the investment principles, policies, objectives, and strategy followed.
- Members can request a copy of the Annual Report and Financial Statements of the Plan, which contains certain information on the management of the Plan, its governance and investment risks management.

### **Investment Objectives of the Plan**

#### DB Section

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set.

The Trustees’ objective is to invest the Plan’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. The DB Section of the Plan is fully funded on a Technical Provisions basis and investment risk has been mitigated to a large extent through implementation of a buy-in policy covering 100% of the DB Section’s liabilities.

## DC Section

During 2022 the Trustees agreed to a change in the investment strategy for the DC Section, whereby all funds were transferred to one Legal & General Investment Management (“LGIM”) fund, the LGIM Blended Bond Fund (Index-Linked Gilts and Fixed Interest Gilts). This change was implemented so that the assets held would move more closely in line with how an insurance policy provider would value the benefits that the Trustees intend to secure in the future.

The Trustees monitor and review the suitability of the fund from time to time and may change the Investment Manager or underlying investment funds after receiving professional advice.

## **Review of the SIP**

The SIP was last reviewed in December 2022, to reflect the change in the DC investment strategy, which occurred in 2022, involving the decision to make only one fund available (the LGIM Blended Bond Fund) to members with DC benefits.

Over the 12 months to 5 April 2024, the Trustees have not updated the Scheme’s SIP as there were no material changes to the Scheme’s Investment arrangements.

## Assessment of how the policies in the SIP have been followed for the year to 5 April 2024

The information provided in the following section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP.

	<b>Area covered by the policy</b>	<b>Trustee Policy</b>	<b>Actions taken in the year to 5 April 2024</b>
1	Securing compliance with the legal requirements about choosing investments	<p><b>Both Sections</b></p> <p><i>The Trustees obtain written advice from their investment adviser, enabling the Trustees to choose investment vehicles that can fulfil the Plan's investment objectives. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).</i></p>	<p><b>DB Section</b></p> <p>Following the buy-in transaction with PIC, the Trustees have retained a holding in the LGIM Sterling Liquidity Fund with the objective of maintaining an appropriate level of cash for residual expense payments. The PIC contract was entered into following the Trustees receiving advice on its suitability from Mercer from an investment perspective and Pinsent Masons from a legal perspective.</p> <p><b>DC Section</b></p> <p>During 2024 the investment strategy remained unchanged, with one Fund available (the LGIM Blended Bond Fund) to members with DC benefits. This fund is designed to move closely in line with how an insurance policy provider would value the benefits that the Trustees intend to secure in the future.</p>

2	Kinds of investments to be held	<p><b>DB Section</b></p> <p><i>The Trustees seek to maintain its fully funded position on a technical provisions basis, following the implementation of the Buy-in policy.</i></p> <p><b>DC Section</b></p> <p><i>The Trustees seek to ensure that the assets held move closely in line with how an insurance policy provider would value the benefits that the Trustees intend to secure in the future.</i></p>	<p><b>DB Section</b></p> <p>Under the buy-in policy, PIC is responsible for providing cash flows required to meet the associated member pension payments as they fall due. The residual assets, following completion of the buy-in, are invested in a Sterling Liquidity Fund with LGIM in order to meet ongoing expenses.</p> <p><b>DC Section</b></p> <p>Over the year to 31 March 2024, the Plan was invested in a Blended Bond Fund that consists of a combination of Index-Linked Gilts and Fixed Interest Gilts.</p>
3	The balance between different kinds of investments	<p><b>DB Section</b></p> <p><i>Under the buy-in, PIC is responsible for providing cash flows required to meet the associated member pension payments as they fall due.</i></p> <p><i>The Trustees invest the remaining assets of the DB section ("the residual assets") in a pooled fund arrangement operated by LGIM.</i></p> <p><i>The residual assets are those that remain following the buy-in and there is currently no formal strategic asset allocation in place.</i></p> <p><b>DC Section</b></p> <p><i>The Trustees made no changes to the investment strategy over the year. The fund offered is designed to move closely in line with how an insurance policy provider would value the benefits that the Trustees intend to secure in the future.</i></p>	<p><b>DB Section</b></p> <p>There is currently no formal strategic asset allocation in place with residual assets invested in a cash fund.</p> <p><b>DC Section</b></p> <p>The strategic asset allocation has been set so that assets are expected to move in a similar way to how an insurance policy provider would value benefits, to the extent possible.</p>

4	Risks, including the ways in which risks are to be measured and managed	<p><b>DB Section</b></p> <p><i>Within the DB Section, the Trustees have minimised their primary risks by entering into the buy-in policy.</i></p> <p><b>DC Section</b></p> <p><i>The Trustees have considered risk (both investment and operational) from a number of perspectives in relation to the DC Section, concluding that the strategy should be designed to move in line with how an insurance policy provider would value the benefits, as far as possible.</i></p>	<p><b>Both Sections</b></p> <p>As detailed in the risk sections in the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.</p> <p>The Trustees are satisfied that the investment risks set out in their SIP are being appropriately managed and measured.</p> <p><b>DB Section</b></p> <p>As the Plan's investments are in the whole of Plan buy-in, with a small residual balance held in a cash fund, the Trustees accept that they have no ability to specify the risk profile and return targets of the assets, however, the buy-in policy matches 100% of member benefits.</p> <p><b>DC Section</b></p> <p>As detailed in the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation and the choice of fund managers, funds and asset classes.</p> <p>The Trustees believe that the risks identified are best mitigated by a strategy</p>

			designed to move in line with how an insurance policy provider would value the benefits, as far as possible.
5	Expected return on investments	<p><b>DB Section</b>  <i>For the DB Section, due to the buy-in, the Plan has no explicit return target.</i></p> <p><b>DC Section</b>  <i>For the DC Section, the assets are expected to move in a similar way to how an insurance policy provider would value the benefits, as far as possible.</i></p>	<p><b>DB Section</b>  For the DB Section, the residual assets are held in a cash fund to meet ongoing expenses and as such, there is no formal return target for the residual assets.</p> <p><b>DC Section</b>  For the DC section the assets are structured to meet the objective of moving in a similar was to how an insurer would value the benefits, as far as possible.</p>
6	Realisation of investments	<p><b>Both Sections</b>  <i>The Investment Manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments.</i></p> <p><b>DB Section</b>  <i>For the DB Section, payments relating to the buy-in policy meet member payments. The Trustees consider the liquidity of the residual investments in the context of the likely cashflow needs.</i></p> <p><i>The Trustees invest in a Sterling Liquidity Fund with LGIM, which can be traded on a daily basis as needed to meet cashflows.</i></p> <p><b>DC Section</b>  <i>Assets are invested in a daily traded blended bond fund</i></p>	<p><b>Both Sections</b>  Section 7 of the SIP details the approach to the realisation of investments for both the DB and DC assets.</p> <p><b>DB Section</b>  Due to the buy-in, the Trustees do not foresee any cashflow requirements in respect of member benefits. The remaining assets are readily realisable in a pooled vehicle to meet ongoing expenses.</p> <p><b>DC Section</b>  The Trustees access a daily dealt and daily priced blended bond fund held with LGIM. Selection, retention and realisation of assets is delegated to LGIM in line with their appointed mandate. The Trustees</p>

		<p><i>which holds highly liquid assets.</i></p> <p><i>The blended bond fund consists of units invested in commingled investment vehicles which are managed by LGIM. The selection, retention and realisation of assets within the blended bond fund are delegated to LGIM in line with the mandate of the fund.</i></p>	<p>monitor the blended bond fund for any issues including liquidity issues.</p> <p>The Trustees receive an administration report on a quarterly basis to ensure that core financial transactions are processed within SLAs and regulatory timelines.</p>
7	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	<p><b>Both Sections</b></p> <p><i>The Trustees consider financially material considerations in the selection, retention and realisation of investments. Within the funds consideration of such factors, including ESG factors, is delegated to the investment manager.</i></p> <p><i>The Trustees expect the underlying manager to evaluate ESG factors, including climate change considerations and stewardship obligations attached to investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. As a result, the Trustees have given the Investment Manager full discretion when evaluating ESG issues and stewardship obligations attached to the Plan's investments, where applicable.</i></p>	<p><b>Both Sections</b></p> <p>LGIM remained highly rated by the investment advisor during the year.</p> <p>The Trustees acknowledge that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class, where it is harder to engage with the issuer of debt.</p> <p>Section 6 of the Plan's SIP includes the Responsible Investment policy on ESG factors, Stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change. This was last reviewed in December 2022.</p> <p>The Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and</p>

			opportunities that may require explicit consideration.
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	<p><b>Both Sections</b></p> <p><i>Non-financial matters refer to the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impacts of investments and the future quality of life of members.</i></p> <p><i>Member views have not been explicitly taken into account in the selection, retention and realisation of investments.</i></p>	<p><b>DB Section</b> No proof required.</p> <p><b>DC Section</b> The Trustees did not explicitly seek member views regarding any investments or arrangements over the period covered by this statement.</p>

9	<p>The exercise of the rights (including voting rights) attaching to the investments</p>	<p><b>Both Sections</b></p> <p><i>The Trustees expect the underlying manager to evaluate ESG factors, including climate change considerations and stewardship obligations attached to investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. As a result, the Trustees have given the Investment Manager full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments</i></p>	<p><b>DB Section</b></p> <p>The DB Section invests solely in the buy-in policy and a cash fund, which do not have voting rights, therefore the Trustees do not have a policy on voting for the DB Section.</p> <p><b>DC Section</b></p> <p>The DC section solely invests in Index-Linked Gilts and Fixed-Interest Gilts, which do not have voting rights. Therefore the Trustees do not have a policy on voting for the DC Section.</p>
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10	<p>Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)</p>	<p><b>Both Sections</b></p> <p><i>Outside of those exercised by the investment manager on behalf of the Trustees, no other engagement activities are undertaken.</i></p> <p><i>Where deemed appropriate the Trustees will engage with the investment manager regarding undertaking of activities in respect of investments if they are deemed to be falling behind wider peers or not meeting the responsibilities expected of them.</i></p>	<p><b>Both Sections</b></p> <p>No specific activity took place during the year under review.</p>
11	<p>How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies mentioned in subparagraph (b) of the legislation [2-8 of this Statement]</p>	<p><b>Both Sections</b></p> <p><i>The Trustees' policy in relation to investments to be held is set out in section 7 of the SIP.</i></p> <p><i>Managers are chosen based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.</i></p> <p><b>DB Section</b></p> <p><i>As the trustees invest in a pooled investment vehicle they accept that they have no ability to specify the risk profile and return targets of the manager, but believe that appropriate mandates can be selected to align with the overall investment strategy.</i></p>	<p><b>Both Sections</b></p> <p>Over the year to 5 April 2024, no mandates were terminated due to performance concerns.</p> <p><b>DC Section</b></p> <p>Over the year to 5 April 2024, no changes were made due to performance concerns.</p>

12	<p>How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.</p>	<p><b>Both Sections</b></p> <p><i>The Trustees review the decisions made by their investment manager and can challenge such decisions to try to ensure the best long-term performance over the medium to long term. The manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.</i></p>	<p><b>Both Sections</b></p> <p>As LGIM are compensated through the levels of assets held, the Trustees believe this creates alignment between manager and Trustees in their common objectives.</p> <p><b>DB Section</b></p> <p>The Plan's investment adviser aids the Trustees in monitoring the suitability of the investment options outlined in the SIP, through ongoing research and meetings with appointed investment manager (as part of their wider research function) from both an ESG perspective as well as overall management of the fund.</p> <p>No further action was taken by the Trustees over the period covered by this statement.</p> <p><b>DC Section</b></p> <p>The Trustees monitor the performance of the assets, based on reports receive by the investment manager, which are used to consider whether the Trustees' aims and objectives are being met.</p> <p>No further action was taken by the Trustees over the period covered by this statement based on performance concerns.</p>
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13	<p>How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in subparagraph (b) of the legislation 2-8 of this Statement</p>	<p><b>Both Sections</b></p> <p><i>The Trustees are long term investors and are not looking to change the investment arrangements on a frequent basis.</i></p> <p><i>Manager performance net of fees is therefore reviewed over both short, medium and long-time horizons.</i></p> <p><i>Remuneration is agreed upon prior to manager appointment and is reviewed periodically.</i></p>	<p><b>DB Section</b></p> <p>The DB Section holds a small residual allocation to a cash fund and performance over the year, 3 year and 5 year performance metrics were included in the investment manager's quarterly performance reports.</p> <p>The Trustees are comfortable that the performance, and forward-looking capabilities remained suitable, including the manager's remuneration.</p> <p><b>DC Section</b></p> <p>The Trustees review investment performance via manager monitoring reports.</p> <p>If the Trustees are not satisfied with the progress that the manager has made in respect of performance further action may be taken.</p> <p>The Trustees accept that, given the nature of the funds held, ESG integration is very limited.</p> <p>If no further progress were to be made following additional engagement, the Trustees could consider whether retaining the mandate is appropriate. As LGIM are compensated through the levels of assets held, the Trustees believe this creates alignment between managers and Trustees in their common objectives.</p>
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14	<p>How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.</p>	<p><b>Both Sections</b>  <i>The Trustees' policy in relation to the monitoring of portfolio turnover costs is set out in section 7 of the SIP.</i></p>	<p><b>DB Section</b>  The Trustees do not define set ranges in respect of portfolio turnover and costs, and at present, do not monitor portfolio turnover costs, rather the Trustees assess investment performance net of the impact of the costs of such activities.</p> <p><b>DC Section</b>  The Trustees do not define set ranges in respect of portfolio turnover and costs. For the DC Section, the Trustees consider the level of transaction costs as a broad method to assess the level of additional costs incurred by members that may indicate higher levels of turnover within a portfolio.</p> <p>There was a formal assessment of Value for Members over the period, and the Value for Members assessment, will be repeated again over the 2024/2025 period.</p>
15	<p>The duration of the arrangement with the asset manager</p>	<p><b>Both Sections</b>  <i>There is no set duration for the manager appointments. However, the appointments are regularly reviewed as to their continued suitability and could be terminated either because the Trustees are dissatisfied with the manager's ongoing ability to deliver the mandate promised, or because of a change of investment strategy by the Trustees.</i></p>	<p><b>DB Section</b>  There were no terminations of arrangements within the DB Section of the Plan over the year to 5 April 2024.</p> <p><b>DC Section</b>  There were no terminations of arrangements within the DC Section of the Plan over the year to 5 April 2024.</p> <p>The Trustees continue to monitor the performance of the manager against the mandate to ensure that it remains appropriate.</p>

## **Appendix A – Defined Benefit Section – Compliance with the Plan’s Policy on ESG, Stewardship and Climate Change**

### **Process Undertaken**

The following section sets out the work that was undertaken during the year to 5 April 2024 relating to the Trustees’ policy on ESG factors, stewardship, and climate change, and sets out how the Trustees’ engagement and voting policies were followed and implemented during the year.

### **Engagement Activity**

Following the buy-in with PIC, there is no formal strategic asset allocation in place, with the residual assets being held in a pooled cash fund with LGIM. Given the nature of the Scheme’s current investments, there is limited power, as cash investors do not formally vote on engagement issues, however LGIM do formally engage with companies to get greater clarity and raise issues that concern them. Throughout 2023, LGIM’s Investment Stewardship team held 364 meetings/calls and 2,136 written engagements.

Given the nature of the bulk annuity contract and the way the residual assets are invested, the Trustees have not made explicit allowance for the risks of climate change in setting their strategic benchmark.

The Scheme currently holds a small holding in a cash fund in order to meet expense payments, hence voting is not applicable in the underlying investments. Following the DWP’s consultation response and outcome regarding Implementation Statements on 17 June 2022 (“Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance”) one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a “significant vote”. The Trustees have decided that a policy is not required in this area given the nature of the assets.

With regards to the Plan’s cash holdings, LGIM have limited scope for engagement as they have no voting rights. Despite this challenge, LGIM do formally engage with companies to get greater clarity and raise issues that concern them.

The Trustees do not use the direct services of a proxy voter.

A summary of LGIM’s engagement policy and actions taken during the year is provided below:

#### LGIM

LGIM have established a fully integrated framework for responsible investing to strengthen long-term returns. Their framework for responsible investing is based on stewardship with impact and active research across asset classes. These activities enable LGIM to conduct engagement with the aim of driving positive change.

LGIM’s core investment beliefs are as follows:

1. *“Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes.*
2. *Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns.*
3. *Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole.”*

There are 100 LGIM employees with roles dedicated to ESG activity. In addition LGIM are continuing to grow their Investment Stewardship team, and as at the end of 2023 it comprised 26 professionals with an average of 12.5 years' experience in areas including responsible investment, investment stewardship, accounting and audit, impact investment and public policy. The team covers many geographies, including both emerging and developed markets. The team includes sector specialists and experts on ESG themes, such as nature, diversity and climate change.

Over 2023 LGIM restructured the Environmental pillar to distinguish between key thematic issues: Carbon Emissions, Climate Transition and Nature. The new structure exemplifies LGIM's views on the most material evolving themes in the environmental space, and allows LGIM to make any future amendments without substantial changes to the structure.

## **Appendix B – Defined Contribution Section – Compliance with the Plan’s Policy on ESG, Stewardship and Climate Change**

Following the changes to the investment strategy in 2022, all DC funds were transferred to one LGIM Blended Bond Fund (Index-Linked Gilts and Fixed Interest Gilts), the Trustees accept that ESG, Stewardship and Climate Change factors cannot be readily incorporated into investment decision making. However LGIM do formally engage with companies to get greater clarity and raise issues that concern them. Throughout 2022, LGIM’s Investment Stewardship team held 361 meetings/calls and 863 written engagements.

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