

## Hill & Smith 2016 Pension Scheme (DB Section) Implementation Statement for the year ended 5 April 2025

### Purpose

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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 2025 ("the reporting year") with regards to the DB Section. In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

### Summary

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The Trustee is satisfied that during the reporting year the policies (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 Scheme's Investment Manager, LGIM, has exercised their delegated voting rights on behalf of the Trustee in a way that aligns with the Trustee's relevant policies in this regard.

### Latest review of the Statement of Investment Principles

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During the reporting year the Trustee implemented several changes to the investment strategy of the Scheme. This was documented within two updates to the Scheme's Statement of Investment Principles during the reporting year. The first update, dated May 2024, reflected a recalibration of the Scheme's LDI portfolio to hedge approximately 85% of the total liabilities on the 2022 Technical Provisions basis, which was implemented towards the end of the prior reporting year.

The second SIP update occurred in October 2024 reflects the outcome of a review of the Scheme's strategic asset allocation conducted by the Trustee in July 2024 following advice from XPS, to target a return of approximately Gilts + 2.2% p.a. from the Scheme's invested assets. The investment strategy as at the end of the current reporting year reflects the agreed investment strategy outlined in the SIP dated October 2024.

### Investment-related activity during the reporting year

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#### 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 manager. The Trustee requires the Scheme's investment manager to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment manager 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.

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustee may periodically meet with their investment managers to discuss engagement which has taken place. The Trustee will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustee on the stewardship credentials of their managers. The Trustee will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustee recognises the Code as an indication of a manager's compliance with best practice stewardship standards.

## Ongoing Governance

The Trustee, with the assistance of XPS, monitored the processes and operational behaviour of the Investment Manager throughout the reporting year, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this statement. Further, the Trustee has set XPS the objective of ensuring that, over time, selected manager reflects the Trustee's views on ESG (including climate change) and stewardship.

Beyond the governance work currently undertaken, the Trustee believes that their approach to, and policy on, ESG matters will evolve over time based on factors including developments within the industry. Whilst the Trustee has not, to date, introduced specific stewardship priorities, they will monitor the results of those votes deemed by the manager to be most significant to determine whether specific priorities should be introduced and communicated to the manager.

The Trustee considers investment issues in detail at Trustee meetings. The Trustee receives reports from XPS on the investment performance for 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 Scheme's funding position is also discussed at Trustee Meetings.

## 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 the Scheme to ensure that these are in line with the Trustee's current investment objectives.

During the reporting year, the Trustee agreed to target a return of Gilts + 2.2% p.a. from the Scheme's invested assets by introducing Multi Asset via the LGIM Dynamic Diversified Fund and Leveraged Equities via the LGIM Synthetic Leveraged Equity Fund.

The Scheme's credit allocation was also reduced and restructured over the reporting period, by fully disinvesting from the LGIM Buy & Maintain Credit Fund and introducing Multi Sector Credit via the LGIM Global Diversified Bond Fund (GBP Hdg), formerly known as the LGIM Global Diversified Credit SDG Fund (GBP Hdg).

## Manager selection

One of the main ways in which this updated policy is expressed is via manager selection exercises: the Trustee seeks advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

During the reporting year, the Trustee introduced the following funds: LGIM Global Diversified Credit SDG Fund (GBP Hdg), LGIM Dynamic Diversified Fund and LGIM Synthetic Leveraged Equity Fund (GBP Hdg). Each fund was recommended 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.

## New Policies

No new policies were introduced during the reporting period.

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## 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.

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 Scheme 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 Scheme incorporate assets primarily used to outperform liabilities (e.g. Secure Income) and liability matching assets (e.g. LDI and Buy &amp; Maintain Credit).</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 Manager's role and approach to managing risk is considered when selecting appropriate Investment Manager.</p>	<p>The Trustee receives quarterly reporting from its Investment Adviser, XPS, which includes the Scheme's asset allocation, performance, journey plan modelling and Value at Risk calculations. In addition, the Trustee is able to monitor the Scheme'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 Scheme provides.</p>	<p>The Scheme's strategy is in support of this policy.</p>	<p>The Trustee is satisfied that it is following this policy in full.</p>

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<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 Manager has 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 Manager.</p>	<p>The Trustee is satisfied that the Investment Manager's 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 Manager 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 Manager is 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>

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## Voting

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Manager 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 hold voting rights on behalf of the Scheme is equities, as they represents the equity ownership and shareholder's stake within the underlying business. At reporting year end the Scheme had exposure to equities via its holdings in the LGIM Dynamic Diversified multi asset fund.

There are no voting rights attached to credit-based assets or funds that invest into them, so no such reporting is applicable for the Scheme's credit-based investments. There are also no voting rights attached to derivatives or funds investing in them, so no reporting is applicable for the LGIM Synthetic Leveraged Equity fund, which uses derivatives to gain leveraged exposure to a global equity market index.

Voting information					
Legal and General Investment Management - Dynamic Diversified Fund					
The manager voted on 99.77% of resolutions out of 102057 eligible votes.					
The manager voted against management on 22.52% of the resolutions which they voted.					
Top 5 Significant Votes during the Period					
Company	Date of Vote	Size of fund holdings	Voting Subject	How did the Investment Manager vote	Result
Microsoft Corporation	10/12/2024	0.48%	Resolution 9: Report on AI Data Sourcing Accountability	For	Fail
Why the vote was deemed significant:					
High Profile meeting: This shareholder resolution is considered significant due to the relatively high level of support received.					
Where voted against the company, was this communicated:					
LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.					
Rationale:					
Shareholder Resolution - Governance:					
A vote FOR this resolution is warranted as the company is facing increased legal and reputational risks related to copyright infringement associated with its data sourcing practices. While the company has strong disclosures on its approach to responsible AI and related risks, shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models					

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Implication:					
LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.					
Shell Plc	21/05/2024	0.3%	Resolution 22: Approve the Shell Energy Transition Strategy	Against	Pass
Why the vote was deemed significant:					
Thematic - Climate: LGIM is publicly supportive of so called "Say on Climate" votes. LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile nature of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.					
Where voted against the company, was this communicated:					
LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.					
Rationale:					
Climate change:					
A vote against is applied. LGIM acknowledge the substantive progress the company has made in respect of climate related disclosure over recent years, and LGIM view positively the commitments made to reduce emissions from operated assets and oil products, the strong position taken on tackling methane emissions, as well as the pledge of not pursuing frontier exploration activities beyond 2025. Nevertheless, in light of the revisions made to the Net Carbon Intensity (NCI) targets, coupled with the ambition to grow its gas and LNG business this decade, LGIM expect the company to better demonstrate how these plans are consistent with an orderly transition to net-zero emissions by 2050. In essence, LGIM seek more clarity regarding the expected lifespan of the assets Shell is looking to further develop, the level of flexibility in revising production levels against a range of scenarios and tangible actions taken across the value chain to deliver customer decarbonisation. Additionally, LGIM would benefit from further transparency regarding lobbying activities in regions where hydrocarbon production is expected to play a significant role, guidance on capex allocated to low carbon beyond 2025 and the application of responsible divestment principles involved in asset sales, given portfolio changes form a material lever in Shell's decarbonization strategy.					
Implication:					
LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.					
Prologis, Inc.	09/05/2024	0.28%	Resolution 1a: Elect Director Hamid R. Moghadam	Against	N/A
Why the vote was deemed significant:					
Thematic - Board Leadership: LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO.					
Where voted against the company, was this communicated:					
LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.					
Rationale:					
Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.					

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Implication:					
LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.					
Unilever Plc	01/05/2024	0.28%	Resolution 4: Approve Climate Transition Action Plan	For	Pass
Why the vote was deemed significant:					
Thematic - Climate: LGIM is publicly supportive of so called "Say on Climate" votes. LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile nature of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.					
Where voted against the company, was this communicated:					
LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.					
Rationale:					
Climate change:					
A vote FOR the CTAP is applied as LGIM understand it to meet LGIM's minimum expectations. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with a 1.5°C Paris goal. Despite the SBTi recently removing their approval of the company's long-term scope 3 target, LGIM note that the company has recently submitted near term 1.5 degree aligned scope 3 targets to the SBTi for validation and therefore at this stage believe the company's ambition level to be adequate. LGIM therefore remain supportive of the net zero trajectory of the company at this stage.					
Implication:					
LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.					
National Grid Plc	10/07/2024	0.25%	Resolution 17: Approve Climate Transition Plan	For	Pass
Why the vote was deemed significant:					
Thematic - Climate: LGIM is publicly supportive of so called "Say on Climate" votes. LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile nature of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.					
Where voted against the company, was this communicated:					
LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.					

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Rationale:

Climate Change: LGIM is voting in favour of the National Grid Climate Transition plan. LGIM commend the company's efforts in committing to net-zero emissions across all scopes by 2050 and setting 1.5C-aligned near term science based targets. LGIM also appreciate the clarity provided in the 'Delivering for 2035 report' and look forward to seeing the results of National Grid's engagement with SBTi regarding the decarbonisation of heating.

Implication:

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

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