



CarColt Car Company Limited Retirement Benefits Scheme Implementation Report

June 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

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 2021 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

- Over the period, the Trustee reviewed the Scheme's investment strategy to align it to the Trustee's long-term objectives and the liquidity requirements of the Scheme. As at the 31 March 2021, the Trustee had not yet agreed a new strategy.
- In April 2021, post-reporting year end, the Trustee agreed to implement a new investment strategy. The transition across to the new strategy will take place over Q2/3 2021.

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

Date

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 Scheme's investment objective and the diversification of assets in the investment strategy review.
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 Trustee considered the required long-term return of the Scheme's assets as part of the investment strategy review.
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.
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 considered the introduction of Liability Driven Investment ('LDI') into the new investment strategy to manage the mismatching risk.
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 considered the liquidity of assets in the investment strategy review.

		they fall due (including transfer values).	
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 considered the diversification of assets and increasing the level of interest rate and inflation hedging in the investment strategy review.
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 investment review.
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"> 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 <p>The Trustee monitors the managers on an ongoing basis.</p>	<p>The Trustee considered the Scheme's ESG risk exposure in the investment strategy review. The Trustee selected an ESG-focussed passive equity fund.</p> <p>The Trustee will focus on further ESG actions following the implementation of the new investment strategy.</p>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To hedge 50% of the currency risk associated with the Scheme's current equities allocation.	
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 investment strategy review.

Changes to the SIP

Policies added to the SIP

Date updated: August 2020

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's 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 Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Scheme's strategic objectives. This is reviewed on an ongoing basis.

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 Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.
- The Trustee does 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 Trustee's policies.

- The Trustee reviews 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 Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Investment manager fees are reviewed annually 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 Trustee does 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 Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements.
 - For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

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">• The Trustee is currently reviewing and defining their policies on ESG factors and will review their approach as part of the implementation of the new long-term investment strategy.• All ESG related decisions are currently delegated to the Scheme's investment managers.• Going forward, the Trustee's investment managers will be requested to provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.• The Trustee will also receive information from their investment advisers on the investment managers' approaches to engagement.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.• The manager's policies are not in line with the Trustee's policies in this area.

Areas of assessment and ESG beliefs

Risk Management	<ol style="list-style-type: none">1. ESG factors such as climate change are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee.2. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	<ol style="list-style-type: none">3. The Trustee wants to understand how asset managers integrate ESG within their investment process and in their stewardship activities.4. The Trustee believes that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will seek to allocate to these sectors.5. The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Reporting & Monitoring	<ol style="list-style-type: none">6. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge.7. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Voting & Engagement	<ol style="list-style-type: none">8. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors.9. The Trustee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance.10. The Trustee wants to understand the impact of voting & engagement activity within their investment mandates.
Collaboration	<ol style="list-style-type: none">11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD.12. The Trustee should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

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 wider ongoing work relating to the investment strategy review.

Engagement

As the Scheme invests via an investment manager, the manager provided details on their engagement actions for the 12 month period to 31 March 2020.

Fund name	Engagement summary	Examples of engagements
LGIM Global Equity Fixed Weights (60:40) Index Fund	LGIM currently do not provide details of their engagement activities at Fund level; however, this is something they are looking to implement going forwards, and Isio remains in contact with LGIM surrounding the firm's engagement reporting.	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.
LGIM Global Equity Fixed Weights (60:40) Index Fund - GBP Currency Hedged	LGIM currently do not provide details of their engagement activities at Fund level; however, this is something they are looking to implement going forwards, and Isio remains in contact with LGIM surrounding the firm's engagement reporting.	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.
LGIM Over 15y Gilts Index Fund	LGIM currently do not provide details of their engagement activities at Fund level; however, this is something they are looking to implement going forwards. Isio remains in contact with LGIM surrounding the firm's engagement reporting.	LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments, and other industry participants to address long-term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.
LGIM Active Corporate Bond Over 10y Fund	LGIM currently do not provide details of their engagement activities at Fund level; however, this is something they are looking to implement going forwards. Isio remains in contact with LGIM surrounding the firm's engagement reporting.	LGIM leverage the wider capabilities of the global firm to engage with companies. LGIM's voting policies are regularly reviewed to ensure their engagement activities are reflected and that feedback from external stakeholders is integrated. However, the effectiveness of engagements at the Fund level is unconvincing as disinvestment decisions are only taken in ESG focused funds.

LGIM Over 15y Index-Linked Gilt Fund

LGIM currently do not provide details of their engagement activities at Fund level; however, this is something they are looking to implement going forwards. Isio remains in contact with LGIM surrounding the firm's engagement reporting.

LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments, and other industry participants to address long-term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.

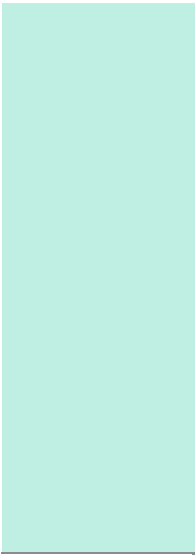
LGIM Sterling Liquidity Fund

The Scheme invested in the fund on 31 March 2021, hence no engagement information has been provided.

Voting

As the Scheme invests via an investment manager, the manager provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2021. The manager also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes
LGIM Global Equity Fixed Weights (60:40) Index Fund	<p>Votable Proposals: 44,680</p> <p>Proposals Voted: 44,667</p> <p>For management votes: 37,323</p> <p>Against management votes: 7,276</p> <p>Votes abstained from: 67</p> <p>Against proxy advisor votes: 197</p>	<p>Barclays – LGIM voted for a resolution approving Barclays’ commitment in tackling climate change. The resolution was supported by 99.9% of shareholders. LGIM will now focus on supporting Barclays on the details of their plans and targets by working closely with the board and management team.</p> <p>Olympus Corporation – LGIM voted against the election of Yasuo Takeuchi as a company director due to the lack of gender diversity at the board level. Even though 95% of shareholders supported the resolution, LGIM will continue to engage with Japanese companies (who trail behind European and US companies) to ensure more women are appointed to their boards.</p> <p>Whitehaven Coal – LGIM voted in support of the company reporting on the potential wind-down of the company’s coal operations, with the potential to return increasing amounts of capital to shareholders. The resolution did not pass, as a relatively small amount of shareholders (4%) voted in favour. However, the environmental profile of the company continues to remain in the spotlight and remains a key focus for LGIM.</p>
LGIM Global Equity Fixed Weights (60:40) Index Fund – GBP Currency Hedged	<p>Votable Proposals: 44,680</p> <p>Proposals Voted: 44,667</p> <p>For management votes: 37,323</p> <p>Against management votes: 7,276</p> <p>Votes abstained from: 67</p> <p>Against proxy advisor votes: 197</p>	<p>The Procter and Gamble Company – LGIM voted for the company to report on their efforts to eliminate deforestation. The company uses both forest pulp and palm oil as raw materials in its household goods products, and it has not responded to CPD Forest disclosure, a red flag to LGIM. A majority of shareholders (68%) voted in favour of the resolution, LGIM will continue to engage with the company to ensure improved levels of disclosure.</p> <p>Toshiba Corp. – LGIM supported the appointment of investigators to address doubts over the company’s 2020 AGM conduct and vote tallying. The resolution</p>



passed with 58% of shareholders in support and the company promptly put investigators in place. LGIM believe this will be the first step to rebuilding the trust between the shareholders and management team following recent controversies.

ExxonMobil – LGIM voted against the reappointment of combined chair and CEO Darren Woods as a company director due to concerns around directors responsible for nominations and remuneration. However, the resolution passed as 93% of shareholders supported the re-election. LGIM believe that this sends an important signal and will continue to engage individually and in collaboration with other investors to push for change at the company.
