

# The Cronite Pension Scheme

## Statement of Investment Principles – Implementation Statement

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The purpose of this Statement is to provide information which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated September 2021 have been implemented.

It also includes the Trustees' voting and engagement policies, as well as details of any review of the SIP during the year, subsequent changes made and the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustees, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 6 April 2022 to 5 April 2023.

## Investment Objectives of the Scheme

The Trustees' objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objective set out in the Statement of Funding Principles.

The Trustees' primary objectives are set out on pages 5 and 6 of the SIP and are as follows:

- to acquire suitable assets such that these, together with new contributions from the Employer, are expected to be sufficient to meet the cost of current and future benefits as they fall due,
- to limit the risk of assets failing to meet the liabilities over the long-term,
- to minimise the long-term costs of the Scheme by maximising the return on the assets, whilst having regard to the objectives above,
- to manage the volatility of returns, in order to control the risk of volatility in the Employer's contributions, and
- to pay due regard to the Employer's preferred investment strategy.

The Trustees appreciate that these objectives are not necessarily mutually exclusive.

The Trustees also recognise that it is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

## Review of the SIP

The SIP was last reviewed in September 2021. The Trustees updated the SIP to reflect changes in the Scheme's investment strategy that were made over the previous year.

The Trustees have a policy on financially material considerations relating to ESG issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out later in this Statement and are detailed in the Trustees' SIP.

The Trustees' policies on financially and non-financially material considerations, as well as engagement and voting activities, were not updated in the ISP in force during the year.

## Investment managers and funds in use

The Trustees' investment strategy is shown in the below table, which reflects the strategy in place throughout the year.

Asset Class	Fund	Target Asset Allocation
Risk-Controlled multi asset	LGIM Dynamic Diversified Fund	50.0%
Corporate Bonds	M&G All Stocks Corporate Bond Fund	20.0%
Liability-Driven Investment ('LDI')	LGIM Matching Core Funds	30.0%
<b>Total</b>		<b>100.0%</b>

## Investment Governance

The Trustees are responsible for making investment decisions, and seek advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP as the Trustees' primary objective is to meet the benefits of the Scheme as they fall due, and the current investment strategy in place is intended to meet this objective. In addition, the Trustees note that the Scheme is comprised of a diverse membership, which the Trustees expect to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

The Trustees have put in place strategic objectives for Broadstone, as the Trustees' investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were reviewed by the Trustees in December 2022. These objectives cover demonstration of adding value, delivery of specialist investment consultancy services, proactivity of investment consultancy advice, support with scheme management, compliance and service standards.

The investment arrangements of the Scheme are reviewed by the Trustees on a quarterly basis, with the assistance of Broadstone.

## Trustees' Policies

The table below sets out how, and the extent to which, the relevant policies in the Scheme's SIP have been followed:

Requirement	Policy	Implementation of Policy
<b>Monitoring of Investments</b>	<p>The Trustees will review the investment strategy in full at least every three years. Any changes to the strategy or to the managers will be made only after obtaining written investment advice and after consulting with the Employer.</p> <p>The Trustees will assess the performance (net of the impact of turnover costs) of the investment managers and review their appointments regularly. The Trustees will consider the managers' compliance with the requirements of the Pensions Act 1995 concerning diversification and suitability, where relevant. In addition, the fee structure for investment managers and advisers will be reviewed at least once every three years.</p>	No deviation from this policy over the year to 5 April 2023.

<p><b>Units from Surplus distribution</b></p>	<p>Some members of the Scheme benefited from a surplus distribution in 1992 whereby they were granted a money purchase pot in addition to their defined benefit entitlement under the Scheme.</p> <p>The vast majority of members who hold these units are due to retire within the next few years, the units are currently held as cash in the Scheme bank account. The Trustees will review this position each time the Scheme's investment strategy is reviewed.</p>	<p>No deviation from this policy over the year to 5 April 2023.</p>
<p><b>Incentivising asset managers</b></p>	<p>The Trustees will select investment managers who are primarily remunerated via an agreed fixed annual percentage of the asset value for each underlying fund. The Trustees may also agree to pay a performance related fee to its fund managers.</p> <p>The Trustees do not directly incentivise the investment managers to align their investment strategy and decisions with the Trustees' policies and objectives. Neither do the Trustees incentivise the asset manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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>No deviation from this policy over the year to 5 April 2023.</p>
<p><b>Monitoring portfolio turnover</b></p>	<p>The Trustees expect the investment managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.</p> <p>The Trustees therefore do not set a specific portfolio turnover target for their strategy or the underlying funds.</p> <p>The investment managers are expected to provide information on portfolio turnover and associated costs to the Trustees so that this can be a factor in the Trustees' review process.</p>	<p>No deviation from this policy over the year to 5 April 2023.</p>
<p><b>Risk Capacity and appetite</b></p>	<p>The Trustees have acknowledged that the strategy is likely to result in some volatility of the funding position, and additional contributions may be needed from the Employer to support the policy.</p> <p>Risk appetite is a measure of how much risk the Trustees are willing to take within the investment strategy, having considered the Employer's views and the risk capacity. The Trustees and the Employer have agreed that the Scheme's existing asset allocation is suitable for the long-term and consistent with their risk appetite.</p> <p>The Trustees monitor the Employer's covenant regularly and are satisfied that the Employer is able to underwrite the risks within the current investment strategy. The Trustees will continue to monitor the Employer's covenant and may adjust the investment strategy if there is a change in the covenant strength.</p>	<p>No deviation from this policy over the year to 5 April 2023.</p>

<b>Performance Benchmarks and Objectives</b>	Each fund has a performance objective that the managers are aiming to achieve. These are set out on page 7 of the SIP.  The Trustees expect the managers to achieve these objectives in the majority of three-year periods, although it is not expected that the managers will necessarily achieve their targets in every three-year period. The Trustees expect that total long-term average returns after fees will be in excess of the 4.0% pa required by the Recovery Plan, as set out in the Statement of Funding Principles (as revised from time to time).	No deviation from this policy over the year to 5 April 2023.
<b>Financially and Non-Financially Material Considerations</b>	The Trustees' policy on financially and non-financially materials considerations is set out on page 9 of the SIP and in full below.	No deviation from this policy over the year to 5 April 2023.
<b>Engagement and Voting Rights</b>	The Scheme's voting rights are exercised by each investment manager in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.	No deviation from this policy over the year to 5 April 2023.
<b>Additional Voluntary Contributions (AVCs)</b>	Some members may obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Scheme. The liabilities in respect of these AVCs are equal to the value of the investments bought by the contributions. From time to time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs.	No deviation from this policy over the year to 5 April 2023.

## Financially and non-financially material considerations

The Trustees have given each individual fund manager their full discretion when evaluating ESG issues and in exercising rights, engagement activities<sup>1</sup>, and stewardship obligations attached to the Scheme's investments. However, the extent to which these factors are taken into account by the fund managers in the selection, retention and realisation of investments is considered by the Trustees as part of the process of selecting organisations with which to invest. The Trustees reserve the right to request from the manager information regarding their actions.

The Trustees have taken into consideration the Financial Reporting Council's UK Stewardship Code, and the investment managers all have stated corporate governance policies which comply with these principles.

**The Trustees do not take any non-financial<sup>2</sup> matters into account in the selection, retention and realisation of investments.**

## Voting rights and engagement activities

The Trustees currently invest in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have any legal right to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

<sup>1</sup> "Engagement activities" include the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters. "Relevant matters" includes (but is not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance. "Relevant persons" includes (but is not limited to) an issuer of debt or equity, an investment manager or another holder of debt or equity.

<sup>2</sup> "Non-financial matters" means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme.

However, the Trustees periodically meet with their investment managers, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustees. As part of this, the Trustees will seek to challenge their investment managers on these matters where they think this is in the best interests of members.

Out of the funds held by the Trustees over the year, the LGIM Dynamic Diversified Fund contains publicly listed equity holdings. These funds have voting rights attached to the underlying equities held within the funds, and the Trustees have delegated these voting rights to the managers, where each manager sets its own voting policy. A summary of the votes made by the manager from 1 April 2022 to 31 March 2023 on behalf of the Trustees for each fund used by the Trustees during the year was requested from the respective managers. We requested that the managers provide voting data broken down into Environmental, Social and Governance categories. However, the managers have informed us that the data is not yet available in this format. We will continue to request the breakdown of this data in future periods. The data in the table below is therefore provided at total fund level.

Manager	Fund	Resolutions Voted On	Resolutions Voted:		
			For	Against	Abstained
LGIM	Dynamic Diversified Fund	99,478	77%	22%	1%

All of the Scheme's assets are invested in pooled funds. LGIM do not use a proxy-voting service and voting is performed in-house.

The Trustees have requested details of the significant votes made on behalf of the Trustees by each manager of a fund in which the Scheme invests which has voting rights. In determining significant votes, each manager's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at the manager's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an any manager engagement campaign, for example in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

## Significant votes

The Trustees believe the following are the most significant votes undertaken on their behalf over the scheme year:

SIGNIFICANT VOTE 1	
Investment Manager	LGIM
Company	Royal Dutch Shell Plc
Date of vote	24 May 2022
Resolution	Approve the Shell Energy Transition Progress Update

Why significant	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.
Voting decision	Against
Manager comments	<p>A vote against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, LGIM remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.</p> <p>LGIM will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p>
Vote outcome	The resolution was carried by the majority of shareholders

## Engagement activities

The Trustees have also delegated engagement activities to the Investment Managers. The notable engagement activities of the investment managers are provided below:

- LGIM's** Investment Stewardship and Climate Solutions teams spoke directly with the management of Capricorn, a smaller-scale oil and gas company who announced their intention to merge with other energy companies in 2022, which had raised some concerns about the company's governance and decision-making process. LGIM voiced their concerns about the first proposed transaction to African-based Tullow Oil, as it did not seem to advance the energy transition strategy for Capricorn's shareholders, in light of the increased exposure to oil prices and geographical risks. Additionally, LGIM believed that such a merger would have resulted in increased financial leverage and dramatically elevate climate transition risks. In further conversations with Capricorn, LGIM asked detailed questions about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Nevertheless, despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger before a decision was taken by Capricorn to abandon it, citing concerns about market conditions and external factors as the reason. A second merger proposal with NewMed, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first. LGIM met again with Capricorn to voice their concerns. As a result of these unpopular proposals Palliser Capital, a key shareholder of Capricorn, called an Extraordinary General Meeting in January 2023 for shareholders to vote on a complete overhaul of the Capricorn Board of Directors.

The Trustees also consider an investment manager's policies on stewardship and engagement when selecting and reviewing investment managers.

## Monitoring of Investment Arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustees receive performance reports on a quarterly basis from Baillie Gifford and LGIM, together with performance reports from Broadstone on a quarterly basis to ensure the investment objectives set out in their SIP are being met.

**Signed:**

**Date:**

**On behalf of the Trustees of the Cronite Pension Scheme**