

## Implementation Statement

### Cincinnati Machine Pension Plan

### Reporting period 10 December 2019 to 6 August 2021

#### Purpose of the Implementation Statement

The Implementation Statement has been prepared by the Trustee of the Cincinnati Machine Pension Plan (“the Plan”) and sets out:

- How the Trustee’s policies on exercising rights (including voting rights), and engagement policies have been followed over the reporting period to 6 August 2021.
- The voting behaviour of the Trustee, or that undertaken on their behalf, over the reporting period.

The 2019 Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the “Regulations”) require that the Trustee outlines how they have ensured compliance with the policies and objectives set out in their Statement of Investment Principles (SIP) over the course of the year under review.

The Trustee’s Stewardship and Engagement policies are included in the Scheme’s SIP, which is available online and on request.

During the reporting period, the Trustee reviewed the investment strategy in light of the Scheme entering PPF assessment. The Trustee agreed to transfer all of the Scheme’s assets to their existing LDI and cash portfolio with BMO Global Asset Management (“BMO”), with the intention of reducing the level of investment risk within the Scheme. The implementation of this decision was completed in January 2021.

#### Investment managers and funds in use at 6 August 2021

Investment Manager	Fund(s)
BMO Global Asset Management (“BMO”)	BMO Regular Profile Unleveraged Nominal Gilt Fund BMO Regular Profile Unleveraged Real Gilt Fund BMO Short Profile Unleveraged Nominal Gilt Fund BMO Short Profile Real Dynamic LDI Fund BMO Short Profile Nominal Dynamic LDI Fund BMO Sterling Liquidity Fund

#### How voting and engagement policies have been followed

The Plan invests entirely in pooled funds and, as such, delegates responsibility for carrying out voting and engagement activities to the Plan’s investment managers.

At the end of the reporting period, the Plan's sole investment manager was BMO. However, prior to entering PPF assessment during the reporting period the Plan also held investments with Gatemore Capital Management ("Gatemore"), Drawbridge Special Opportunities Fund LP ("Drawbridge"), Broadfin Capital ("Broadfin"), Muzinich & Co ("Muzinich") and Goldman Sachs.

The Trustee expects their investment managers to take into account corporate governance, social and environmental considerations in the selection, retention, and realisation of investments, but should not apply personal ethical or moral judgement to these issues. This document outlines any material actions undertaken by the Trustee, service providers and asset managers, to implement the stewardship policy as set out in the SIP as well as including engagement information that has been gathered from the Plan's investment managers.

The Trustee monitors the engagement of the managers through discussions at Trustee meetings and considers the performance of the funds alongside any significant developments on a periodic basis, as required.

The Scheme's Statement of Investment Principles was updated in September 2020 and includes a section on responsible investment, governance and engagement in which the Trustee recognises that Environmental, Social and Governance (ESG) issues may have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues could be expected to have a material financial impact on the returns provided by those assets.

The Trustee is comfortable that the Plan's current investment managers are undertaking their engagements in line with the Trustee's policies.

## Voting

The Plan held no investments which carry voting rights at the end of the reporting period.

During the reporting period, the Plan held investments in the following funds which carried voting rights:

- Gatemore Multi Asset Fund
- Drawbridge Special Opportunities Offshore Fund
- Broadfin Healthcare Offshore Fund

Via their investment consultant, the Trustee requested information on voting behaviour from Gatemore for the reporting period as part of the production of this statement, but Gatemore did not respond to the request in time for publication. The Plan has been fully disinvested from the Gatemore Multi Asset Fund since the end of January 2021.

Given the small size of the Plan's investments with Drawbridge and Broadfin (<1% of the Plan's assets in total), and the fraction of the reporting period during which the Plan held those investments, the voting behaviour of those managers is not considered material and has not been included in this Statement.

There are no voting rights attached to the other assets held by the Plan, which include: physical gilts, gilt repurchase agreements, gilt total return swaps, gilt futures, inflation and interest rate swaps, government bonds, and cash.

## Fund level engagement

The investment managers may engage with their investee companies on behalf of the Trustee. The tables below provide a summary of engagement activities undertaken by the managers over the reporting period based on the information provided.

Manager	BMO	Muzinich	Goldman Sachs
<b>Fund name(s)</b>	LDI portfolio	Enhanced Yield Short-Term Fund	Global Credit Fund High Yield Fund
<b>Does the manager perform engagement on behalf of the holdings of the fund(s)?</b>	Yes	Yes	Yes
<b>Has the manager engaged with companies to influence them in relation to ESG factors in the year?</b>	Yes	Yes	Yes
<b>Number of engagements undertaken on behalf of the holdings in this fund in the reporting period</b>	126 across all LDI funds*	Unavailable for period	Unavailable for period
<b>Number of engagements undertaken at a firm level in the reporting period</b>	3139*	Unavailable for period	443 during 2020

Source: BMO, Muzinich, Goldman Sachs

\* BMO engagements reported for the period from 1 January 2020 to 30 June 2021.

**BMO's** engagement is with respect to their LDI funds. In BMO's view LDI portfolios are very different to traditional equity or bond portfolios and so their engagement programme primarily focuses on trading counterparties and clearing members. This engagement work is structured both in terms of prioritisation (companies to whom they have the greatest exposure and to companies whom they feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones.

The Trustees requested information from **Gatemo** about engagement activities during the reporting period but Gatemo did not respond to the request in time for publication.

**Muzinich** were not able to provide detailed engagement data for the reporting period. They did provide some data on high-level engagement themes which is detailed in the table below.

The Plan has been fully disinvested from Gatemo, Muzinich and Goldman Sachs since January 2021.

Manager	Engagement examples and themes
BMO	<p><b>Company:</b> Barclays Plc</p> <p><b>Date:</b> H1 2020</p> <p>Committed to align the entire financing portfolio to the goals of the Paris Agreement, and to regularly report on progress. As the first international bank with such a bold commitment, along with a rather large fossil fuel financing book, this commitment shows clear climate leadership. BMO have engaged the company on their environmental and climate risk management practices for their lending portfolio in the past.</p>

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**Company:** Citigroup Inc

**Date:** H2 2020

Committed to measure carbon emissions from lending activities. The bank will measure and disclose emissions tied to its lending portfolio, which is a step that only a very limited number of banks globally have done. This action is linked to broader climate risk management processes, which BMO have engaged upon repeatedly.

**Company:** Credit Suisse Group AG

**Date:** H1 2021

Enhanced its approach to sustainability management by setting up a board-level Sustainability Advisory Committee and ambitious climate targets. BMO have engaged on sustainability governance, climate targets and enhanced climate disclosure for many years. These actions indicating renewed sustainability leadership after having lagged behind Swiss and international peers.

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Muzinich

As part of Muzinich's participation in the Climate Action 100+ initiative, Muzinich is a supporter in an engagement with Vale, Vedanta, International Paper Company (IPC), and Petroleos Mexicanos. Our objective is to encourage better management of climate-related risks by these companies in line with the recommendations of the Task Force on Climate-related Financial. In particular we have met with those companies to encourage better climate risk governance and alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This is an ongoing engagement and progress is reported via the Climate Action 100+ initiative to its investor members and non-governmental supporters.

Muzinich have stated they are ramping up their engagement efforts to include more systematic and proactive ESG engagement with borrowers. They also confirm that the full roll-out of their engagement practice and reporting to investors is a high priority for the Firm.

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**Company:** Southern Water

**Date:** 2020

Goldman Sachs met with the company to discuss prior governance and pollution issues which impacted the company's credit profile. They opted not to participate in a new debt issue having considered the ESG risk to be high following historic operational weaknesses which resulted in fines for water pollution and alleged falsification of data. Goldman Sachs recognises that remedial steps such as the appointment of a new management team are being taken to improve the track record but remain cautious until they see sufficient evidence of improvement.

Goldman Sachs

**Engagement theme:** Climate change

Goldman Sachs have also reported on environmental themes which have come up during their engagements.

In the fourth quarter of 2020, they launched their firmwide Collaborative Climate Engagement Framework and identified companies with whom they intend to engage with to promote greater climate data disclosure. They identified around 4,500 companies in the MSCI ACWI Index that do not report at least one type of carbon emissions metric deemed material for their business.

These companies were narrowed down to 340 large emitters to engage with, who collectively account for 70% of carbon emissions generated by the cohort.

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## Summary

Over the course of the period to 6 August 2021, the Trustee is pleased to report that in their opinion they have adhered to the policies set out in their SIP and have complied with the Regulations.

**Prepared by the Trustee of the Cincinnati Machine Pension Plan  
October 2021**