



# Ecovert Pension Scheme Implementation Report

Scheme Year to 5 April 2021

# 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 and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their 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
- policies on the stewardship of the investments

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

<https://www.saur-uk.com/about/econvert-pension-scheme/>.

Changes to the SIP are detailed on the following pages.

## 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 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 they invest.
- voting behaviour covering the reporting year up to 31 March 2021 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

### **Summary of key actions undertaken over the Scheme reporting year**

No key actions were undertaken over the Scheme's reporting year.

### **Implementation Statement**

This report demonstrates that the Ecovert Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

**Signed**

**Position**

**Date**

# Managing risks and policy actions - DB Section

Risk / Policy	Definition	Policy	Actions
<b>Interest rates and inflation</b>	The risk of mismatch between the value of the DB Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To invest 100% of the Scheme's assets in UK Gilts.	There have been no changes to the policy over the reporting year.
<b>Liquidity</b>	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).	There have been no changes to the policy over the reporting year.
<b>Market</b>	Experiencing losses due to factors that affect the overall performance of the financial markets.	To safeguard against any unrewarded risks, where practicable.	There have been no changes to the policy over the reporting year.
<b>Credit</b>	Default on payments due as part of a financial security contract.	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.	There have been no changes to the policy over the reporting year.
<b>Environmental, Social and Governance</b>	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: <ol style="list-style-type: none"> <li>1. Managers with a clear and well documented responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting</li> </ol>	More details on the ESG policy and how it was implemented are presented later in this report.

		<p>rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>The Trustee monitors the managers on an ongoing basis.</p>	
<b>Currency</b>	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	There have been no changes to the policy over the reporting year.
<b>Non-financial</b>	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not considered in the selection, retention, or realisation of investments.	There have been no changes to the policy over the reporting year.

# Managing risks and policy actions - DC Section

Risk / Policy	Definition	Policy	Actions
Interest rates	The potential for adverse interest rate movements to have an impact on the Scheme's bond investments.	The Scheme's default invests in a diverse range of assets to mitigate this risk.	There have been no changes to the policy over the reporting year.
Inflation	The potential that the Scheme's investments will not keep pace with inflation.	The Scheme's default strategy is expected to outperform inflation.	There have been no changes to the policy over the reporting year.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	The default invests in daily traded pooled funds which hold highly liquid assets.	There have been no changes to the policy over the reporting year.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To safeguard against any unrewarded risks, where practicable.	There have been no changes to the policy over the reporting year.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage the risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	There have been no changes to the policy over the reporting year.
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: <ol style="list-style-type: none"> <li>Managers with a clear and well documented responsible Investment ('RI') Policy / Framework</li> </ol>	More details on the ESG policy and how it was implemented are presented later in this report.

		<ol style="list-style-type: none"> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> </ol> <p>The Trustee monitors the managers on an ongoing basis.</p>	
<b>Currency</b>	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	There have been no changes to the policy over the reporting year.
<b>Non-financial</b>	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not considered in the selection, retention, or realisation of investments.	There have been no changes to the policy over the reporting year.

# Changes to the SIP

The following policies were updated in the version of the SIP signed on 16 October 2019, however as this is the first implementation report since this date, the changes are being reported in the 5 April 2021 implementation report.

## Policies added to the SIP

Date updated: 16 October 2019

**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 policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.

**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 will review the performance of all the Fund's investments on a net of cost basis to ensure a true measurement performance versus investment objectives.
- The Trustee will evaluate performance over the period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Investment management 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 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 Fund invests in.
  - For open-ended funds, the holding periods are flexible, and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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# Implementing the current ESG policy and approach

## ESG as a financially material risk

The SIP describes the Scheme's policy regarding ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. 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 intend 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 and engagement activity	<ul style="list-style-type: none"><li>• Through the manager selection process, ESG considerations will form part of the evaluation criteria.</li><li>• The Scheme's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis.</li></ul>	<ul style="list-style-type: none"><li>• The manager has not acted in accordance with their policies and frameworks.</li></ul>

## Areas of assessment and ESG beliefs

<b>Risk Management</b>	<ol style="list-style-type: none"> <li>1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee.</li> <li>2. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.</li> </ol>
<b>Approach / Framework</b>	<ol style="list-style-type: none"> <li>3. The Trustee wants to understand how asset managers integrate ESG within their investment process and in their stewardship activities.</li> <li>4. The Trustee believes that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors.</li> <li>5. The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.</li> </ol>
<b>Voting &amp; Engagement</b>	<ol style="list-style-type: none"> <li>6. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors.</li> <li>7. The Trustee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance.</li> <li>8. The Trustee wants to understand the impact of voting &amp; engagement activity within their investment mandates.</li> </ol>
<b>Reporting &amp; Monitoring</b>	<ol style="list-style-type: none"> <li>9. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge.</li> <li>10. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.</li> </ol>
<b>Collaboration</b>	<ol style="list-style-type: none"> <li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li> <li>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.</li> </ol>

# Engagement

As the Scheme invests via L&G the manager provided details on their engagement actions including a summary of the engagements by category for the 12 months to 5 April 2021.

## DB Section

Fund name	Engagement summary	Commentary
L&G Over 5 Year Index-Linked Gilt Fund	No data available.	We requested this data from L&G, however, they are currently unable to produce this level of reporting. We are working with them to ensure that this data is available in future.
L&G All Stocks Gilt Index Fund	No data available.	See previous commentary.

## DC Section

Fund name	Engagement summary	Commentary
L&G Ethical Global Equity Index Fund	No data available.	We requested this data from L&G, however, they are currently unable to produce this level of reporting. We are working with them to ensure that this data is available in future.
L&G Multi-Asset Fund	No data available.	See previous commentary.
L&G Retirement Income Multi-Asset Fund	No data available.	See previous commentary.
L&G Cash Fund	No data available.	See previous commentary.

# Voting (for equity/multi asset funds only)

As the Scheme invests via L&G the manager provided details on their voting actions including a summary of the activity covering the reporting year up to 5 April 2021. L&G also provided examples of any significant votes.

This section is required for equity and multi asset funds only and therefore no DB funds are included.

## DC Section

Fund name	Voting summary	Examples of significant votes	Commentary
L&G Ethical Global Equity Index Fund	<p>Meetings eligible to vote for: 1,274</p> <p>Resolutions eligible to vote for: 18,215</p> <p>Resolutions voted: 99.9%</p> <p>Votes for management: 83.8%</p> <p>Votes against management: 16.0%</p> <p>Abstained from voting: 0.3%</p>	<p><b>Olympus Corporation</b> – L&amp;G sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that they expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation. In the beginning of 2020, L&amp;G announced that they would commence voting against the chair of the nomination committee to signal that the company needed to act on this issue.</p> <p><b>Medtronic plc</b> - following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. L&amp;G voted against the one-off payment as they are not supportive of one-off awards particularly when performance criterion/criteria have not been met.</p>	<p>L&amp;G's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness.</p> <p>L&amp;G produce an annual Active Ownership report to summarise how they have worked towards creating sustainable value for clients.</p>
L&G Multi-Asset Fund	<p>Meetings eligible to vote for: 11,238</p> <p>Resolutions eligible to vote for: 114,616</p> <p>Resolutions voted: 99.8%</p>	<p><b>International Consolidated Airlines Group</b> – L&amp;G voted against a remuneration report as they were concerned about the level of bonus payments, which are 80% to 90% of current salary for executives and 100% of salary for the departing CEO. L&amp;G would have expected the</p>	<p>See previous commentary.</p>

	<p>Votes for management: 81.7%</p> <p>Votes against management: 17.7%</p> <p>Abstained from voting: 0.6%</p>	<p>remuneration committee to exercise greater discretion considering the financial situation of the company, and to reflect the stakeholder experience (employees and shareholders).</p> <p><b>SIG plc</b> – L&amp;G voted against granting the interim CEO a one-off award of £375,000 for work carried out over a two-month period (February - April). L&amp;G does not generally support one-off payments and believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility.</p>	
<p><b>L&amp;G Retirement Income Multi-Asset Fund</b></p>	<p>Meetings eligible to vote for: 11,211</p> <p>Resolutions eligible to vote for: 114,644</p> <p>Resolutions voted: 99.8%</p> <p>Votes for management: 81.7%</p> <p>Votes against management: 17.7%</p> <p>Abstained from voting: 0.6%</p>	<p><b>Whitehaven Coal</b> – L&amp;G has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of being spent on diversification and growth projects that risk becoming stranded assets. L&amp;G therefore approved a capital protection resolution asking the company for a report on the potential winding-down of the company's coal operations.</p> <p><b>Lagardere</b> – shareholder, Amber Capital, put forward a resolution due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. L&amp;G engaged with both Amber Capital, where they were able to speak to the proposed new SB Chair, and Lagardere, where they spoke to the incumbent SB Chair. Following this, L&amp;G voted in favour of Amber's proposed resolution.</p>	<p>See previous commentary.</p>

