The Trowers & Hamlins Pension and Life Assurance Scheme Implementation Report

March 2021

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 (SIP)

The Scheme updated its SIP in to 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 The Trowers & Hamlins Pension and Life Assurance Scheme (isio.com) . Changes to the SIP are detailed on the following page.

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Scheme has 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 Scheme 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 December 2020 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

- The Trustees completed an ESG Impact Assessment on the Investment Managers, which highlighted key areas for investment managers to change in order to align with the Trustees' agreed ESG beliefs. The Trustees' investment consultant continues to monitor the investment managers from an ESG perspective and provide annual updates.
- The Trustees made the decision to increase the Scheme's inflation and interest rate hedge level from 70% to 90% of assets. This will be implemented over 2021 and will lead to a significant decrease in the Scheme's investment risk exposure.

Implementation Statement

This report demonstrates that The Trowers & Hamlins Pension and Life Assurance Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
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 aim to hedge this risk both directly and indirectly where appropriate and affordable.	The Trustees decided to increase the Scheme's hedging level from 70% to 90% of assets to better protect the Scheme against interest rate and inflation risk. This will be implemented over 2021.
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), and to provide collateral to the LDI.	There have been no changes to policy over the reporting year.
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.	There have been no changes to policy over the reporting year.
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. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	There have been no changes to policy over the reporting year.
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	ESG actions undertaken: The managers' ESG policies were reviewed and presented to the Trustees in an ESG Manager Summaries report. The Trustees are due to receive an Impact Assessment report in 2021 and will review the

		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 monitor the mangers on an ongoing basis.	managers' ESG policies on an annual basis through a Progress report. This report summarises the managers' progress on addressing the actions raised within the Impact Assessment report. More details of the ESG policy and how it was implemented are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge currency risk on all assets that deliver a return through contractual income.	There have been no changes to policy over the reporting year.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2019	
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 monitor the investment managers' engagement and voting activity on a periodic basis as part of their ESG monitoring process. • 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 Trustees' 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. • Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive.
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 closed-ended funds or funds with a lock-in period, the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Scheme's liquidity requirements. • For open-ended funds, the holding periods are 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 with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in 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 stewardship activity.

The below table outlines the areas which the Scheme's 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 Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis	• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 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 Scheme's 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.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
Apollo Total Return Fund	Apollo have been actively incorporating ESG into their investment process for a number of years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.	Apollo are looking to incorporate a formal scoring system for each individual investment. Apollo also currently provide firm-level reporting on ESG activities, and it was proposed that this should be extended to quarterly fund-specific client reporting.	Isio engaged with Apollo in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities.
Blackrock Dynamic Diversified Growth Fund	BlackRock has a clear firm-wide sustainability policy. Although the Diversified Strategies team have shown that they consider ESG issues when investing, there are currently no Fund-specific measurable targets in place to judge the level of incorporation of ESG.	Isio proposed that BlackRock could incorporate more ESG focused indices into their investment process. BlackRock advised that they have introduced sustainable equity indices and the team are looking to progress this across other asset classes.	Isio engaged with BlackRock in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities.
Partners Group The Partners Fund (Trust)	Partners Group's ESG and Sustainability Team ensure that the firm's ESG policy is implemented throughout the investment process, from due diligence to monitoring for private equity and private infrastructure holdings. Partners Group aim to have an ESG presence and great influence in the holdings they are invested in as well as the wider ESG community	Isio proposed that Partners Group could provide greater transparency of areas in diversity. Partners Group are looking to report on ethnicity as well as gender and will set targets against it when they have data to do so. Isio also proposed that Partners Group detail quantifiable ESG metrics in client reports. Partners Group have started the journey in improving reporting of various ESG metrics and KPIs and continue to look for ways to enhance their reporting in the near future.	Isio engaged with Partners Group in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities.

Insight Investment Management Enhanced LDI Funds Insight Liquidity Plus Fund	Insight have shown they have sufficient resource and capability to assess the extent of ESG risks on counterparty exposure for LDI mandates. Insight recognise that their ESG framework can be developed even further and we believe this is a positive sign that they are continually improving their approach for considering ESG factors.	Isio proposed that Insight could consider developing internal diversity targets, greater emphasis on diversity and inclusion issues in assessing companies/counterparties and add counterparty ESG scores to client reporting.	Isio engaged with Insight in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities.

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 month period to 31 December 2020.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total Engagements: 28 Corporate: 28	Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors. Examples of significant engagements include: **Clearway Energy –** Apollo met with the firm's CEO and CFO to discuss the efficiency of the company's existing renewable wind farms, as well as the acquisition of new renewable wind and solar powered projects. Following this engagement, the company intend to invest at least $300m in renewable energy projects during 2020. **Gannett Co. Inc. –** As part of the Apollo Term Loan, Apollo negotiated two board observer rights for the company that extend to board seats based on certain leverage thresholds. This enabled Apollo to have greater engagement rights regarding the overall governance structure of the company. Following from this engagement, Apollo built upon their close relationship with the company in order to increase their involvement

		in the day to day operations of the business.
Blackrock Dynamic Diversified Growth Fund	Total Engagements: 897 Environmental: 806 Social: 395 Governance: 114	BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. These engagements largely relate to the Fund's equity positions only. Examples of significant engagements include: **Chevron Corporation –** As part of a long engagement with the company regarding multiple topics including climate reporting, Blackrock voted for reporting on climate lobbying aligned with Paris agreement goals. Blackrock believe that this agreement will aid in consistency between private and public messaging for managing climate risk and the transition to a lower-carbon economy. **Woodside –** Following several years of engagement with the company, BlackRock placed Woodside on their watch list and expressed public concern about the insufficient progress made on climate risk and reporting within the firm. When equity positions are placed 'on watch', BlackRock expect the companies to make substantial progress within 12 months before voting action is taken against boards and management.
Partners Group The Partners Fund (Trust)	We are working with the manager to enable them to provide this in the future.	Partners Group feel that, given the private markets investments, the total number of engagements wouldn't be a figure that is representative of the portfolio.
Insight	We are working with the manager to enable them to provide this in the future.	When identifying material ESG risks, Insight engage with companies and other issuers to understand the issues and exert influence on behalf of clients to encourage change. Some issues are too big to tackle alone, in which case Insight may collaborate with other stakeholders. Insight proactively engage with companies to ensure accurate analysis, and influence improvement in practices. Over 80% of engagements by their credit analysts included ESG issues. Assessment of ESG issues is included in analysts' objectives.

Voting (multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Dynamic Diversified Growth Fund	Voteable Proposals: 12,609 Proposals Voted: 12,209 For Votes: 11,221 Against Votes: 834 Abstain Votes: 115 Withheld Votes: 29 Votes With Management: 11,418 Votes Against Management: 689	**Exxon Mobil Corporation -** BlackRock voted in support of a proposal to produce a report on the risks of petrochemical operations in flood prone areas, due to the lack of adequate corporate disclosure. In their annual Investment Stewardship Report, BlackRock list Exxon Mobil as an example of a company where they continue to use their vote to encourage progress on ESG issues, particularly around climate risk management. **Chevron Corporation -** BlackRock voted against a resolution to establish an Environmental Issue Board Committee, citing that corporate policy decisions should be left to the board, with the board being held accountable for its decisions through the election of directors. **Banca Transilvania SA -** BlackRock voted against a resolution relating to the approval of renumeration of directors and the general limits for additional renumeration of directors. BlackRock found that the report did not contain the required level of detail for shareholders to understand	BlackRock use Institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holdings directors accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.

		the company's approach to paying its executives.	
Partners Group The Partners Fund (Trust)	Voteable Proposals: 763 Proposals Voted: 752 Abstain Votes: 8 Withheld Votes: 29 Votes With Management: 695 Votes Against Management: 49	**Ferrovial –** Partners Group voted against a renumeration policy due to inadequate disclosure of performance targets, no deferral of annual bonus to management and sizeable equity rewards to controlling shareholders and the executive chair. A vote on the renumeration policy was previously held in 2019, some improvements had been made since then but Partners Group do not believe these changes were sufficient. The result of the 2020 vote was in favour of management but Partners Group will continue to vote against the proposal until they believe there is a reasonable renumeration policy in place. **Techem –** Partners Group voted for the amendment of subcontractor's contracts to ensure adherence with health and safety standards, GDPR compliance and a sustainability improvement initiative. As of 30 September 2020, 75% of contracts amendments had been completed. Techem is currently assessing contracts of subcontractors in the rest of the international markets. Techem also sucessfully implemented the GDPR compliance-related tasks in 2020.	Partners Group use Glass Lewis & Co as a proxy voting service provider to vote in-line with the Partners Group Proxy Voting Directive. Wherever the recommendations for Glass Lewis & Co and the company's management differ, Partners Group vote manually.