



the Cheviot **trust**

Implementation  
Statement  
Money Purchase Section

July 2023



## Introduction

1. This statement sets out how the Scheme’s Statement of Investment Principles (the Statement) dated September 2020<sup>1</sup>, has been followed during the Scheme year ending 31 December 2022<sup>2</sup>. It includes details of how the Cheviot Lifeplan (the default option) meets the needs of members and how the ESG (environmental, social and governance) and engagement policies have been implemented and voting behaviour carried out on behalf of the Scheme.

## Review of the Statement of Investment Principles

2. The Statement was reviewed during the Scheme year and the key points of that review are detailed in paragraph 4 below. No changes were made during the Scheme year. No investments made in the year were inconsistent with the Statement. The Investment Committee (the Committee) has delegated powers to consider investment issues and reviews the Statement annually. It agrees any changes in the context of the annual strategic review of the Money Purchase Section, with advice from the investment and legal advisers. Following the review in the scheme year ending 31 December 2022 the Statement was updated in March 2023.
3. The current Statement is available on the both the corporate and member focused Cheviot websites.<sup>3</sup>

## Investment objectives

4. The primary objectives of the Trustee for the Money Purchase Section as set out in the Statement are set out below with a description of how they were implemented during 2022.

Objective	Implementation
<b>To provide a default plan, called the Cheviot Lifeplan to provide members with an “adequate” retirement income<sup>4</sup> in as smooth a manner as possible, taking risk where it is most rewarded and protection where it is most needed. The Cheviot Lifeplan is based on a range of investment options and strategies which are also available to members who wish to choose their own investment approach.</b>	A strategic review of the Cheviot Lifeplan <sup>5</sup> is completed annually by the Investment Committee, through delegated powers from the Trustee. The review in 2022 was completed in July. The Cheviot Lifeplan aims to deliver an income in excess of the Living Wage to at least 75% of members. The review included a detailed analysis of the likely retirement outcomes against three measures: the UK Living Wage, the Pension Commission’s Target Replacement Ratio and the PLSA’s retirement living standards. The Committee concluded that the Lifeplan continued to meet its objectives.
<b>To provide a range of investment options that members can select.</b>	The review of options that members can select was reviewed against the needs of members
<b>To provide investment options for members who wish to invest in line with investment beliefs where financial gain is not the sole criterion.</b>	Following the review of options, the Committee agreed to introduce an ESG equity fund when a suitable fund was available on the investment platform.
<b>To provide investment options for members who wish to invest in line with stock markets.</b>	Four equity only funds are available to members. This includes an ESG equity fund, introduced in January 2023.
<b>To provide an element of stability in investment returns. The Trustee believes that stable returns are more valuable to members than volatile returns. This is reflected in how risk is measured, both by fluctuations in returns, and historic and prospective falls in value.</b>	The core options used in the Cheviot Lifeplan are structured to target more stable returns than the market. The funds are reviewed against stability targets each quarter by the Investment Committee. 2022 was a very difficult year for all asset classes in which the Lifeplan

<sup>1</sup> A new SIP was signed in March 2023

<sup>2</sup> It has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and guidance published by the Pensions Regulator.

<sup>3</sup> [www.cheviottrust.com/www.mycheviotpension.com](http://www.cheviottrust.com/www.mycheviotpension.com)

<sup>4</sup> Measured by reference to the UK Living Wage, the Pension Commission’s Target Replacement Ratio and the PLSA’s retirement living standards.

<sup>5</sup> The default option for the purposes of the legislation



Objective	Implementation
	invests, particularly for those members closest to retirement. This was consistent with other DC arrangements.
<b>To ensure that contributions payable by the employers and members are invested in accordance with the Cheviot Lifeplan or the options selected by members.</b>	Any incidents of contributions being invested in the wrong options are remedied and reported to the Trustee in a quarterly Governance Report. The Governance Report also includes details of performance against service standards for all core financial transactions.
<b>As far as practicable and appropriate, to provide investment options that enable members to invest and disinvest daily.</b>	All options facilitate daily dealing. Some funds are traded separately to other transactions as the unit prices are available one day after the other options which causes disruption. The Trustee is considering how best to address this going forward.
<b>The implementation of the policies in this statement (SIP) are intended to ensure assets are invested in the best interests of members by seeking to secure an appropriate level of risk for the member depending on their age and planned retirement date, including the Cheviot Lifeplan, whilst allowing members to make their own decisions if they choose to.</b>	<p>The options were reviewed as part of the strategic review. The Trustee concluded that all options have clear risk ratings and those within the Cheviot Lifeplan are used to reduce risk in respect of members' tax free cash as members approach their planned retirement date, whilst recognising that most members leave the remainder of their fund invested after accessing the cash.</p> <p>The Committee reviewed the transition into cash as members approached retirement and the returns available for the period of transition. It concluded that the transition should be completed at the member's Target Retirement Date rather than one year before to improve available returns by leaving assets invested for longer.</p> <p>The post-retirement options were also reviewed in light of member behaviour. The Committee concluded that the cash allowance should be reduced from 10% to 5%, reflecting member behaviour and to encourage a prudent level of drawdown. When looking at implementing this review in early 2023, it was identified that the post-retirement options were not being directly offered to members at retirement. This is being investigated and will be remedied in 2023.</p> <p>The implementation of these changes was put on hold, pending a review of the impact of rising inflation on the target returns. Changes to the asset allocation were agreed and implemented during 2022. The implementation of the other changes is planned in 2023.</p>

### Ongoing investment governance

5. Investment governance is delegated to the Investment Committee including the provision of key documents such as this Implementation Statement.
6. The Investment Committee held 12 meetings during 2022. The Investment Committee received detailed information on the performance of the investment strategy quarterly against its long term targets and



risk measures and discussed it with the investment advisers.<sup>6</sup> This information was formally reported to each quarterly Trustee meeting.

7. The primary investment objectives for the growth funds in the Cheviot Lifeplan are to achieve inflation-related returns over a full market cycle of about five years with less fluctuations in value than the market. Returns are also measured against a market benchmark. The inflation related returns were not met during 2022 although returns were better than the market benchmark. The Cheviot Lifeplan's longer term funds were within tolerances agreed with the investment advisers for volatility of returns. The funds closer to retirement fell slightly outside the risk tolerances due to the very significant falls of gilts and bonds. The quarterly reviews of the external investment options offered to members confirmed that they achieved a return consistent with the stated objective.
8. Investment performance for the year is available in the Cheviot Pension accounts which also include details of the underlying investments and how they were assessed and valued for the accounts. No illiquid assets are held within the Money Purchase Section. The Investment Committee is satisfied, on advice from the investment advisers, that the nature, disposition, marketability, security, and valuation of the Scheme's assets are in line with the investment objectives and strategy, risk controls and return expectations.
9. Advisers are held to account and their performance assessed and reviewed regularly. Quarterly reports are provided to the full Board on each adviser. The investment adviser was reviewed in detail in early 2022 against detailed objectives. An external advisor provided a review of performance in April and September 2022.
10. The investment adviser reviewed the underlying managers during the Scheme year and assessed performance against the key managers each quarter. The investment adviser provided an annual more detailed review which included benchmarking of performance and fees, as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews.<sup>7</sup> Operational due diligence reviews, along with many areas, included a review of the governance structure, portfolio turnover, conflicts of interest, ESG and stewardship policies.
11. ESG training was provided by the investment advisers part of the annual ESG review of managers. The legal advisers provide quarterly updates explaining new requirements and how they may impact Cheviot members in the future. Several Committee meetings during 2022 focused specifically on the requirements set by the Task Force on Climate-related Financial Disclosures (TCFD).
12. The Committee updated its investment beliefs to reflect the impact of climate change on assets, including physical, transition and social risks and opportunities, the Paris Agreement and issues around engagement and influence. A Climate Change Policy was developed. It included the governance structures, including training and assessment of the capabilities of its advisers and service providers on climate related risks and opportunities, a strategy for assessing the impact of climate related risks and approach to opportunities over different time periods, risk management and metrics and targets. The investment beliefs were discussed and agreed by the Trustee in February 2022 and the Policy was discussed in September 2021.

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<sup>6</sup> Formerly River and Mercantile Solutions, now Schroders Solution following its acquisition of the R&M Solutions team.



### Risks

13. All options in the Cheviot Lifeplan (other than Cash) are invested in a diversified range of assets to reduce investment risk, which can include (but are not limited to) assets such as developed market equities, emerging market equities, UK or other sovereign bonds, corporate bonds, high yield bonds, real estate, and money market instruments. The balance between different kinds of investments reflects the risk profiles of each option.
14. During the Scheme year, risks were measured and managed as part of regular investment strategic governance, asset allocation reviews and investment strategic reviews. The Investment Committee reviewed the relevant risks each quarter and identified, evaluated, managed, and monitored risks, including their impact, what controls can be put in place to manage those risks and the effectiveness of the risk management process. As part of quarterly reporting from the investment adviser, risks are measured against risk tolerance and market conditions to check whether the performance of each investment option remains in line with the agreed risk objectives. The risk and return tolerances were considered as part of the strategic review in May 2022 considering whether the target returns were still achievable.
15. The Committee continued to discuss the issues of Climate Change and TCFD in detail quarterly in 2022. As part of these sessions, it received further training on the risk and opportunities associated with climate change.

### Transitions

16. Asset allocation changes were implemented by the administration team, in conjunction with the investment platform provider and investment adviser.

### Investment Platform provider

17. The Trustee invests the Scheme's assets through an investment platform of pooled funds with Mobius Life. As a result, the Trustee is constrained in its ability to directly influence the underlying investment managers who make the day to day investment decisions or obtain detailed information about ESG and climate change issues.
18. The Scheme's investment advisor is required to carry out a review of the investment platform manager, Mobius Life, every eighteen months. The next review will be completed in the second half of 2023. The last review did not reveal any issues which impacted Cheviot directly. The Investment Committee remain comfortable that the policies on the exercise of rights in relation to the investments and engagement activities have been followed but will review this when the next due diligence report is available.

### Value for members

19. The Trustee appointed consultants to carry out an annual assessment of the Money Purchase Section's services during 2022. The assessment was reviewed by the Investment Committee in February 2023. The assessment was completed by Schroders Solutions, based on its knowledge of the market and operation of other trustee boards and the framework provided by the Pensions Regulator. The quality of the services was assessed through establishing whether the Money Purchase Section's services were suitable, relevant and provided value to members and whether each of the services had performed effectively. The assessment also identifies, in conjunction with the Committee, areas where future actions could further improve the value provided.



20. The Committee has delegated powers to review the assessment. It concluded that services provided were high quality and provided value for members in the three key areas of governance and management, investment and administration and communications services. These services made a positive contribution to member outcomes.
21. The overall charge was within the range identified by Schroders Solutions but at the high end, given the discounting available by the largest providers in the Master Trust market. The Trustee continues to focus on reducing overall charges, having reduced charges in both 2020 and 2021.

### Environmental, social and governance factors

22. When selecting and monitoring an investment the Investment Committee considers financially material factors. These are factors that can affect the long-term financial performance of investments and can (but do not have to) include the financial implications of environmental, social and governance factors (otherwise known as ESG) where relevant. All references to ESG also include climate change. The Investment Committee reviews their ESG policy and any relevant information regularly.
23. During the Scheme year, the Investment Committee has considered the nature of its investments in the context of long-term financial performance and the extent to which the existing investments implicitly include consideration of ESG factors. The Investment Committee is also considering those elements of the investment strategy where the fundamental investment objective is short term in nature and taking account of ESG factors is unlikely to influence investment performance.
24. Long-term financial performance, including ESG factors and stewardship is considered at the point of initial investment as a part of the manager selection criteria. This includes alignment with the Trustee's investment strategy. A long-term approach is taken to setting risk and return targets and when assessing manager performance against those targets. The fee structure for each manager is based on a percentage of assets managed. The manager is therefore incentivised to grow assets in line with the set objectives. Such factors may also be important criteria for considering the replacement of a manager.
25. Once a manager is appointed, the Investment Committee monitors ongoing compliance with ESG and other factors like stewardship as a part of overall performance and uses its investment adviser's engagement with the managers on the Trustee's behalf in its decision making (where appropriate). Most of the appointed managers take ESG factors into account as part of their investment process.
26. For example, as mentioned above in para 4, the Committee decided to add an ESG focused equity fund to the Trust's self-select range. A particular fund was considered for inclusion and ESG metrics were provided for that fund. ESG issues were clearly very significant in the selection of this fund and contributed to the subsequent decision not to invest. An alternative fund has been selected, after the ESG metrics were reviewed, and is now available.
27. The Investment Committee would ultimately disinvest assets from a manager if the manager were not in alignment with the agreed approach to investment strategy. During the ongoing monitoring of managers during the Scheme year ending 31 December 2022, no decisions were taken to disinvest.
28. The Investment Committee did not take account of non-financially material factors when making investment decisions on behalf of members during the Scheme Year but makes two funds available which aim to satisfy certain sets of beliefs (Sharia principles and a particular ethical approach).
29. As part of their annual reporting, the Trustee is required to calculate transaction costs and assess the extent to which they represent good value for members. With regard to the Lifeplan, over a 40-year membership, the cost of switching between funds may amount to approximately 0.30%. This averages



to 0.01% per annum and is the worse-case cost arising from buying a unit of Cheviot Growth, then transitioning through Moderate, Cautious, Retirement Planning and Cash and eventually cashing in at retirement. These estimates include costs incurred as a result of the buying, selling, lending or borrowing of investments. The Investment Committee has reviewed the estimated transaction costs for each investment option and underlying funds (including the self-select options) and are comfortable the costs are reasonable.

### Engagement and stewardship

30. The Trustee is supportive of the UN Principles for Responsible Investment (PRI) and the UK Stewardship Code and considers whether managers and signatories adhere to them. Schroders has been a PRI signatory since 2015, was the first large global asset manager to have had its Net Zero targets verified by SBTi (the Science Based Target Initiative) and has 50+ dedicated ESG specialists. The Committee is considering engagement with various climate related industry initiatives, including the Occupational Pensions Stewardship Council.
31. Since the underlying investment funds used in the Money Purchase Section are pooled products (i.e., funds that are used for investment purposes by different clients), the Trustee is not able to require the managers concerned to make changes to their investment approach to take account of ESG factors or give directions on stewardship such as how voting rights are used. This means the Trustee is not able to make clear to managers what the Trustee considers a significant vote in advance of those votes being taken.
32. The Trustee decided to adopt Climate and Governance as their stewardship priorities in the 2023 scheme year. Although these stewardship priorities had not been adopted in the 2022 Scheme year, the Trustee has decided to use the selected stewardship priorities to determine what it defines as a “significant vote” for the purposes of reporting voting activity for the Scheme year and to monitor the managers voting and engagement is in line with these priorities.
33. It considers the most significant votes to be those that meet the following three criteria:
  - The vote relates to one of the Trustee’s chosen stewardship priorities;
  - The vote is deemed significant by the underlying managers (of holdings greater than 2.5%) based on their specific knowledge of the circumstances around each vote; and
  - Where an underlying manager within the Money Purchase Section has a holding in a single stock which makes up at least 0.5% of one blend of the LifePlan strategy.
34. The Investment Committee has reviewed voting and engagement activity undertaken by the underlying investment managers and this is set out in Appendix 1<sup>8</sup>. Both equity managers show meaningful engagement practices.
35. The performance of each manager is included in the governance report from the investment advisers as well as commentary on any issues which have arisen.
36. Despite the lack of contractual relationship, working with its investment advisers, the Trustee has reviewed those funds with more than 2.5% of the Money Purchase Section’s assets and asked the investment platform provider for information about their voting activity.

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<sup>8</sup> Information based on data available from Mobius.



37. The platform provider (Mobius Life) did not vote on behalf of the Trustees. This is due to their policy not to vote at the fund level as they cannot represent all their underlying investors. This is common practice in the industry. Mobius actively engages with asset managers and is in support of the UK Stewardship code. Mobius contacts each of the asset managers they invest with on an annual basis to ensure they are complying with Mobius' governance requirements at a company level and in their investment approach. The Trustees are satisfied that the level of engagement demonstrated by Mobius is appropriate.
38. The Trustee engaged with Mobius during the Scheme year on climate-reporting issues and discussed the level of information it needed from the managers to enable it to measure the portfolio's progress in relation to climate related targets.

### Conclusion

39. The Investment Committee, on behalf of the Trustee under its delegated powers, considers that it has followed the policies set out in the Statement of Investment Principles without any significant deviations, other than in relation to the post-retirement options.<sup>9</sup>

*Sir Derek Morris*

**Sir Derek Morris**  
Chair, Cheviot Trustees Limited  
28 July 2023

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<sup>9</sup> See para 4



## Appendix 1

### Voting and Engagement Summary

The Investment Committee has considered the voting and engagement summary provided by its investment advisers in relation to the engagement and voting activities of the underlying managers of the Section's pooled funds. Both primary equity managers show strong and meaningful engagement practices making use of proxy voting so that they can participate in as close to 100% of votes as possible.

As there are multiple underlying funds used in the Cheviot Lifeplan, the analysis includes allocations which are c.2.5% of assets or higher within any of the Lifeplan's blended funds as at 31 December 2022. Credit managers have been excluded as they do not have voting rights for their underlying holdings and thus do not have data to be considered. The funds reviewed are set out below.

Asset class	Fund name	Maximum allocation within default investment strategy
Equity	Legal and General ("LGIM") North America Equity Index	18.0%
	LGIM North America Equity Index (GBP Hedged)	20.1%
	LGIM Europe ex UK Equity Index (GBP Hedged)	6.1%
	LGIM UK Equity Index	5.6%
	LGIM Japan Equity Index – (GBP Hedged)	5.8%
	LGIM Asia Pacific (ex-Japan) Developed Equity Index	2.5%
	BlackRock European Equity Index Fund	6.1%
	BlackRock Emerging Market Index Funds	15.9%
	BlackRock ACS World ESG Equity Tracker	4.0%
	BlackRock ACS World ESG Equity Tracker (GBP Hedged)	4.4%

Over the year to 31 December 2022, the platform provider, Mobius Life, did not undertake any voting activity in respect of the pooled funds held on its investment platform as a matter of policy. This is common practice in the industry.

Voting and engagement activity undertaken by the underlying investment managers is set out in the following sections.

The Trustee (through its advisors) has included all of the information available in relation to the below voting activity. This has relied on the level of detail available from the underlying managers on the expanded requirements for this Implementation Statement. The Trustee understands that in future reporting years the information available on the votes is expected to be more detailed, to allow it to meet the vote reporting requirements in full.

### Equity managers

#### Summary for LGIM

LGIM's Investment Stewardship team uses Institutional Shareholder Service's "ProxyExchange" electronic voting platform to electronically vote client's shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

During 2022, LGIM engaged with 665 companies globally, voted on over 66,000 resolutions and opposed 4,700 director elections due to governance concerns. It continued and increased their progressive stance on income inequality, diversity and board independence.



The voting behaviour is shown in the chart below and demonstrates LGIM’s policy of active engagement and willingness to vote against management if it is considered necessary. LGIM provided meaningful examples of their engagement policy. The Trustee, on the advice of its advisors, determined that the voting behaviour of LGIM was aligned with the Scheme’s stewardship priorities.

LGIM Passive Funds 31/12/2021 – 31/12/2022	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Asia Pacific (ex-Japan) Developed Equity Index	503	3,592	100%	72%	28%	0%
Europe (ex-UK) Equity Index - GBP Currency Hedged	605	10,296	100%	81%	18%	0%
Japan Equity Index - GBP Currency Hedged	503	6,255	100%	88%	12%	0%
North America Equity Index	668	8,416	99%	65%	35%	0%
UK Equity Index	759	10,854	100%	95%	5%	0%

### Most Significant Votes

#### Governance: Amazon

In May 2022, LGIM voted against the resolution to elect direct Daniel P. Huttenlocher, because Mr Huttenlocher was a long standing member of the Leadership Development and Compensation Committee, which in LGIM’s view was accountable for human capital management failings.

LGIM pre-declared its vote intention for this resolution which in their view demonstrates its significance.

LGIM will continue to engage with their investee companies and publicly advocate their position on this issue and monitor company and market-level progress.

#### Climate: Alphabet Inc.:

LGIM voted in favour of a resolution requiring the company to report on the physical risks of climate change.

The rationale of the voting decision was:

- LGIM expects companies to be taking sufficient action on the key issue of climate change.

About 18% of shareholders supported the resolution.

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.

LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

### Summary for BlackRock

BlackRock use Institutional Shareholder Services’ (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply their proxy voting guidelines to filter out routine or non-contentious proposals and refer to them any meetings where additional research and possibly engagement might be required to inform their voting decision.

The statistics for BlackRock demonstrate its level of engagement and voting policies, including voting against management were considered appropriate. BlackRock provided meaningful and helpful examples of key



votes and examples of engagement, focused on climate related risks and opportunities. The Trustee, on the advice of its advisors, determined that the voting behaviour of BlackRock was aligned with the Scheme's stewardship priorities.

<b>BlackRock Passive Funds</b> 31/12/2021 – 31/12/2022	Eligible meetings	Eligible resolutions	Voted on	Voted with management	Voted against management	Abstentions
Emerging Market Index Fund	2,767	24,892	98%	88%	11%	3%
European Equity Index Fund	492	8,937	75%	87%	12%	1%
ACS World ESG Equity Tracker	349	5,424	95%	95%	4%	0%

### Most Significant Votes

#### Climate and Governance: Samsung

Blackrock voted for the board recommendation of the proposed director elections based on the company's indication that it is in its final review stage of a revised climate strategy.

The rationale for this voting decision was:

- BlackRock believes that climate risk is an increasingly important factor in companies' long-term profitability. Samsung is South Korea's largest company in market capitalisation and one of the largest manufacturers of electronics across the globe. BlackRock has conducted multi-year engagements with the company across a range of topics. As one of the 1,000+ companies included in BlackRock's climate focus universe, their engagements tend to involve climate and energy transition risk.
- Based on Samsung's sustainability reporting and disclosures, the company has yet to state any carbon neutrality goals. Furthermore, its greenhouse gas (GHG) emissions target of 70% reduction from 5.17 tonnes of CO<sub>2</sub>e/KRW 100 million in 2008 expired in 2020 and has not been refreshed. BlackRock deems nomination of Dr. Wha-Jin Han – the former Secretary for the Environment to the President of South Korea and founding member of the Korea Environment Institute – brings to the Samsung board deep expertise to better assess and provide oversight to ensure adequate management of climate-related risks and opportunities. Understanding is that the company is in the final review stage of its renewed strategy, which would replace the strategy and commitments that expired in 2020.
- BlackRock emphasises that long-term investors, and the company itself, will benefit from greater transparency and clear disclosure of the company's environmental strategy and targets. Since BlackRock is a long-term investor on behalf of their clients, it is important that Samsung – South Korea's largest company and a global leader in its industry – takes the initiative to lead on this critical, multi-decade business transition.

Based on BlackRock's anticipation that this revised strategy will be announced in the coming months, expected by mid-year, they decided to support all director elections at this shareholder meeting.

## Appendix 2

Links to the voting and engagement policies for the Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
BlackRock	<a href="#">Investment Stewardship   BlackRock</a>
LGIM	<a href="#">Investment stewardship &amp; governance   LGIM Institutional</a>
Insight (via BNY Mellon)	<a href="#">proxy-voting-policy-2023.pdf (insightinvestment.com)</a> <a href="#">responsible-investment-policy.pdf (insightinvestment.com)</a>