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 their focus on the Trustees' 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 the Trustees' fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the Malcolm Group Pension Scheme (1989) ("the Scheme") continues to follow and act on the principles outlined in the Statement of Investment Principles ("SIP").

The SIP can be found online at the web address:

https://pensioninformation.aon.com/malcolmgroup/fileviewer.aspx?FileID=11785&FileName=1989%20Scheme_SIP_September%202020.pdf

No changes were made to the Scheme's SIP over the accounting period.

The Implementation Report details:

- Actions the Trustees have taken to manage financially material risks and implement the key policies in their 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 Trustees have followed policies on engagement covering engagement actions with the Scheme's fund managers and, in turn, the engagement activity of the fund managers with the companies in the investment mandate;
- The voting behaviour by investment managers (noting the Trustees' delegation of Scheme voting rights to the investment managers through its investment via pooled fund arrangements), covering the reporting year up to 31 December 2022 for and on behalf of the Scheme, including the most significant votes cast on the Scheme's behalf.

Summary of key actions undertaken over the Scheme's reporting year

The Scheme undertook a full investment strategy review in September 2022, following the onboarding of Isio as the Scheme's new investment advisor.

The Trustees agreed to a number of strategic changes, which have been designed to better align the Scheme's investment strategy with the Trustees' long-term investment objectives, as well as to provide greater diversification within the portfolio.

The revised strategy is due to be implemented after the end of the reporting period.

Implementation Statement

This report demonstrates that the Trustees of the Malcolm Group Pension Scheme (1989) have adhered to their investment principles and policies for managing financially material considerations including ESG factors and climate change.

Signed for and on behalf of the Trustees of The Malcolm Group Staff Pension Scheme

Trustee

Date

Implementation Statement (Cont)

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions over reporting period
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To allocate a portion of the Scheme's assets to an LDI portfolio, which is designed to offset a portion of the Scheme's liability sensitivity to interest rates and inflation (on a Technical Provisions basis).	At the start of the accounting period, the Scheme's liability hedge was designed to match 100% of the Scheme's liability sensitivity to interest rates and inflation (on a Technical Provisions basis). However, due to gilt market stress and the impact on LDI funds (e.g. lower leverage, preference for greater collateral headroom) the Trustees' target hedge was reduced to a 75% target over Q4 2022 as part of the investment strategy review. As part of the investment strategy review, the Trustees agreed to reduce the target liability hedge to 60% (on a Technical Provisions basis). This change will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.
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.	Over the year, the Trustees continued to manage excess liquidity requirements from the Scheme's liquid growth mandates (Equity, Diversified Growth). Going forward, the Trustees have agreed an allocation to liquid credit in the form of a low-risk Asset Backed Securities Fund. This allocation will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.
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 Trustees agreed to a revised investment strategy following an investment strategy review in September 2022. As part of this, the Trustees agreed to implement several new asset classes to the Fund, including diversified credit, semi-liquid credit and an integrated LDI portfolio, which will further

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			diversify the portfolio the Scheme holds. These allocations will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.
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.	The Trustees have agreed to introduce an allocation to diversified credit, semi-liquid credit and asset backed securities to the portfolio which will act to diversify the Scheme's credit exposure. These allocations will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.
Environmental, Social and Governance ("ESG")	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 6. UK Stewardship Code signatory The Trustees monitor the mangers on an ongoing basis.	The Trustees considered ESG as part of the strategy review carried out in 2022 by incorporating ESG criteria into the Evaluation Criteria when selecting their preferred provider and fund for new asset classes.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Scheme's current mandates hedge all currency risk back to Sterling. Any active current positions taken by the investment managers are risk managed and at the discretion of the managers.	No changes to policy over accounting period.

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Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments. This includes the extent to which the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention, and realisation of investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No changes to policy over accounting period.
Transition	The risk of paying unnecessary costs or being at increased risk of adverse market movements when transitioning assets from one manager or asset class	Organise transitions in a structured fashion with the advice of advisors or by using a specialist transition manager if appropriate.	The Trustees received advice from their investment consultants on all transition activity carried out over the year,
Out of market	The risk of asset price fluctuations that negatively impact the Scheme whilst the Scheme's assets are in the Trustee Bank account or within settlement periods as determined by incoming and/or outgoing managers.	Ensure ongoing monitoring of the Scheme's assets and transfers.	The Trustees received advice from their investment consultants on all transition activity carried out over the year,

Changes to the SIP

No changes were made to the SIP over the accounting year period.

The SIP is due to be updated following the implementation of the Scheme's strategic changes as agreed during the investment strategy review in September 2022.

Date last updated: September 2020

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Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustees' policies with regards to ESG as a financially material risk. This page details how the Trustees' 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 Trustees review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Areas of assessment and ESG beliefs

Risk management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees.
Approach / Framework	3. The Trustees 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.
Voting & Engagement	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 Scheme'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.
Reporting & Monitoring	9. The Trustees 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	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.

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Engagement with investment managers

To date, the Trustees have not yet carried out a formal ESG review of the Scheme's investment managers, either directly or indirectly via Isio as the Scheme's investment adviser.

However, Isio continue to engage with the Scheme's investment managers on their ESG policies on an ongoing basis to ensure they meet a set of minimum criteria, as defined by Isio.

The Trustees will look to review the appropriateness of this position in 2023 following completion of transitional arrangements.

Investment managers' engagement activity

As the Scheme 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**
Baillie Gifford Diversified Growth Fund	Total engagements: 37 Number of entities engaged: 34 Meeting (AGM or EGM) Proposals: 18 Corporate Governance: 6 Environmental/Social: 12 Executive Remuneration: 1	The Fund invests in a wide variety of underlying direct assets, pooled funds and investment trusts, some of which are operated by third parties. Active engagement is therefore difficult as the team cannot directly influence ESG policy or voting on securities not held directly. Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team. The team prefer to encourage changes through engagement and dialogue rather than exclusion or divestment. Examples of significant engagements include: MP Materials Corp – Engagement with the company in relation to their approach to sustainability. MP Material Corp engages in the ownership and operation of integrated rare earth mining and processing facilities. The company is currently working on its inaugural sustainability report, following consultation with some of the key stakeholders. BG were pleased with this given the materiality of certain environmental and social issues to the industry and noted the company gave the impression they were willing to learn and improve their sustainability credentials. Following the engagement, BG updated their proprietary ESG materiality assessment of the company and identified a number of ESG milestones to monitor. Iberdrola, S.A. – BG engaged with the company, which is a top five contributor to portfolio carbon emissions, to discuss critical aspects of the company's sustainability risk management approach. BG discussed the contentious issues the company was experiencing in Mexico relating to the environmental impact of operations and were reassured to hear that the Mexican regulator had suspended its 'self-supply' fine. During the engagement, BG also learned the Company had decreased their ambition for renewable energy source capacity. Iberdrola claimed the capital allocation plans remain similar but they will be more selective in their renewable investments. BG noted they plan to

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		follow up to continue discussions with the company on their management of sustainability risks,
Newton Real Return Fund	Total engagements: 48 Number of entities engaged: 26 Newton were unable to provide a breakdown or categorisation of Fund related engagements.	Whilst Newton's Stewardship team focusses on engagement and voting activities, the investment analysts lead the engagement on holdings within the portfolio. Newton look to set clear objectives when engaging with companies in line with their stewardship priorities. Examples of significant engagements include: Shell – Engagement with the company to get a better understanding of the voluntary carbon-offset market given the company actively trades and has also ventured into developing its own nature-based solution ("NBS") projects generating carbon offsets, Shell believe carbon offsets are a necessary part of their toolkit to get to net zero and invests in high quality offsets. Newton notes there are some concerns around the credibility of NBS projects in the market. Shell believe that carbon offset trading prices provide room for a sustainable business model and sees business and commercial opportunity in the carbon-offset space in addition to the climate change angle. Newton noted the detail provided during the engagement fell short of their expectations and they will continue to interact with Shell on their carbon markets as well as their new energy initiatives.
Columbia Threadneedle ("CT") LDI Funds	Total engagements: 23 Of which related to: Environmental stewardship: 11 Climate change: 21 Business Conduct: 1 Labour Standards: 5 Corporate Governance: 7	CT integrate ESG considerations into their counterparty selection process and all counterparty engagements are monitored against pre-defined milestones. Examples of significant engagements include: Barclays PLC – Engagement with the company in relation to climate change. As a result of engagement with shareholders and the introduction of the Inflation Reductions Act in the U.S., Barclays announced that it was accelerating its timeline to phase out the financing of thermal coal power in the US from 2035 to 2030, in line with its approach in the UK and EU.
Columbia Threadneedle Sterling Liquidity Fund	Total engagements: 6 Of which related to: Climate Change: 4 Environmental stewardship: 4 Business Conduct:1 Corporate Governance: 1	Examples of significant engagements include: HSBC Holdings PLC – Engagement with the company in relation its energy financing. CT have engaged with the company on setting clear limitations for its energy financing, noting it is a sizeable commitment for the company given the scale of its energy portfolio. Following engagement with the company, HSBC have published a new Energy Policy which includes reference to a stronger coal exit policy, a dedicated client engagement programme as well as limitations of financing for new large dams, new nuclear power projects, new greenfield oil sands projects, or new offshore oil and gas in the Arctic.

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Voting (applicable for the Scheme's multi asset funds only)

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions, including a summary of the activity covering the reporting year up to 31 December 2022. The managers also provided examples of any significant votes.

Fund name	Voting summary	Example of a significant vote	Commentary
Baillie Gifford Diversified Growth Fund	Votable Proposals: 1,140 Proposals Voted: 95.8% For votes: 95.8% Against votes: 3.4% Abstain votes: 0.8%	Booking Holdings, Inc. Summary of the resolution: Remuneration BG opposed executive compensation due to concerns with adjustments made to the plan and the granting of retention awards. BG engaged with the company in advance of the AGM, specifically discussing executive compensation. They outlined their concerns that the adjustments to executive pay and the special payments do not align with shareholders' experience or provide appropriate incentives for management. Following the engagement, BG decided to oppose the executive compensation resolution and communicated their decision to the company. They intend to re-engage to learn how the company plans to respond to the vote outcome and shareholders' concerns.	All voting decisions are made by Baillie Gifford's Governance & Sustainability team in conjunction with investment managers. Baillie Gifford analyses all meetings in-house and in line with their Governance & Sustainability Principles and Guidelines. Whilst Baillie Gifford are cognisant of proxy advisers' voting recommendations (Institutional Shareholder Services (ISS) and Glass Lewis), they do not delegate or outsource any stewardship activities or follow or rely upon their recommendations when deciding how to vote on clients' shares. All client voting decisions are made in-house. Baillie Gifford vote in-line with the in-house policy and not with the proxy voting providers' policy.
Newton Real Return Fund	Votable Proposals: 1,270 Proposals Voted: 100% For votes: 89.1% Against votes: 10.9% Abstain votes: 0.0%	Bayer AG. Summary of the resolution: Advisory vote to Ratify Named Executive Officers' Compensation Newton voted against the company's executive remuneration arrangements. The supervisory board exercised discretion for STIPs resulting in payouts that are not aligned with the company's performance.	Newton utilises an independent voting service provider for the purposes of managing upcoming meetings and instructing voting decisions via its electronic platform, and for providing research. Its voting recommendations are not relied upon or routinely followed; it is only in the event that they recognise a potential material conflict of interest that the recommendation of their external voting service provider will be applied.

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		The management continued to be rewarded for underperformance where 40% of long-term awards vested despite share price lagging the benchmark. Newton note the failure of the resolution demonstrates the dissatisfaction of the shareholders regarding the pay practices of the company. Such overwhelming dissent cannot be ignored and Newton expect the company to reach out to shareholders for feedback to be able to effectively allay their concerns.	Newton do not maintain a voting policy with ISS. They apply their own Newton voting guidelines.