

# BIG THINKING FOR SMALL SCHEMES

## Implementation Statement

Rodenstock (UK) Limited Pension & Death Benefit Scheme

05 April 2023



# 1. Introduction

Under regulatory requirements, trustees are required to prepare and review an implementation statement outlining their approach and stewardship dealing with certain specific matters with regards to their Environmental, Social and Governance (ESG) principles outlined in their latest Statement of Investment Principles (SIP).

This Statement sets out the principles governing decisions about the ESG aspect of investment of the assets of Rodenstock (UK) Limited Pension & Death Benefit Scheme. In preparing it, the Trustee obtained written reporting on these matters from Barker Tatham Investment Consultants Limited as the Scheme's investment consultants.

# 2. ESG Principles

## Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds and the providers of the buy-in annuity contracts invest. The Trustee also acknowledges that where passive pooled vehicles are employed ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustee believes that ESG factors can have material impacts on both the investment risk and return of its investments and good stewardship of the Scheme's investments is an important factor in helping to create and preserve capital. In particular, long-term sustainability issues, particularly climate change, present both risks and opportunities and these will require ongoing consideration.

The Trustee has delegated the day to day investment of the Scheme's pooled assets to one fund manager - LGIM. The annuity contracts, which account for the vast majority of the assets held by the Scheme, have been secured with Legal & General and the Just Group. The Trustee expects that the fund managers and insurance companies will evaluate ESG factors, where possible, including climate change considerations and stewardship obligations in line with the prevailing best practice.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustee views that the stewardship responsibilities attached to the ownership of shares are important but recognises that investment in pooled funds significantly limits their ability to be fully involved. The Trustee expects their investment managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC UK Stewardship Code.

The Trustee recognised that annuity contracts significantly limit their ability to be fully involved; however, assets reported on should cover segregated mandates, pooled funds, unit-linked contracts of insurance and other similar products invested by the Scheme. Contracts of insurance, such as annuity contracts, can in our view be excluded for the purpose of this statement. We have included an overview of the approach taken by Just Group and Legal & General Retirement later in this report.

Further information on the Trustee's policies can be found in the latest SIP dated June 2021.

In the Trustee's opinion, their policies, as recorded in the SIP, have been followed over the 12-month period to 05 April 2023.

The following sections illustrate how the Trustee, through their fund managers, have followed their stewardship and engagement policies.

### 3. Investments Attitudes to ESG

Fund Manager/Fund	ESG Description
<p><b>LGIM</b></p> <p><b>Index-Linked Gilt Over 5 Year Index Fund</b></p> <p><b>Active Corporate Bond - Over 10 Year Fund</b></p> <p><b>Sterling Liquidity Fund</b></p> <p><b>Cash Fund</b></p>	<ul style="list-style-type: none"> <li> <p><b>Fund Manager Overview</b></p> <p>LGIM’s ultimate goal is to protect and enhance the investment returns generated by their clients’ assets whilst aiming to have a long-standing commitment to raising corporate governance and sustainability standards to ultimately enhance the value of companies in which they invest.</p> <p>LGIM has publicly committed to the following three goals as part of their five-year strategic plan:</p> <ul style="list-style-type: none"> <li>• Influencing the transition to a low-carbon economy</li> <li>• Making society more resilient with our financial solutions</li> <li>• Creating new investments for the future economy</li> </ul> <p>Further information on how they can receive these goals is publicly available on the parent company Legal &amp; General Group plc’s reporting on corporate responsibility.</p> <p><a href="https://www.legalandgeneralgroup.com/csr/csr-reports/">https://www.legalandgeneralgroup.com/csr/csr-reports/</a></p> </li> <li> <p><b>ESG Integration</b></p> <p>LGIM uses a bottom-up and a top-down approach to monitoring and analysis as well as using ESG information that comes out from engagement meetings with companies. LGIM’s ESG scoring tool assesses companies in 17 different sectors on their disclosure, policies and processes for managing ESG risks. LGIM has set up three long-term thematic working groups (demographics, energy and technology) that undertake top-down research and analysis of macroeconomic issues, related to responsible investment and ESG. The direct engagement with companies is a way LGIM seek to identify ESG risks and opportunities. LGIM have an escalation policy to tackle difficult and inter-connected ESG issues that materially impact the value of assets.</p> <p>LGIM has an Active ESG View tool that forms an essential component of the overall active research process. The tool brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. ESG risks vary across sectors and therefore the proprietary tool LGIM has developed evaluates sector specific ESG factors, spanning 64 specific sectors and sub-sectors. LGIM incorporates a qualitative</p> </li> </ul>

approach on top of this as data alone may not tell the full story.

- **Active Ownership (1 year to 5 April 2023)**

LGIM reports annually on their active ownership to 31 March and provides quarterly reporting on their proxy voting. LGIM's Corporate Governance team casts proxy votes in a manner consistent with the interests of all clients. They direct the vote of a significant proportion of a company's shares by exercising the shareholder rights of almost all clients. LGIM acknowledges that the Scheme, in giving LGIM their mandate, requires LGIM to vote with the shares on the behalf of the Scheme. LGIM therefore aims to minimise abstaining from voting, only doing so if it is technically not possible to cast a vote in any other way.

LGIM's voting decisions are made internally within the corporate governance team, and independently from the investment teams. LGIM have in place supplementary regional policies setting out their voting approaches publicly on their website however various other factors may also help them form a view on voting matters. These consist of; previous engagement, third party research (e.g. ESG reports, broker research), company performance and LGIM's in-house views with respect to their investment teams.

LGIM provides an annual Active Ownership Report which summarises their activity over the full year. In the most recent of these reports, during the year 2022, LGIM reported

- to have managed £332.2 billion of assets in responsible investment strategies
- launched 19 new responsible investment strategies
- voted on 171,000 resolutions worldwide
- engaged with 902 companies.

The Scheme holds an annuity policy at Legal and General Assurance Society which would embody the same approach and philosophy outlined above where practical. The following paragraphs relate to the active ownership or approaches to ESG specific to the LGIM funds in which the Scheme is currently invested:

**Active Corporate Bond - Over 10 Year Fund**

LGIM screens the companies in which they hold corporate bonds for ESG factors. They review quantitative and qualitative factors as well as overall governance. Over the 12-month period to 31 March 2023, LGIM participated in a total of 85 engagements

where 37 unique companies were engaged. The top 5 engagement topics were:

- Climate Change
- Remuneration
- Inequality
- Board Composition
- Nominations and Succession

### **Sterling Liquidity Fund**

Over the 12-month period to 31 March 2023, LGIM participated in a total of 33 engagements where 15 unique companies were engaged. The top 5 engagement topics were:

- Climate Change
- Remuneration
- Capital Management
- Board Composition
- Climate Impact Pledge

In the first half of 2022, LGIM engaged with Universal Health Services Inc. regarding the lack of diversity on the company board. LGIM had begun engaging with the largest companies in the UK and US with the expectation that one ethnically diverse person would be added to the board by the end of 2021. Given that Universal Health Services Inc. had not progressed with the inclusion of ethnically diverse people on the board, LGIM voted against a resolution of electing a new director.

Another case study looks into Royal Mail Plc. LGIM voted against the re-election of Keith Williams as director of the executive committee due to a lack of gender diversity. The company currently has an all-male committee. From 2022, LGIM have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33%.

A further case study looks at Microsoft Corporation. LGIM voted against the resolution to recombine the roles of Chair and CEO which had previously been separate for many years. LGIM expects companies to have a separate Chair and CEO on account of risk management and also due to each role requiring a different set of skills.

In February 2023, LGIM engaged with Capricorn Energy Plc after concern had spread over a number of transactions proposed by the board. LGIM had reason to believe that the directors of the company were

	<p>intentionally attempting to undermine due process. Therefore, LGIM voted to have these directors removed from the board and for new ones to be appointed. It was in LGIM's view that meaningful board change was needed to restore investor confidence.</p> <ul style="list-style-type: none"> <li>• <b>References</b>            LGIM aims to implement best practice reporting to stakeholders including an:           <ul style="list-style-type: none"> <li>○ Annual Active Ownership report</li> <li>○ Quarterly ESG Impact Report</li> <li>○ Public monthly voting reports</li> </ul> </li> </ul>
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<b>Annuity Contracts</b>	<b>ESG Description</b>
<p><b>Legal &amp; General Retirement (LGR)</b></p>	<ul style="list-style-type: none"> <li>• <b>Overview</b>            LGR recognise that their scale brings a responsibility to act decisively on ESG matters. <p>LGR strongly support the stated aim of the Paris Agreement of limiting temperature rise to well below 2°C of pre-industrial levels.</p> <p>As part of their five-year strategic plan, LGR has committed to the following:</p> <ul style="list-style-type: none"> <li>• Investing new business premiums at a lower carbon intensity than their current portfolio</li> <li>• Increasing their portfolio allocation towards companies aligned to the Paris carbon emissions trajectory</li> <li>• Trading out companies within their current portfolio who are too slowly.</li> </ul> <p>LGR's first aim when investing is to ensure the safety of their policyholders' benefits, but they also invest to generate positive societal impacts where possible.</p> <p>LGR aims to manage financial related risks, including ESG risks, to make society more resilient, with their financial solutions. LGR believes their investments should have good governance structures in place, contribute positively to society and minimise any negative effects on wider stakeholders.</p> <p>Further information on how they can receive these goals is publicly available on the parent company Legal &amp; General Group plc's reporting on Pension Risk Transfer.</p> <p><a href="https://www.legalandgeneral.com/institutional/pension-risk-transfer/who-we-are/esg/">https://www.legalandgeneral.com/institutional/pension-risk-transfer/who-we-are/esg/</a></p> </li> </ul>

## Just Group

- **Overview**

Just Group believes that ESG themes are increasingly important for their members as the global awareness of how assets can be harnessed for environmental and social good has increased.

Just considers Environmental, Social and Governance factors in all of their investment analysis and decisions.

As part of their commitment to responsible investment, Just Group have agreed to a sustainability target within their portfolio and have signed up to the UN Principles for Responsible Investment (PRI). This publicly commits Just to act in the best long-term interests of their policyholders to enhance returns and better manage their risks.

Further information on how they can receive these goals is publicly available on the Just Group's reporting on ESG.

<https://www.wearejust.co.uk/definedbenefit/trustees/esg-and-our-investment-portfolio/>