Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material to the Scheme, stating that pension scheme trustees are required to consider how these factors are managed as part of their fiduciary duty.

The regulatory changes require that the Trustee details the Scheme's policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change; and
- policies on the stewardship of the Scheme's investments

The SIP can be found online at the following web address:

https://www.matthewalgie.com/wp-content/uploads/2020/09/20200928-Matthew-Algie-Statement-of-Investment-Principles-September-2020.pdf

Changes to the SIP are detailed within this report.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP;
- the Trustee's current policy and approach with regards to ESG considerations, and the actions taken with each of the Scheme's investment managers on managing ESG risks;
- the extent to which the Trustee has followed policies relating to engagement, covering engagement actions with the Scheme's investment managers and in turn the engagement activity of the investment managers with the companies and counterparties in which they invest; and
- the voting behaviour covering the reporting year up to 31 December 2020 for and on behalf of the Fund including the most significant votes cast (noting the Trustee's delegation of Scheme voting rights to the investment managers through its investment via pooled fund arrangements).

Summary of key actions undertaken over the Fund reporting year

- On 5 March 2020 the Trustee agreed to commit 12% of the Scheme's assets (c.£2.5m) to Partners Group's new Direct Lending Fund, which began fundraising in October 2020. The onboarding of Partners Group is expected to be finalised over H1 2021. It was agreed that this would be funded from any assets remaining in the LGIM Corporate Bond Fund and from any overweight asset classes thereafter.
- On 29th May 2020 the Scheme fully disinvested from the Aberdeen Standard GARS Fund in order to meet cash flow requirements.

Implementation Statement

This report demonstrates that the Trustee of the Matthew Algie & Co Limited Pension & Assurance Scheme has adhered to the Scheme's investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position Director

Date 29/07/2021

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.72% of the impact of interest rate and inflation movements on the value of the Scheme's liabilities (measured on a flat gilts basis)	The Trustee monitors the Scheme's hedging level every 6 months within its regular reporting. No additional action or change occurred over the reporting period.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	The Trustee monitors the Scheme's liquidity position as part of its quarterly performance reporting.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Trustee reviewed the investment strategy in 2019 and have implemented changes over 2020 to reflect the revised strategy. The Trustee agreed an allocation to direct lending to further diversify the Scheme's strategy and introduce alternative risk factors. This was reflected in the SIP update in September 2020.

Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	As mentioned above, the Trustee agreed to a new direct lending (private credit) mandate to be implemented in H1 2021. No other Trustee actions or amendments were implemented or agreed over the reporting period in respect to credit risk.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory (or equivalent) The Trustee monitors the managers on an ongoing basis. The Trustee considers ESG issues as part of the investment process, and believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the	The ESG policy was reviewed by the Trustee as part of the SIP update in September 2020. The Trustee is expected to receive training and review the ESG policies of their underlying investment managers, and the actions taken, over the next 12 months, in the form of an 'impact assessment'.

		asset classes they are investing in.	
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	Hedge all currency risk on all assets that deliver a return through contractual income. Hedge 50% of currency risk on equities.	No Trustee actions or amendments were implemented over the reporting period in respect of currency risk.
Non-financial	The views of the members 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.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No Trustee actions or amendments were implemented over the reporting period in respect of non-financial risks.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. The Trustee believes the annual fee paid to the fund managers incentivises them to stick to the fund objective, which is used to reflect the investment strategy.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee does not believe in setting a portfolio turnover target – being the frequency with which the assets are expected to be bought/sold - because each investment manager's style differs in terms of level of frequent active management, and therefore turnover, involved. The Trustee believes transaction costs should be monitored indirectly as one aspect of a holistic approach to overall manager performance assessment.
The duration of the Scheme's arrangements with the investment managers.	The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. - For closed-ended funds or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and the Scheme's liquidity requirements. - For open-ended funds, the duration is flexible and the Trustee will, from time-to-time, consider the appropriateness of these investments and whether they should continue to be held.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regard to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues (including those concerning capital structure and conflicts of interest). • The Trustee receives information from their investment adviser on the investment managers' approaches to engagement.	• The investment manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustee's policies in this area.

ESG summary and engagement

Engagement with investment managers

To date, while the Trustee considers manager's ESG credentials when appointing a manager, the Trustee has not yet carried out a detailed ESG review of the Scheme's investment managers, in the form of an Impact Assessment. However, the Trustee plans to carry out this review and engage the Scheme's investment managers on their ESG policies, either directly or indirectly via Isio as the Scheme's investment adviser.

Isio has engaged with all the Scheme's investment managers on their ESG policies to ensure they meet a set of minimum criteria.

The Trustee will look to review the appropriateness of this position in 2021.

Investment managers' engagement activity

As the Scheme invests via pooled funds managed by various investment managers, each manager has provided details on their engagement activities, including a summary of the engagements by category over the Scheme's reporting year to 31 December 2020.

Fund name	Engagement summary	Commentary
LGIM Equity Fund range (passive) LGIM Diversified Fund LGIM LPI Income Property Fund	LGIM currently do not provide details of their engagement activities at Fund level, however this is something they are looking to implement, and the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting.	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM leverage the wider capabilities of the global firm to engage with companies meaningfully. Due to the nature of most of the leases within the LPI Fund, LGIM can only engage with the tenants of the assets which are held in the Fund. They maintain dialogue with all occupiers, and as part of this interaction, positive ESG-related behaviours are encouraged.
CQS Credit Multi-Asset Fund	Total engagements – 171 Corporate – 159 Sponsor - 12	CQS make portfolio companies aware of their required commitment to CQS' ESG focus areas through their pre-screening process. Where CQS engage with portfolio companies, they record this on an internal ESG universe, enabling PMs to look at previous engagements with individual

		names and discuss the potential for further engagement or more focused engagement with the objective of improved investment outcomes. Examples of significant engagements include: **Survitec** – CQS believed that the construction of the Board at Survitec lacked diversity in terms of experience and expertise, and that the company's values were out of date and could potentially negatively impact stakeholders. CQS formed part of an ad-hoc group to engage collaboratively with Survitec. This group undertook a series of meetings to discuss governance and corporate structure. The result has been wholesale business transformation, with a new Board of Directors and Executive Chairman bringing more diversity (in terms of experience and expertise), as well as the installation of a set of values for the company which they believe are more suitable. **First Quantum** – This is an example of how CQS might engage with a single company on multiple different ESG factors, covering a number of UN Sustainable Development Goals (SDGs), including environmental (for example carbon emissions, energy usage and water stress) and social (human and labour rights) factors. CQS first reached out to the company via email to ask a number of governance-related questions. This was followed by a detailed discussion on various ESG topics, including board governance and compensation alignment with ESG metrics, environmental issues, and best practice health and safety certifications. Following this, CQS requested that the company set TCFD aligned emissions, energy usage and water stress targets. From this engagement, CQS gained comfort in the position and were able to better understand the associated risks. CQS continue their engagement in relation to board concerns outlined by MSCI and will, if needed, suggest adding board seats for independent directors and consideration of term limits. They are also looking to follow up on aligning their emissions targets to TCFD or how they plan on doing so.
JP Morgan Unconstrained Bond Fund	JP Morgan currently do not provide details of their engagement activities at fund-level although this is something they are discussing internally to develop.	JP Morgan follow their Global Fixed Income, Currency and Commodities investment process, which is research-driven and globally integrated. JP Morgan take into consideration relevant and material ESG issues, alongside other fundamental factors in their proprietary

	At firm-level JPM recorded 500 corporate engagements or meetings over the period, covering resolutions or topics as follows: Governance: 427 Environmental: 110 Social: 166	analysis, and monitor these factors throughout the investment process. These factors include a consistent approach that spans three pillars, proprietary research, engagement, and portfolio construction. Details on engagements: **Federal Housing Finance Agency ("FHFA")** – JPM engaged with the FHFA to determine whether remedies were in place to protect investors, ensuring consistency amongst Agency Mortgage-Backed Securities issuers. As an investor and stakeholder, JPM engaged with the appropriate government agencies directly to ensure there were remedies in place for misalignment and to protect investors from improper practices. Specifically, JPM wanted to ensure there would be no material deviations in characteristics and prepayment speeds between issuers. As a result of these meetings with management and participation in industry trade group discussions, the FHFA created a committee to monitor prepayment, issuance and liquidity differences that may result from the single security platform. These practices are still in place a year later and have been effective in identifying misalignment. **BP** – JPM engaged with BP to encourage increasing participation in the renewable energy transition. JPM met with the chairman of the company who suggested that the company would be more aggressive in setting emissions targets and demonstrate greater transparency in the process. JPM expect that the company's more balanced approach to investments and acquisitions, directed toward participating in the energy transition, to be sustained, but they would expect a greater financial commitment to these endeavours with upcoming management changes. JPM expressed their disappointment at the company's high level of greenhouse gas emissions following a recent acquisition of another energy company's assets. The chairman indicated that the company is on a path to significantly better performance by mid-2020. JPM continue to put pressure on the company to improve its environmental footprint and will closely monitor whether they meet their 2020 targets.

LGIM Corporate Bond Fund	LGIM currently do not provide details of their engagement activities at Fund level, however this is something they are looking to implement, and the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting.	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM leverage the wider capabilities of the global firm to engage with companies meaningfully.
LGIM LDI & Gilts	LGIM have engaged with a number of industry participants, including governments and regulators, on long-term strategic issues in relation to LDI, including: – The introduction of central clearing – The LIBOR transition – Recognising the pricing issues with bilateral RPI swaps.	LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers, the managers provided details on their voting actions including a summary of the activity covering the Scheme's reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Significant votes are in relation to how significant an individual vote is in the context of a whole portfolio. The Pensions & Lifetime Savings Association provides some guidance and criteria in relation to determining significant votes, this includes but 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; Sanction vote as a result of a direct or collaborative engagement; Vote linked to an engagement campaign, in line with priority engagement themes; and/or holding significance/impact in the portfolio (i.e. % allocation to the stock).

The Trustee is comfortable that the investment managers' voting over the reporting period was in line with their own policies.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM World Equity Index Fund	Meetings eligible to vote for: 3,659 Resolutions eligible to vote for: 42,494 Resolutions voted on: 99.1%	LGIM have confirmed that there were no significant votes made in relation to the securities held by these funds during the reporting period.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds.

LGIM World Equity Index Fund (GBP Hedged)	Resolutions voted with management: 81.8% Resolutions voted against management: 17.7% Resolutions abstained from: 0.5%		
LGIM Diversified Fund	Meetings eligible to vote for: 10,973 Resolutions eligible to vote for: 112,453 Resolutions voted on: 98.8% Resolutions voted with management: 82.0% Resolutions voted against management: 17.5% Resolutions abstained from: 0.6%	**The Procter & Gamble Company (P&G)** – LGIM voted in favour of a resolution to report on the company's efforts to eliminate deforestation. P&G uses forest pulp and palm oil as raw materials within its household goods products, both of which are considered leading drivers of deforestation and forest degradation, which is responsible for c.12.5% of GHG emissions that contribute to climate change. LGIM engaged with P&G to hear its response to the concerns raised and with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure they do not impact deforestation, LGIM felt it was not	LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics. LGIM use Institutional Shareholder Services (ISS) electronic voting platform to electronically vote clients' shares and also use ISS recommendations to augment their own research and assessment, however all voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.

doing as much as it could and the company has not responded to CDP Forest disclosure, which was a red flag in terms of its level of commitment. The resolution received the support of 67.7% of shareholders (including LGIM). LGIM will continue to engage with P&G on the issue and will monitor its CDP Forest disclosure for improvement.

Plus500 ltd. - LGIM voted against a resolution to approve a special bonus payment to the company CFO based on the belief that such transaction bonuses do not align with the achievement of pre-set targets. Separately, LGIM also voted against an amendment to the company's remuneration policy, which continues to allow for the flexibility to make one-off awards and offers long-term incentives that remain outside best market practice in terms of long-term performance alignment. The level of shareholder dissent encouraged the company to withdraw the resolution ahead of the AGM. LGIM will continue to monitor the company.

Barclays – LGIM voted in favour of a resolution to approve Barclays' Commitment in Tackling Climate Change. The resolution proposed by Barclays set out its long-term plans and had the backing of ShareAction and co-filers. The resolution was supported by 99.9% of shareholders. LGIMs focus is now to help Barclays on the detail of their plans and targets, more detail of

		which is to be published this year. They plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.