



HWG (2006) Limited Pension Plan Implementation Statement

July 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report covers the year to 31 December 2022 and is to provide evidence that the Plan continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address:

<https://hwgpension.co.uk/Public/RelevantDocuments>

Changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Trustee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 31 December 2022 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

Summary of key actions undertaken over the Plan reporting year

- A new long-term investment strategy was agreed in Q2 2022 which is expected to be reached over the upcoming years as the illiquid mandates (Direct Lending and Commercial Real Estate Debt) continue to unwind.
- Post quarter end, the SIP was updated to reflect the new investment strategy and new regulatory requirements. Further details are set out later in this report.
- Due to significant market volatility and the 'gilt crisis' in Q3 and Q4 2022, the LDI refinement exercise was put on hold. The exercise was revisited post year-end with implementation expected in Q3 2023.

Implementation Statement

This report demonstrates that the HWG (2006) Limited Pension Plan has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed:

Position:

Date:

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of these risks.	The LDI refinement exercise is expected to be finalised and implemented in Q3 2023 to ensure the Plan remains in line with its target hedge ratio.
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.	Liquidity of the portfolio is monitored on a quarterly basis through the performance report and through the integrated risk management assessment.
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.	During the period, the Trustee agreed on a new investment strategy to ensure the effectiveness and efficiency of the Plan's portfolio. The SIP has been updated to reflect changes with further details below.
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 Plan for the risk of default.	This is considered as part of the investment strategy work.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:	The Trustee has updated the SIP to reflect the new ESG regulations.

	impact the performance of the Plan's investments.	<ol style="list-style-type: none"> 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 <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>Further detail provided later in this report.</p> <p>The Trustee is scheduled to review the ESG policies of their underlying investment managers, and the actions taken, over the next 12 months. The impact assessment for the Plan is expected to be completed in H2 2023.</p>
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Where possible, hedge all currency risk on all assets that deliver a return through contractual income.	There is no direct currency risk within the Plan's investments, as all units are held in a Sterling share class. Indirect currency risk may exist within pooled vehicles if underlying investments are held in non-Sterling assets. Any potential currency risks are considered as part of the Plan's strategy reviews and investment selection exercises.
Non-Financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention, or realisation of investments.	Any non-financial risks would be documented in the Plan's integrated risk management assessment.

Changes to the SIP

Post year end, the SIP was updated to reflect changes to the investment strategy and regulatory requirements relating to engagement and the exercise of voting rights.

Policies added to the SIP

Date updated: 26 July 2023

Voting Policy - How the Trustees expect investment managers to vote on their behalf

- The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets, and others about 'relevant matters'

- The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf.
- The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy with regards to ESG as a financially material risk. The Plan has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Plan's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none">1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none">3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.4. ESG factors are relevant to investment decisions in all asset classes.5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none">6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.8. The role of the Plan's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none">9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none">11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why.12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

ESG summary and actions with the investment managers

The Plan has not yet completed an Impact Assessment and so we cannot provide a summary of the underlying manager's ESG policies. Once the Plan has completed an Impact Assessment, we will provide this information going forward. The impact assessment for the Plan is expected to be completed in H2 2023.

Engagement

As the Plan invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 December 2022.

Fund name	Engagement summary	Commentary
<p>Alcentra European Direct Lending Fund II</p>	<p>Total Engagements: 162 Environment: 24 Social: 35 Governance: 15 Other: 37</p> <p>Please note that the total engagement number above includes 51 ESG Questionnaires.</p>	<p>Alcentra engages with companies and stakeholders to promote ESG expectations. The team are developing company specific Asset Engagement Reports - these will be tailored per company based on responses given to the annual ESG questionnaire.</p> <p>An example of a significant engagement includes:</p> <p>Consumer markets insights provider</p> <p>Alcentra previously took ownership of the company, and has been driving ESG focus on Board, Management, and employee level.</p> <p>In terms of governance, Alcentra ensured that an independent external non-executive director was appointed Chairman of the Board to allow better board-level decision making. ESG matters and initiatives were raised at the 10 board meetings throughout the year with ESG reporting included in board materials where relevant. All discussions were supported by documentation and all decisions were minuted. A culture of performance and accountability has been reflected in the remuneration structure within the organisation.</p> <p>Socially, the company's Ecovadis rating improved from Bronze in 2017 to Silver in 2022, with efforts ongoing to achieve a gold rating. Alcentra's Private Credit Team will engage with the Alcentra Responsible Investment team to advise the business on this topic, with a meeting expected in Q1 23 with Alcentra Head of ESG.</p> <p>Environmentally, Alcentra focused on a digital transformation project which helped to reduce the consumption of materials, for example, through less printing and reduced shipping. The company has been active in</p>

		working with products with high environmental and social objectives such as meat-free or dairy free products.
LaSalle Real Estate Debt Strategies III	Total Engagements: 5 Environmental: 5	<p>LaSalle is a real estate asset management house thus they do not have management control over the underlying assets, therefore their ability to dictate ESG initiatives at the asset level is limited. However, LaSalle works with clients and stakeholders to implement ESG strategies at portfolio and asset level. They also engage with industry bodies to drive market standards.</p> <p>An example of a significant engagement includes:</p> <p>Nobu Hospitality LLC</p> <p>Nobu Hospitality LLC, in its capacity as hotel manager on behalf of Willow Corp Sarl (the owner of the property), mandated Mission Net Zero in 2022 to achieve Excellent rating on BREEAM. The hotel manager agreed to coordinate Mission Net Zero on the Fund's entity's behalf. The Fund monitors the progress on this endeavour, in collaboration with the asset managers mandated to monitor the position on its behalf.</p>
LGIM LDI Fund Range	LGIM were unable to provide details of engagement during this period. Isio are working with LGIM to find ways of improving their engagement reporting.	<p>LGIM regularly monitor their portfolio holdings and where engagements are unsuccessful, the team will assess where problems arose and new approaches to be employed. LGIM engage with regulators, governments, and other industry participants to address long-term structural issues.</p> <p>LGIM were unable to provide examples of significant engagement.</p>
LGIM Absolute Return Bond Fund	LGIM currently do not provide details of their engagement activities at Fund level, however, 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.	<p>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 clients. Their voting policies are reviewed annually and take into account feedback from clients.</p> <p>Voting decisions are based on LGIM's voting policies and are undertaken by the Investment Stewardship team. LGIM's voting policies are regularly reviewed to ensure their engagement activities are reflected and that feedback from external stakeholders is integrated.</p> <p>LGIM were unable to provide examples of significant engagement.</p>
M&G Alpha Opportunities Fund	Total Engagements: 8 Environment: 4 Social: 3	M&G's engagement activities remain consistent with firm wide ESG policies, utilising a systematic approach to engagement, whereby specific objectives are

outlined in advance and measured based on the outcomes from the engagements. M&G monitor the success of engagements by assessing whether they have met their objective and log this on a central system.

Examples of significant engagements include:

Infineon Technologies AG

Infineon is a German semiconductor maker. M&G engaged with the company to encourage their decarbonisation plans and met with the company's investor relations to talk through its existing plans and make their expectations known. M&G expects the company to add Scope 3 emissions targets and validate those targets through SBTi. Whilst the company does not have a fixed goal on what it aims to achieve here, it was receptive to M&G's ideas, and it was flagged that commitments will only be made once a credible target has been achieved.

M&G also encouraged the company to publish a breakdown of green revenues and a sustainability report covering this was expected to be made available in November 2022.

The company has a public commitment to achieve carbon neutrality by 2030, with a 70% reduction of emissions by 2025, based on a 2019 baseline. Strategies include improving efficiency to reduce energy consumption, purchasing green electricity, and using certified offsets.

M&G will continue to push for external validation of data credibility and monitor the execution of its strategy. A follow up discussion is expected to happen with the head of sustainability.

Marks and Spencer

M&G have engaged with the Company via letter that outlined expectations for maintaining competitive and market-relevant pay levels for all M&S colleagues. The company pays above the Real Living Wage to their employees but is not seeking accreditation as a Living Wage Employer as they prefer to set rates independently and not impose pay arrangements on third-party contractors. M&G noted their concerns but were satisfied with the company's overall efforts to ensure fair pay, including considering external factors such as the real Living Wage rates and conducting a Reward and Wellbeing Survey. M&S has a low staff turnover rate and works to stay engaged with all employees.

Voting

As the Plan has no equity holdings, there is no voting data to report.

