

Hill & Smith 2016 Pension Scheme Implementation Statement for the year ended 5 April 2022

Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustee of the Hill & Smith 2016 Pension Scheme (“the Scheme”) has followed the policies documented in their Statement of Investment Principles (“SIP”) during the year ended 5 April 2022 (“the reporting year”). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Summary

The Trustee is satisfied that during the reporting year the policies for both sections (as noted below and in the SIP in more detail) were followed. Based on the voting information detailed below, the Trustee also concludes that the Investment Managers have exercised their delegated voting rights on behalf of the Trustee in a way that aligns with the Trustee’s relevant policies in this regard.

During the reporting year the Trustee has:

- Updated the SIP to reflect the updated investment strategy.

Latest review of the Statement of Investment Principles

During the reporting year, the Scheme’s SIP for the Defined Benefit (“DB Section”) and Defined Contribution (“DC Section”) was reviewed and amended from July 2021. This review was initiated by XPS following S36 advice received and agreed by the Trustee, implementing changes to the investment strategy of the DB section. These changes influenced the DB section of the SIP, and the Trustee’s new policy was documented in the updated SIP.

The previous version of the SIP had been in existence since September 2020 meaning each version of the SIP was relevant during different parts of the reporting year.

Investment-related activity during the reporting year

ESG

The Trustee believes that there can be financially material risks relating to ESG issues. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s Investment Managers.

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme’s investments to the Investment Managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

During the reporting year, the Trustee agreed to increase allocation of the LGIM Secure Income Fund, funding it via disinvestment from the LGIM Buy & Maintain Credit Fund. The recommendation was provided by XPS using various criteria. One of the criteria - in acknowledgement of the Trustee’s ESG policy - was that the Investment Manager had been found to have a credible ESG capability, with decisions linked to that capability applied to the fund to an acceptable degree.

Ongoing Governance

The Trustee, with the assistance of XPS, monitored the processes and operational behaviour of the Investment Managers throughout the reporting year, to ensure they remain appropriate and in line with the Trustee's requirements.

The Trustee considers investment issues in detail at Trustee meetings. The Trustee receives reports from XPS on the investment performance for both Sections of the Scheme. These reports are issued on a quarterly basis and analyse performance over the last quarter, 1 Year and 3 Year time periods. The progression of the DB Section's funding position is also discussed at Trustee Meetings.

The Trustee has set XPS the objective of ensuring that, over time, selected managers reflect the Trustee's views on ESG (including climate change) and stewardship.

Asset Allocation

In understanding that asset allocation plays an important role in achieving investment objectives and good member outcomes, the Trustee regularly monitors the asset allocation of both Sections of the Scheme to ensure that these are in line with the Trustee's current investment objectives.

For the DB Section, the Trustee reviewed the investment strategy during the year and made the following changes in order to moderately increase the expected investment return by increasing allocation to contractual, income generating assets while slightly reducing overall risk of the portfolio in line with the long-term objectives of the Scheme (as stated in the SIP):

- Switch c.10% of the Scheme assets (£6m) from the LGIM Buy & Maintain ("B&M") Credit Fund to the LGIM Secure Income Assets Fund ("SIAF"). Because the SIAF is an illiquid holding, capital is only invested into the fund when investment opportunities arise. Therefore, as at accounting year end the capital committed to this fund was held in the LGIM Buy & Maintain Credit Fund.
- In October 2021 the Scheme fully disinvested from the Schroders Life Diversified Growth Fund ("DGF") and invested the proceeds in the LGIM Multi-Asset Fund.
- In October 2021, the Buy & Maintain Credit Fund share class was switched from accumulating to distribution with any income generated by the fund to be paid to the Trustee bank account in order to aid the cashflow needs of the Scheme.

For the DC Section, the Trustee reviewed the Default investment strategy during the year and is currently considering the following changes proposed by XPS:

- Switch from the L&G Multi Asset Fund to the L&G Future World Multi-Asset Fund in order to incorporate ESG into the default strategy.
- Switch from the L&G Over 15 Year Gilts Index Fund with the L&G Over 5 Year Index Linked Gilts Index Fund to provide members with greater inflation protection, particularly relevant in the current market environment.
- Alter the Default Strategy allocation weights to make the strategy more flexible for members who may have varying retirement targets.
- For all default members should be transferred to the new default arrangement regardless of years to retirement.

The Trustee is required to review the strategy of the default investment arrangements offered by the DC Section of the Scheme at least every three years or immediately following any significant change in investment policy or in the DC Section's member profile. There were no changes to the investment strategy of the DC Section over the accounting year ending April 2022. A review has been undertaken by the Trustee during the Scheme year ending April 2022, with changes to the Default strategy expected to take place throughout the next reporting period.

New Policies

No new policies were introduced during the reporting period.

The Trustee's investment policies

The Trustee had various investment policies for the Scheme on the topics listed in the table below; the table also provides commentary on how and the extent to which the various policies were followed during the reporting year.

DB Section

Policy	How the policy was followed	The extent to which the policy was followed
<p>Kinds of investments to be held</p> <p>The Trustee's policy is to acquire assets of appropriate liquidity which will generate income and capital growth.</p>	<p>The funds held by the DB Section incorporate assets of appropriate income and liquidity.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>
<p>Balance between different investments</p> <p>The Trustee's policy is to invest in a diversified portfolio of return seeking assets and liability matching assets.</p>	<p>The funds held by the DB Section incorporate assets primarily used to outperform liabilities (e.g. Multi-Asset) and liability matching assets (e.g. LDI and Buy & Maintain Credit). The Trustee reviewed the investment strategy during the year.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>
<p>Risks (measurement and management)</p> <p>-The Trustee receives strategic investment advice from the Investment Adviser, XPS, that may include risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered.</p> <p>-The Trustee considers the Investment Managers' role and approach to managing risk is considered when selecting appropriate Investment Managers.</p>	<p>The Trustee's decision to disinvest c.10% (£6m) of the total Scheme's assets from the LGIM Buy & Maintain Credit Fund and invested the proceeds in the LGIM SIAF as well as to fully disinvest from the Schroders DGF and invest the proceeds in the LGIM Multi Asset Fund was undertaken in support of this policy, i.e. analysis included risk modelling. The Trustee receives quarterly reporting from its Investment Adviser, XPS, which includes the DB Section's asset allocation, performance, journey plan modelling and Value at Risk calculations. In addition, the Trustee is able to monitor the DB Section's projected asset and liability movements as well as risk daily using Radar system, provided by XPS.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>
<p>Expected return</p> <p>The Trustee's policy is to invest in a mixture of assets such that future investment returns will at least meet the rate of return underlying the recovery plan. This return, along with the Sponsor contributions, is expected to cover the cost of benefits the DB Section provides.</p>	<p>The implemented strategy changes undertaken over the period were in support of this policy.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>

<p>Realisation of investments</p> <p>The Trustee recognises that assets may need to be realised to meet Scheme obligations and will ensure that an appropriate amount of readily realisable assets are held at all times, and this will be part of the assessment for including new investments within the strategy.</p>	<p>The Trustee maintains a proportion of its investments in sufficiently liquid investments and investments which distribute income in order to meet benefit payments as required.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>
<p>ESG</p> <p>The Trustee’s policy is to delegate the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme’s Investment Managers.</p>	<p>The Investment Managers have responsibility for the ongoing monitoring and management of ESG risks and those related to climate change.</p>	<p>The Trustee is satisfied that it followed the policy over the period.</p>
<p>Non-financial matters</p> <p>The Trustee’s policy is to act in the best interests of the beneficiaries of the Scheme when selecting, retaining or realising investments. It has neither sought nor taken into account the beneficiaries’ views on risks including (but not limited to) ethical, social and environmental issues.</p>	<p>The Trustee seeks professional advice in relation to the management of the assets of the Scheme to ensure that the decisions are made in the best interests of Scheme beneficiaries.</p>	<p>The Trustee is satisfied that they followed the policy to a sufficient extent under the existing investment arrangements.</p>
<p>Voting rights</p> <p>The Trustee has delegated responsibility for the exercise of rights attached to the Scheme’s investments to the Investment Managers.</p>	<p>The Trustee is satisfied that the Investment Managers’ policies on corporate governance and exercise of voting rights, reflect the key principles.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>
<p>Stewardship/relationship with managers</p> <p>The Trustee encourages Investment Managers to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.</p>	<p>The Investment Managers are expected to vote in accordance with their internal voting policies.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>

DC Section

Policy	How the policy was followed	The extent to which the policy was followed
<p>Kinds of investments to be held</p> <p>The Trustee's objective is to offer members an appropriate range of investment choices to suit different risk appetites and tolerances that includes both actively and passively managed funds</p>	<p>A range of different choices are offered with different return and risk characteristics.</p>	<p>The Trustee is satisfied that the policy was followed in full.</p>
<p>Balance between different investments</p> <p>The amounts allocated to any individual asset class will be influenced by the choices made by the members.</p> <p>The Trustee's policy is to offer a range of investment funds with different risk-reward characteristics.</p>	<p>The Trustee has set the default strategy for members to be a life-styling strategy. The Scheme's Default Profile invests in the LGIM Multi-Asset (formerly Consensus) Fund, Over 15 Year Gilts Index Fund and the Cash Fund. In addition to funds included within the default strategy, the Trustee has made funds available to members within the self-select range.</p> <p>The Trustee monitors the overall investment allocation of members on an annual basis as a minimum.</p>	<p>The Trustee is satisfied that the policy was followed in full.</p>
<p>Risks (measurement and management)</p> <p>The Trustee undertakes regular monitoring of the Scheme's investments supplemented by information provided by both the Investment Managers and Investment Adviser.</p>	<p>These risks are measured and managed by the Trustee through adhering to the SIP, regular monitoring of the Scheme's investments, delegation of the management of some of these risks to the Investment Managers and utilising custodian relationships. As the Scheme holds all assets in the pooled funds, the Trustee has indirect relationship with custodians managed by the Investment Managers.</p>	<p>The Trustee is satisfied that the policy was followed in full.</p>
<p>Expected return</p> <p>The Trustee's policy is to make available a range of investment funds with different risk-reward characteristics that will allow members to maintain the real value of their fund whilst at the same time providing them with the opportunity to invest in assets which are closely aligned to the way in which they expect to convert their fund at retirement.</p>	<p>The Trustee made a range of self-select funds available for members who want to take more or less risk.</p>	<p>The Trustee is satisfied that the policy was followed in full.</p>

<p>Realisation of investments</p> <p>The Trustee will ensure that an appropriate amount of readily realisable assets are held at all times.</p>	<p>All assets were made ready realisable to members over the period.</p>	<p>The Trustee is satisfied that they followed the policy to a sufficient extent under the existing investment arrangements.</p>
<p>ESG</p> <p>The Trustee's policy is to delegate the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers.</p>	<p>The underlying Investment Managers have responsibility for the ongoing monitoring and management of ESG risks and those related to climate change.</p>	<p>The Trustee is satisfied that the policy was followed in full.</p>
<p>Non-financial matters</p> <p>The Trustee's policy is to act in the best interests of the beneficiaries of the Scheme when selecting, retaining or realising investments. It has neither sought nor taken into account the beneficiaries' views on risks including (but not limited to) ethical, social and environmental issues.</p>	<p>The Trustee seeks professional advice in relation to the management of the assets of the Scheme to ensure any decisions made are in the best interests of Scheme beneficiaries.</p>	<p>The Trustee is satisfied that they followed the policy to a sufficient extent under the existing investment arrangements.</p>
<p>Voting rights</p> <p>The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers.</p>	<p>The Trustee is satisfied that the Investment Managers' policies on corporate governance and exercise of voting rights, reflect the key principles.</p>	<p>The Trustee is satisfied that the policy was followed in full.</p>
<p>Stewardship/relationship with managers</p> <p>The Trustee's policy is to encourage Investment Managers to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.</p>	<p>The Investment Managers are expected to vote in accordance with their internal voting policies.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>

Voting

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

The main asset class where the Investment Managers will have voting rights is equities. Investments in equities form part of the strategy for the multi-asset funds in which the Scheme invests. Therefore, a summary of the voting behaviour and most significant votes cast by each of the Investment Manager organisations for the relevant funds is shown below.

DB Section

Voting Information
Schroders Diversified Growth Fund – Disinvested on 14 October 2021
The fund manager has not provided a stewardship code data at present.
The manager voted on 96.5% of resolutions of which they were eligible out of 1,704 eligible votes* during the accounting year period the Scheme was invested in the Fund.
Investment Manager Client Consultation Policy on Voting
The corporate governance analysts input votes based on their proprietary research in line with Schroders' house voting policy and do not take voting instruction from their clients. They report transparently on their voting decisions with rationales on their website.
Investment Manager Process to determine how to Vote
<p>As active owners, Schroders recognise their responsibility to make considered use of voting rights. They therefore vote on all resolutions at all AGMs/EGMs globally unless they are restricted from doing so (e.g. as a result of share blocking). They aim to take a consistent approach to voting globally, subject to regulatory restrictions that is in line with their published ESG policy.</p> <p>The overriding principle governing their voting is to act in the best interests of their clients. Where proposals are not consistent with the interests of shareholders and their clients, they are not afraid to vote against resolutions. They may abstain where mitigating circumstances apply, for example where a company has taken steps to address shareholder issues.</p> <p>Schroders evaluate voting resolutions arising at their investee companies and, where they have the authority to do so, vote on them in line with their fiduciary responsibilities in what they deem to be the interests of their clients. Their Corporate Governance specialists assess each proposal, applying their voting policy and guidelines (as outlined in their Environmental, Social and Governance Policy) to each agenda item. In applying the policy, they consider a range of factors, including the circumstances of each company, long-term performance, governance, strategy and the local corporate governance code. Their specialists will draw on external research, such as the Investment Association's Institutional Voting Information Services and ISS, and public reporting. Their own research is also integral to their process; this will be conducted by both their financial and Sustainable Investment analysts. For contentious issues, their Corporate Governance specialists consult with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.</p> <p>Schroders also engage with companies throughout the year via regular face-to-face meetings, written correspondence, emails, phone calls and discussions with company advisors and stakeholder</p>
How does this manager determine what constitutes a 'Significant' Vote?
Schroders believe that all votes against management should be classified as a significant vote. However, they believe resolutions related to certain topics carry particular significance. They therefore rank the significance of their votes against management, firstly by management say on climate votes, secondly environmental and social shareholder resolutions, thirdly any shareholder resolutions and finally by the size of their holding.
Does the manager utilise a Proxy Voting System? If so, please detail
Institutional Shareholder Services (ISS) act as their one service provider for the processing of all proxy votes in all markets. ISS delivers vote processing through their Internet-based platform Proxy Exchange. Schroder's receives ISS's research on resolutions. This is complemented with analysis by their in house ESG specialists and where appropriate

with reference to financial analysts and portfolio managers. For their smallest holdings in the US, Hong Kong, Japan, Australia and New Zealand, ISS implements a custom Schroders voting policy for them, with only a few resolutions referred to Schroders for a final decision.

Top 5 Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
Domino's Pizza Group Plc	Re-elect Kevin Higgins as Director	Against Management	Not provided
As the head of the remuneration committee Schroders have voted against due to poor pay practices.			
British American Tobacco plc	Approve Remuneration Report	Against Management	Not provided
Continued increases in fixed pay.			
Unilever Plc.	Approve Remuneration Report	Against Management	Not provided
Targets in pay dependent on discretion rather than performance.			
China Tower Corporation Limited	Approve Amendments to Articles of Association, Rules of Procedures Regarding Meetings of Board of Directors and Related Transactions	Against Management	Not provided
The proposed articles and bylaw amendments are not considered to adequately provide for accountability and transparency to shareholders.			
Xenia Hotels & Resorts, Inc.	Elect Director Thomas M. Gartland	Against Management	Not provided
The nominee is chair of the remuneration committee and there has been no improvement to remuneration practices.			

*Manager voting information was provided in bulk by the manager. XPS have conducted analysis on the data to calculate the % votes and no. of resolutions voted on using the data provided.

DB and DC Sections

Voting Information

Legal and General Investment Management Multi-Asset Fund (noted as 'formerly Consensus' for the DC Section)

The manager voted on 99.77% of resolutions of which they were eligible out of 88,741 eligible votes.

Investment Manager Client Consultation Policy on Voting

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Their voting policies are reviewed annually and take into account feedback from their clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead. They also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

Investment Manager Process to determine how to Vote

All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each

member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures their stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

How does this manager determine what constitutes a 'Significant' Vote?

As regulation on vote reporting has recently evolved with the introduction of the concept of 'significant vote' by the EU Shareholder Rights Directive II, LGIM wants to ensure LGIM continues to help their clients in fulfilling their reporting obligations. LGIM also believes public transparency of their vote activity is critical for their clients and interested parties to hold LGIM to account.

For many years, LGIM has regularly produced case studies and/ or summaries of LGIM's vote positions to clients for what LGIM deemed were 'material votes'. LGIM is evolving their approach in line with the new regulation and is committed to provide their clients access to 'significant vote' information.

In determining significant votes, LGIM'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 vote which has 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 LGIM's annual Stakeholder roundtable event, or where LGIM notes 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 LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

LGIM provides information on significant votes in the format of detailed case studies in LGIM's quarterly ESG impact report and annual active ownership publications.

The vote information is updated on a daily basis and with a lag of one day after a shareholder meeting is held. LGIM also provides the rationale for all votes cast against management, including votes of support to shareholder resolutions.

Does the manager utilise a Proxy Voting System? If so, please detail

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and LGIM does not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions

To ensure LGIM's proxy provider votes in accordance with LGIM's position on ESG, they have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers are minimum best practice standards which they believe all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows us to apply a qualitative overlay to LGIM's voting judgement. LGIM has strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

Top 5 Significant Votes during the Period			
Company	Voting Subject	How did the Investment Manager Vote?	Result
Apple Inc.	Resolution 9 - Report on Civil Rights Audit.	LGIM voted for the resolution.	53.6% of shareholders supported the resolution.
LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.			
Microsoft Corporation	Elect Director Satya Nadella.	LGIM voted against the resolution.	94.7% of shareholders supported the resolution.
LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.			
NextEra Energy, Inc.	Resolution 1h Elect Director James L. Robo.	LGIM voted against the resolution.	88.1% of shareholders supported the resolution.
LGIM will continue to engage with their investee companies, publicly advocate our position on this issue and monitor company and market-level progress.			
Union Pacific Corporation	Resolution 1d Elect Director Lance M. Fritz.	LGIM voted against the resolution.	90.5% of shareholders supported the resolution.
LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.			
Prologis, Inc.	Resolution 1.a Elect Director Hamid R. Moghadam.	LGIM voted against the resolution.	93.5% of shareholders supported the resolution.
LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.			

Adopted by the Trustee of the Hill & Smith 2016 Pension Scheme