



# Colt Car Company Limited Retirement Benefits Scheme Implementation Report

May 2023

# 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.

## Statement of Investment Principles

The Trustee of the Colt Car Company Limited Retirement Benefits Scheme ('the Scheme') updated the 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 [this](#) web address. Changes to the SIP are detailed on the following page.

## Implementation Report

This implementation report is to provide evidence that the Trustee of 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 the 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 in the investment mandate
- voting behaviour covering the reporting year up to 31 March 2023 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 Q1 2022, the Trustee agreed to enter a partial buy-in contract with an insurance provider to further de-risk the Scheme. The contract was signed at the end of March 2022 with assets totalling £54.8m transferred to the insurer at the start of April. Following the completion of the partial buy-in, the Trustee completed a full LDI review to ensure the solution remains appropriate for the remaining liabilities.
- The Scheme received multiple de-leveraging notices from its LDI manager Legal & General Investment Management (LGIM) during the mini budget crisis in September/October 2022. Assets held in the Absolute Return Bond fund were used to meet these capital calls, as instructed by the rebalancing policy, which ensured the Scheme's hedging position was maintained.
- Following the Trustee meeting in October 2022, it was agreed to transfer £1m of assets from the Absolute Return Bond fund to a Cash fund for future expenditure requirements. The transfer completed on 9 November.

### Implementation Statement

This report demonstrates that the Trustee of the Colt Car Company Limited Retirement Benefits Scheme has adhered to their investment principles and policies for managing financially material consideration including ESG factors and climate change.

Signed



Position

Trustee

Date

6.6.23

# Managing risks and policy actions

Risk	Definition	Policy	Action
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.  Investing in a diversified portfolio of assets.	The Trustee considered the residual assets and investment strategy when completing the partial buy-in.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation.  The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	The partial buy-in reduced the Scheme's liabilities and future cash flows.  Following the partial buy-in, the Trustee reviewed the investment strategy to ensure it has an appropriate expected return.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.	The Trustee considered the strength of the covenant in the investment strategy review and ahead of the partial buy-in.
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.	To maintain an allocation to a portfolio of liability matching of UK Government bonds.  The Trustee is currently reviewing the Scheme's allocation to liability matching assets.	The Trustee completed a full LDI review following the completion of the partial buy-in to ensure it remained appropriate for the remaining liabilities.
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	The Trustee has maintained a sufficient allocation to liquid

		they fall due (including transfer values).	assets throughout the period.  The Trustee transferred £1m to a Cash fund for future expenditure.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Trustee implemented a revised investment strategy with sufficient diversification and has ensured a c. 100% interest rate and inflation hedge on a gilts flat basis.
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.	The Scheme's exposure to credit risk was considered as part of the revised investment strategy.
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  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  6. UK Stewardship Code signatory  The Trustee monitors the managers on an ongoing basis.	The Trustee considered ESG factors in the revised investment strategy.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To select a global equity fund with currency diversification.	The Scheme invests in sterling denominated investments.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are taken into account in the selection, retention or realisation of investments.	The Trustee considered non-financial matters in the revised investment strategy.

# Changes to the SIP

## Policies added to the SIP

Date updated: April 2023

The SIP has been updated to reflect new stewardship guidance, the new policies are detailed below:

### **Voting Policy - How the Trustee expects investment managers to vote on their behalf**

- The Scheme currently does not have any exposure to equities, however the Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

### **Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'**

- The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustee, via their investment adviser, will engage with managers about 'relevant matters' at least annually.

# 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. This page details the Scheme's current ESG policy, while the following page outlines the areas the Trustee's investment adviser, Isio, have used when evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

### Current 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	<ul style="list-style-type: none"><li>• The Trustee is aware of the risks that ESG factors pose and have considered these as part of the investment strategy.</li><li>• All ESG related decisions are currently delegated to the Scheme's investment managers.</li><li>• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons regarding social, environmental and corporate governance issues at least annually.</li><li>• The Trustee will also receive information from their investment advisers on the investment manager's approach to engagement.</li></ul>	<ul style="list-style-type: none"><li>• The manager has not acted in accordance with their policies and frameworks.</li><li>• The manager's policies are not in line with the Trustee's policies in this area.</li></ul>

## Areas of assessment and ESG beliefs

<b>Risk Management</b>	<ol style="list-style-type: none"> <li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme.</li> <li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.</li> </ol>
<b>Approach / Framework</b>	<ol style="list-style-type: none"> <li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li> <li>4. ESG factors are relevant to investment decisions in all asset classes.</li> <li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li> </ol>
<b>Reporting &amp; Monitoring</b>	<ol style="list-style-type: none"> <li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li> <li>7. ESG factors are dynamic and continually evolving; therefore, the Trustee will receive training as required to develop their knowledge.</li> <li>8. 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.</li> </ol>
<b>Voting &amp; Engagement</b>	<ol style="list-style-type: none"> <li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li> <li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li> </ol>
<b>Collaboration</b>	<ol style="list-style-type: none"> <li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li> <li>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.</li> </ol>



# ESG summary and actions with the investment managers

The Trustee has not yet carried out a review of their investment manager's ESG capabilities due to the ongoing buy-in activity and discussions.

# Engagement

As the Scheme invests via an investment manager, the manager provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 March 2023 (or since initial investment date). LGIM are unable to provide examples of significant engagements over the period.

Fund name	Engagement summary	Comments
LGIM Matching Core Fixed Long LDI Fund & LGIM Matching Core Real Long LDI Fund	Total engagements: 33 Environmental: 23 Social: 1 Governance: 8 Other: 1	ESG engagement with counterparties is conducted through LGIM's Investment Stewardship team with the aim of improving market ESG standards. LGIM publish their expected ESG standard for companies, regulators and others in their Corporate Governance & Responsible Investment Principles and in their Climate Pledge report.
LGIM Absolute Return Bond Fund	Total engagements: 133 Environmental: 64 Social: 22 Governance: 40 Other: 7	LGIM collaborates with a range of industry participants to monitor and influence a broad range of ESG topics. The Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors.
LGIM Maturing B&M Credit Fund 2020-2024	Total engagements: 124 Environmental: 53 Social: 26 Governance: 39 Other: 6	LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices. The Active Equity, Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors.
LGIM Maturing B&M Credit Fund 2025-2029	Total engagements: 144 Environmental: 60 Social: 32 Governance: 42 Other: 10 Engagement topics may not sum to total due to cross overs	LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices. The Active Equity, Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors.

<b>LGIM Maturing B&amp;M Credit Fund 2030-2034</b>	<p>Total engagements: 139</p> <p>Environmental: 50</p> <p>Social: 29</p> <p>Governance: 52</p> <p>Other: 8</p>	<p>LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices. The Active Equity, Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors.</p>
<b>LGIM Maturing B&amp;M Credit Fund 2035-2039</b>	<p>Total engagements: 104</p> <p>Environmental: 42</p> <p>Social: 22</p> <p>Governance: 32</p> <p>Other: 8</p>	<p>LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices. The Active Equity, Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors.</p>
<b>LGIM Maturing B&amp;M Credit Fund 2040-2054</b>	<p>Total engagements: 125</p> <p>Environmental: 51</p> <p>Social: 30</p> <p>Governance: 36</p> <p>Other: 8</p>	<p>LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices. The Active Equity, Active Fixed Income and Investment Stewardship team work together to ensure engagement is in the best interest of all investors.</p>
<b>LGIM Cash Fund</b>	<p>Total engagements: 1</p> <p>Environmental: 1</p> <p>Engagements details from the initial investment date (9 November 2022) to 31 March 2023.</p>	<p>LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices.</p>

# Voting

The Scheme did not have any equity holdings as at 31 March 2023.

