

# The Trowers & Hamlins Pension and Life Assurance Scheme Implementation Report

April 2024

# Background and Implementation Statement

## Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

## Implementation Report

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

The SIP can be found online at the web address <https://www.isio.com/scheme-documents/the-trowers-hamlins-statement-of-investment-principle/> changes to the SIP are detailed on the following page.

The Implementation 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 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

- The Trustees completed a Sustainable Integration Assessment (formerly known as an ESG Impact Assessment) on the Investment Managers, which highlighted key areas for investment managers to improve in order to better 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.
- Following agreement from the Trustees and Company, a new investment strategy (which increased the Scheme's interest and inflation hedging from 90% to 100% of liabilities on a Technical Provisions basis using the latest Actuarial Valuation Results (AVR)) that de-risked the Scheme's portfolio and refreshed the liability hedging solution to reflect the results of the latest AVR. The hedge increase was funded via £1.4m disinvestment from the BlackRock Diversified Growth Fund (DGF).
- The Scheme's Statement of Investment Principles (SIP) was updated to reflect the strategic changes implemented over the reporting year and the latest best practice for the Trustees, including policies on leverage and collateral management. Further detail of the updates are provided later in this report.
- At the start of 2024, as a result of improvements to the Scheme's Technical Provisions funding level, the Trustees and Company discussed further de-risking for the Scheme. The Trustees and Company agreed to fully disinvest from the Diversified Growth Fund allocation, investing the proceeds in a new Asset Backed Securities fund, reducing the level of risk in the portfolio. These changes will be implemented in Q2 2024.

### Implementation Statement

This report demonstrates that the Trowers & Hamblins 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.

**Signed**

**Position** Trustee

**Date** 06 June 2024

# 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.	To hedge c.100% of these risks as measured on the Scheme's Technical Provisions basis, by investing in Liability Driven Investment ("LDI").	The policy was updated to reflect the increase in the Scheme's LDI hedge from 90% to 100%. The update to the Scheme's LDI hedge ratio reflects the Trustee's pragmatic approach to capturing and protecting funding level improvements, where feasible.
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 portfolio.	There have been no changes to this 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 practical.	Over the year a de-risked investment strategy was agreed with the Sponsor. The Trustees are satisfied this new strategy is appropriately diversified and risk managed.
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	There have been no changes to this policy over the reporting year.

compensates the Scheme for the risk of default.

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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> </ol> <p>The Trustees monitor the managers on an ongoing basis.</p>	There have been no changes to this policy over the reporting year, further detail of application provided later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge currency risk on overseas exposure where possible.	There have been no changes to this policy over the reporting year.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention, or realisation of investments.	There have been no changes to this policy over the reporting year.

# Changes to the SIP/IID

Over the period to 31 December 2023, the Trustee made changes to the SIP and Investment Implementation Document (IID) to reflect changes to the Scheme's investment strategy and to reflect recent regulatory requirements as well as non-material formatting / wording changes. Details of the changes can be found below.

## Updates to the SIP/IID

Date updated: October 2023

### Investment Strategy – Strategic Allocation

- The Trustees updated the SIP and IID to reflect the new strategic asset allocation that was agreed for the Scheme over the period, the changes included an increase to Liability Driven Investment Funds and Hedge Ratio met by a partial disinvestment from the DGF allocation, de-risking the portfolio and reducing the expected return from Gilts +1.9% pa to Gilts + 1.4% pa.

### Mandate target returns, objectives, and fees

- The Trustees updated the mandate specific information detailed in the IID to reflect the new strategic asset allocation.

### How the Trustees will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management

- The Trustees have a stated collateral management policy in which they have agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment managers.
- The Trustees will review their collateral management policy no less frequently than 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 ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

<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 Trustees</li></ol>
<b>Approach / Framework</b>	<ol style="list-style-type: none"><li>3. The Trustees 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 Trustees 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 Trustees 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 Trustees 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 Scheme completed a Sustainable Integration Assessment of the Scheme's investment managers and their integration of ESG factors in their risk management and due diligence processes over the 2023 Scheme Year in April 2024. The Scheme will again be assessing the Scheme's ESG actions with investment managers in Q1 2025.

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
<b>Apollo, Total Return Fund</b>	<p>Apollo have expanded their ESG team, who work in partnership with credit investment professionals. ESG considerations are integrated into the Fund's risk management framework and due diligence process. Their internal ESG ratings system incorporates sector-specific scoring.</p> <p>The Fund does not currently have a clear stewardship policy or priorities. However, it does have an Impact Sleeve, compromising assets which meet the Fund's criteria first and foremost, but also meet their impact criteria.</p>	<p>Apollo's Investment Approach score has deteriorated as the Fund continues to have no Fund specific ESG objectives.</p> <p>However, a detailed quarterly ESG report is produced for the Total Return Fund. The report breaks down the portfolio by E, S, and G scores, details carbon metrics and presents data on engagement with issuers.</p>	<p>Isio engaged with Apollo on the Scheme's behalf and have proposed the following actions for the fund:</p> <ul style="list-style-type: none"> <li>- Apollo have made progress in developing their ESG capabilities in recent years, but Isio continue to recommend developing specific ESG objectives for the Fund</li> <li>- Formalise an exclusions policy list for the Fund</li> <li>- Undertake scenario analysis and understand the Fund's portfolio alignment with explicit climate scenario outcomes</li> <li>- Establish a stewardship policy and priorities to improve engagement coverage</li> <li>- Isio continue to encourage Apollo to become a signatory</li> </ul>



<p><b>BlackRock, Dynamic Diversified Growth Fund</b></p>	<p>BlackRock have established robust ESG and stewardship teams and have set strong firm wide ESG policies.</p> <p>However, the Fund itself lacks its own specific priorities and there is less evidence of these policies being monitored and measured against at a fund-level. The Fund has demonstrated no investment decisions based on sustainability grounds and actively seek ESG investment opportunities.</p>	<p>BlackRock provide quarterly ESG metrics, however not at a fund specific level.</p> <p>The Fund utilises a scorecard allowing ESG risks to be evaluated for all assets at the outset. The Fund's approach to sustainability is fiduciary i.e. invests on behalf of clients to meet their investment objectives. For this reason, it has not committed to Net Zero targets or NZ Asset Manager's initiative.</p>	<p>Isio engaged with BlackRock on the Scheme's behalf and have proposed the following actions for the Fund:</p> <ul style="list-style-type: none"> <li>- Isio continues to encourage the implementation of fund specific ESG policies, objectives and stewardship priorities</li> <li>- Improvements to the quality of regular reporting e.g., inclusion of Scope 1 &amp; 2 GHG emissions, ESG metrics in fund-specific quarterly reporting, and ESG scores at an underlying asset level</li> <li>- Isio continues to encourage progress in developing clear diversity reporting and climate change scenario analysis to align with industry standards.</li> </ul>
<p><b>Insight, High Grade Asset Backed Securities</b></p>	<p>Insight integrates stewardship and ESG analysis into their practices at a firm-wide level, with effective integration enabled by their dedicated Responsible Investment Team and Stewardship analysts.</p> <p>Deterioration in the overall ESG score is mainly due to the fall in the reporting score. Unlike some peers, Insight do not include carbon footprint analysis in their ESG reports.</p>	<p>Insight has a strong firm-wide approach to stewardship as they have dedicated stewardship analysts who are responsible for setting key engagement priorities and strategies, which improved their score in this criterion.</p> <p>Insight also improved on their score in investment approach as there is clear integration of ESG analysis into their investment approach and in their dialogue with issuers and other stakeholders.</p>	<p>Isio engaged with Insight on the Scheme's behalf in respect to the High Grade Asset Backed Securities and have proposed the following actions for the Fund:</p> <ul style="list-style-type: none"> <li>- Insight have shown a good level of engagement and data collection from its originators. Isio continues to recommend further improvement on the quality of ESG data collection and engage with Insight on this. Inclusion of</li> </ul>

		<p>However, there remains no fund specific ESG objectives, which are in place for comparable funds</p> <p>Isio note that portfolio coverage on carbon metrics is modest but this data is now available for RMBS (Residential Mortgage-Backed Securities).</p>	<p>engagement metrics as part of its ESG reporting</p> <ul style="list-style-type: none"> <li>- Develop Fund specific quantifiable ESG objectives.</li> </ul>
<p><b>Insight, LDI</b></p>	<p>Insight have a robust ESG scoring system for the counterparties they deal with.</p> <p>Insight leverage multiple independent ESG data sources and have a dedicated Responsible Investment team ensuring effective integration.</p>	<p>Insight have made improvements to their stewardship scoring as they hold a prominent position as an industry frontrunner in stewardship, formally recognising climate implications, societal factors, and environmental considerations as foundational components of stewardship priorities.</p> <p>Insight also support several responsible initiatives, including the 2020 Stewardship code alongside use of six climate scenarios defined by the Network for Greening the Financial Systems to model the change in value of sample LDI benchmarks.</p>	<p>Isio engaged with Insight on the Scheme's behalf in respect to the Enhanced Selection LDI funds and have proposed the following actions for the Fund:</p> <ul style="list-style-type: none"> <li>- Isio continue to engage with Insight in respect to their ESG reporting, including providing climate reporting on counterparties. Isio continues to recommend</li> <li>- Insight to consider the inclusion of such engagement as a summary as part of regular reporting, as well as implementing key KPI milestones for said engagements</li> </ul>

# Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category covering the reporting year up to 31 December 2023. Please note that not all categories sum to the number of total engagements, as some engagements covered more than one ESG area.

Fund name	Engagement summary	Commentary
<b>Apollo, Total Return Fund</b>	<p>Total engagements: 64</p> <p>Environmental: 59</p> <p>Social: 34</p> <p>Governance: 29</p> <p>Number of entities engaged: 44</p>	<p>Apollo takes a bottom-up, collaborative approach to ESG engagement and currently has four key engagement pillars:</p> <ul style="list-style-type: none"> <li>- Transparency and Disclosure</li> <li>- Finance the Energy Transition</li> <li>- Thematic Engagement</li> <li>- Value Creation</li> </ul> <p>Apollo provided a firm wide ESG policy document that sets out its approach to ESG issues, sustainability, and progress towards achieving goals. These include specific goals in respect to Apollo's sustainable investing platform that targets deploying capital in investments specific to the energy transition and decarbonisation. Apollo focuses their engagement on identifying opportunities to expand and advance the climate and energy transition with issuers.</p> <p>Apollo shows alignment to its focus on engaging with issuers to maintain alignment with sustainable energy and decarbonisation goals.</p> <p>In December 2023, Apollo engaged with <b>Adani Ports</b> on their thermal coal exposure and emissions reduction strategy. As part of Apollo's value creation engagement pillar, Apollo commits to engage with companies on ESG risks that are material to their financial performance. Apollo believes the increased GHG emissions associated with their thermal coal</p>

		<p>operations, present transition risk. Adani Ports is targeting carbon neutrality by 2025 and net zero by 2040. The main initiatives its undertaking include the electrification of their inter terminal vehicles and cranes with the goal that they can run entirely on renewable energy.</p>
<p><b>Blackrock, Dynamic Diversified Growth Fund</b></p>	<p>Total engagements: 427</p> <p>Environmental: 157 Of which relating to Climate risk management: 138</p> <p>Social: 166 Of which relating to Social Risks and Opportunities: 23</p> <p>Governance: 398 Of which relating to Remuneration: 182</p> <p>Number of entities engaged: 247</p>	<p>BlackRock engage with their companies through their Investment Stewardship team to provide feedback and inform their voting decisions. These engagements largely relate to the Fund's equity positions only.</p> <p>BlackRock has focused on a number of governance related topics over the reporting period, with a notable focus on 'Remuneration' (182), 'Board Composition and Effectiveness' (181) and 'Corporate Strategy' (149).</p> <p>BlackRock has demonstrated a history of regular engagement with <b>Siemens AG</b>, a German technology company. BlackRock has discussed a range of topics including corporate strategy, board composition, sustainability reporting and climate risk management over recent years. The focus in 2023 was on governance. In February 2023, BIS engaged on a proposal to approve Virtual-Only Shareholder meetings until 2025. BIS considered both the concerns, such as virtual-only AGMs impeding meaningful exchanges between management and shareholders, and the benefits, such as a reduction in climate emissions in connection with director and executive travel, when assessing the proposal.</p> <p>Following their analysis and engagement with the company, BIS supported the proposal, as they believe that Siemens proposed an appropriate approach that is unlikely to undermine shareholder rights.</p>
<p><b>Insight, High Grade Asset Backed Securities</b></p>	<p>Total engagements: c.70-80</p> <p>Number of entities engaged: c.65 <i>the majority of which were engagements to improve data collection</i></p>	<p>Insight describe engagement as a form of collaboration in which investors work with each other in some way to achieve a common goal, of which can take various forms. Insight regularly meets with issuers to discuss ESG related and non-ESG related issues and follow a research-based approach</p>

via Apollo's proprietary questionnaire. Of these, c.35 were meaningful engagements.

to identify poor performers to enable targets engagements that encourage positive improvements across specific themes.

Insight has engaged with **Lloyds**, a major player in the UK residential financing market, on ESG reporting from future securitisations. As central bank financing measures ease, they are likely to step up their use of the securitisation market. Through these engagements, Lloyds has agreed to produce EPC certification on their new originations. Insight will monitor provision of EPC information on data types, as well as continue to engage where Lloyds brings new issuance to market on top of ad-hoc discussions on firm-wide strategy and disclosures.

**Insight,  
LDI**

Total engagements:  
59

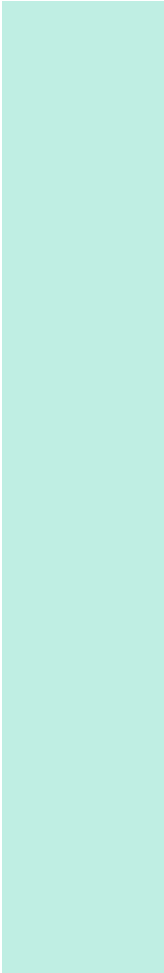
Number of entities  
engaged:

26

Insight notes that their forms of engagement, though a key part of its credit analysis and monitoring can be different in nature due to long-term investment horizons for Liability Driven investments impacting their business focus.

Insight has engaged with **Barclays Plc**, a UK-based bank that operates globally. This engagement was identified as part of Insight's counterparty engagement programme due to Barclay's growing operation in the United States, and consideration to the political environment relating to ESG and its impact on the bank. The engagement sought to discuss the bank's sustainable finance framework and the feedback Insight had previously provided as they had viewed the bank's environmental programme as lagging its peers.

In 2022, Barclays enhanced their sustainable finance framework, raising the target from \$150bn to \$1tr while prioritising the Net Zero Banking Alliance and portfolios with emission targets, but had not yet set accredited science-based objectives. Insight discussed the bank's stricter policies for impact bonds that were introduced (including refinancing rules, taxonomy alignment and governance), and the bank's revenue-based high threshold for Arctic drilling (50%). Barclays recognised the regional fracking differences between the UK and US



and will remain flexible in their approach, noting that a significant proportion of their financing relates to cash flows rather than project financing.

Following Insight's engagement, Barclays has enhanced its oil sands policy and introduced a Client Transition Framework to illustrate how it measures corporate clients' transition towards low-carbon business models, and acknowledged their risky policy guidelines need updating. Insight advised Barclays that to further align its sector policies, and to address exclusions relating to fracking, additional details on the assessment, support of and escalation procedures relating to clients on climate related issues should be included under their Client Transition Framework in their next annual report.

Insight will continue to monitor Barclays progress in improving transparency and comparability with peers.

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# Voting

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's multi-asset investment manager, BlackRock, on their behalf.

The (Scheme's) fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2023. The Trustees have adopted the managers definition of significant votes and have not set stewardship priorities. The managers have provided a selection of votes they deem to be significant, and the Trustees have included examples of the votes for underlying investments the Scheme has exposure to.

Fund name	Voting summary	Examples of significant votes	Commentary
<b>BlackRock Dynamic Diversified Growth Fund</b>	<p>Votable Proposals: 7,491</p> <p>Proposals Voted: 6,989 (93%)</p> <p>Votes with management: 6,627 (94%)</p> <p>Votes against management: 362 (5%)</p> <p>Abstain votes: 115 (1%)</p> <p><i>Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a</i></p>	<p>Examples of significant engagements include:</p> <p><b>Shell Plc:</b> Shell Plc is a global group of energy and petrochemical companies.</p> <p>BlackRock voted in line with management to approve the Shell Energy Transition Progress report. BlackRock investment Stewardship (BIS) supported this management proposal in recognition of the delivery to date against the company's Energy Transition Strategy. It aims to become a net-zero emissions energy business by 2050. It includes plans to change its product mix to lower-carbon intensity energy products.</p> <p>Separately, BIS voted against management and did not support the request for Shell to Align its existing 2030 Reduction Target covering the Greenhouse Gas (GHG) Emission of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement. BlackRock viewed this as overly prescriptive and could impact the company's financial strength and</p>	<p>BlackRock use the Institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock aim to vote at all shareholder meetings of which their clients invest in, and where there are significant obstacles to voting, such as share blocking or requirements for a power of attorney, Blackrock will review the resolutions to assist the extent of restrictions against the potential benefits.</p> <ul style="list-style-type: none"> <li>- c.100% of votes were enacted by the proxy agent were in line with the recommendation.</li> </ul>

*vote of 'Abstain' is also considered a vote against management.*

therefore determined that the proposal was not aligned with the financial interest of shareholders.

**Dassault Systèmes SE:**

Dassault Systèmes is a French software company that develops 3D design, simulation, manufacturing, and data management software with their products used across a wide range of industries.

BlackRock voted in line with management in respect to amends made to the compensation policy for corporate officers as they recognise the company's responsiveness to shareholder feedback, including addressing concerns about the structure of the company's Long Term Incentive Plan (LITP).

A key concern about the compensation program was around the equity rewards which had remained fixed since 2005, which combined with the +900% appreciation on the shares (up to 2022) had resulted in significant payouts. Secondly, the company's previous LITP performance criteria was linked to a single metric, non-IFRS earnings per share. BlackRock view best practice policies as those that assess variable pay against multiple metrics, with a preference for use of "input" metrics rather than "output" metrics such as EPS.

Under the new agreed policy, the new CEO, will not receive the same number of shares in their LITP and will have a more defined payout structure. The changes mitigate BlackRock's concerns on these two issues, and they will continue to engage with the company on further ways they can improve their remuneration practices and disclosures.



