

LV= Employee Pension Scheme Statement of Investment Principles (“SIP”) Implementation Statement

1. Introduction

This SIP Implementation Statement (“the Statement”) has been prepared by The LV= Pension Trustee Limited (“the Trustee”) in relation to the LV= Employee Pension Scheme (“the Scheme”).

This is the third Statement produced by the Trustee and is expected to evolve overtime. This Statement:

- describes any review of the SIP undertaken during the year;
- explains any changes made to the SIP during the year and the reasons for the changes;
- sets out how, and the extent to which, in the opinion of the Trustee, the SIP has been followed during the year; and
- describes the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the year and states any use of the services of a proxy voter during that year.

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This Implementation Statement covers the period 1 April 2022 to 31 March 2023, the Scheme’s reporting year, in line with regulations.

In preparing this Statement, the Trustee has had regard to the Department for Work and Pensions’ (“DWP’s”) ‘Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance’.

2. SIP Updates

The SIP that is most relevant for this reporting period is the document last updated in September 2022.

The Trustee has, in its opinion, followed the measures set out in the Scheme’s SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it did this.

The SIP was reviewed and updated in September 2022 in response to changes in the Scheme’s Strategic Asset Allocation (“SAA”) and to incorporate new information about governance roles and responsibilities.

The update to the SAA section outlined how the overall benchmark allocation of the Scheme’s assets between the major asset classes was updated by the Trustee, reflecting a larger allocation to corporate bonds in particular and away from absolute return bonds and liability-driven investment (“LDI”). The SAA is periodically reviewed and amended as appropriate.

The Governance and Responsibilities update within the SIP includes an explanation of how the Trustee is working towards identifying, assessing and managing climate-related risks in line with the Scheme’s wider Risk Management Framework.

3. Overview of Trustee's Actions

Investment Objectives and Strategy

During the reporting period there was no change to the primary funding objective to reach full funding on the Technical Provisions basis, with a long term target of achieving full funding on a Gilts +0.25% liability valuation basis by 2028. The Trustee keeps these objectives in mind when deciding whether to change the investment strategy.

There were a number of material changes to the actual asset allocation over the reporting period, predominantly due to significant volatility in gilt markets towards the end of 2022 which required the Scheme to bolster its collateral reserves within the LDI portfolio. These changes began in May 2022 with the last trade completed in January 2023.

The changes to the asset allocation included full disinvestments from the Threadneedle Dynamic Real Return Fund (c.£48.1m), ASI Life Diversified Growth Fund (c.£31.6m) and Hermes Absolute Return Credit Fund (c.£125.4m). Proceeds from these transactions were reinvested into the BlackRock Segregated LDI Portfolio. There was also a partial disinvestment from the Insight Global Credit Fund (c.£155m). In Q1 2023, there was a re-investment into the Insight Global Credit Fund (c.£60m) which was solely funded from the BlackRock Segregated LDI Portfolio.

Overall, the agreed SAA reflects the Trustee's view of the most appropriate investments and balance different funds' risk/reward characteristics to support the funding objective.

Trustee's policies for investment managers

The Trustee relies on Investment Managers for the day-to-day management of the Scheme's assets but retains control over the Scheme's investment strategy.

The Investment Managers are responsible for the day-to-day management of the Scheme's assets in accordance with guidelines agreed with the Trustee, as set out in the Investment Management Agreements ("IMAs") or pooled fund prospectuses. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. Each of the Investment Managers' fees are related to the amount of assets managed within their portfolios. Minimum fees may also apply in some cases.

Trustee's policies on Responsible Investment

The Trustee believes that it should act as a responsible steward of the assets in which the Scheme invests as this can improve the longer-term returns of its investments. The Trustee notes that sustainable financial outcomes are better leveraged when supported by good governing practices, such as board accountability. For a review of the Responsible Investment policies, please see section 5.

4. Review of SIP Policies

4.1. Objectives

The Trustee considers and monitors multiple metrics to ensure progress towards objectives (outlined below), including its primary responsibility which is to manage the Scheme such that members receive their benefits as and when they fall due. This objective was met during the reporting period. The Trustee also obtained guidance and written advice from its Investment Consultant, Redington, as appropriate. The majority of the advice was provided at Funding and Investment Sub-Committee ("FISC") meetings.

4.2. Investment Strategy

The Trustee uses the Pensions Risk Management Framework ("PRMF") as provided by the Scheme's investment advisor to monitor progress towards its objectives. The PRMF sets out the return target, risk tolerance, climate-related metrics, hedging levels and collateral requirements for the investment strategy. It is reviewed quarterly at FISC meetings, with clear written advice provided by the Investment Consultant when any of the metrics used to measure the objectives fell outside the pre-agreed constraints.

4.3. Strategic Asset Allocation (SAA)

The Trustee reviews the SAA regularly when appropriate to ensure that the portfolio maintains its suitability in relation to the Scheme's objectives. If issues arise outside of the Trustee's annual review, these would be flagged at the quarterly FISC meetings and discussed. The Investment Consultant communicates this to the FISC, with any advice that may be required.

The latest formal review of the SAA was undertaken in May 2022, although ongoing reviews of the SAA's suitability are conducted at a high-level, quarterly.

4.4. Balance between different kinds of investments

The Scheme holds a wide variety of different investments, including a buy-in contract. The assets that do not relate to the buy-in are diversified across major markets to ensure that the overall portfolio is well diversified. The buy-in provides the vast majority of the Scheme's cashflow needs, and other expenses are typically met from the most liquid asset class (cash within the LDI portfolio).

4.5. Kinds of investments to be held

The Trustee maintains a list of investments currently permitted and seeks guidance and written advice from its Investment Consultant as appropriate. Over the year the Scheme was only invested in permitted assets.

4.6. Choosing investments

The Trustee delegates all day-to-day investment duties to the Investment Managers. The Scheme holds investments in both segregated and pooled arrangements. For the segregated arrangements, the long-term relationships between the Trustee and its managers are set out in separate IMAs that document the investment guidelines within which they must operate.

For pooled arrangements, the Scheme's investments are managed according to standardised fund terms. These terms are reviewed by the Scheme's legal advisors and Investment Consultant at the point of investment to ensure that they are aligned with the Scheme's long-term investment strategy and market best practice.

4.7. Risks

The SIP lists a number of risk factors that the Trustee believes may result in a failure to meet the agreed objectives. The Trustee monitored and managed these risks through measures specific to each risk on a quarterly basis. It sought guidance and written advice from its Investment Consultant as appropriate. One example of this was replenishing the Scheme's collateral position across Q4 2022, as a result of significant rises in government bond yields over the period.

4.8. Custody

HSBC is the Scheme's appointed custodian. Their primary role is the administration of the Scheme's funds held in the segregated arrangements. The Scheme's pooled fund assets have their own dedicated custodian.

4.9. Monitoring

Investment Manager performance was reviewed quarterly through the use of the Manager Monitoring Report over both a short and long-term investment horizon.

Long-term investment manager suitability is typically reviewed every three years. The Trustee seeks guidance and written advice from its Investment Consultant as appropriate.

The Trustee, with help from Redington, reviews the fees, transaction costs and turnover requirements to confirm they remain reasonable. These reviews are typically done annually, and if any of the fees, transactions costs or turnover requirements became unreasonable, this would be communicated to the Trustee and action would be taken.

4.10. Rights attaching to investments

Evidence of voting rights during the reporting period are outlined on in Section 6 of this statement.

4.11. Additional Assets

The Trustee has not made any changes to the manager arrangements during the period covered by this document. It seeks guidance and written advice from its Investment Consultant as appropriate.

5. Review of Responsible Investment Policies

5.1. Environmental, Social and Governance Factors and Stewardship

Environmental, Social and Governance ("ESG") factors were considered in all monitoring processes over the reporting period. All of the Scheme's Investment Managers are signatories of the UN PRI ("The United Nations Principles for Responsible Investment").

The Trustee has delegated Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations. The investment advisor considers ESG risks when making recommendations to the Trustee and the Trustee considers ESG risks when making investment decisions. Managers' approaches to ESG are one of several key factors that are assessed by the Trustee's investment advisor when making manager recommendations to the Trustee, and these are monitored by the investment advisors on an ongoing basis after appointment. In addition, the UN PRI ESG ratings are included in the quarterly manager monitoring reports received by the Trustee and discussed at FISC meetings.

Being cognisant of the DWP's updated guidance emphasising the need for asset owners to be more "active" in their approach to stewardship, in July 2023 (after the end of the Scheme year), the Trustee updated its Stewardship Policy. Next year's report will cover how the Scheme's investment managers voted in relation to the updated policy.

The new Stewardship Policy states:

"We understand good stewardship to be the responsible allocation, management, and oversight of capital to create long-term value for our members, leading to sustainable benefits for the economy, the environment and society. We will aim to use our influence as an owner of assets to ensure that as far as possible best practices are reflected in terms of environmental, social and governance ("ESG") factors, and we will hold our investment managers to account for the effective use of their influence as owners of assets."

Resourcing stewardship

Our approach to stewardship reflects our broad investment approach: our role is to hire appropriately skilled investment managers, set clear expectations, assess the quality of their performance, and hold them to account where we identify deficiencies or areas for further improvement. We, via the Funding and Investment Sub Committee (FISC), carry out our stewardship through oversight and challenge of our investment managers rather than ourselves operating as active stewards directly of the underlying assets in which we invest.

Our key areas of focus

To best channel our stewardship efforts, we believe that we should focus on a key theme. Our key theme has been selected by assessing relevance to the Scheme and its members, the financially material risks that it poses, and the maturity and development of thinking within the industry that allows for ease of integration into our approach. Our key theme is climate change.

We may choose to focus on other themes in the future as we recognise there are other sustainability-related challenges facing global societies and the natural environment.

Significance of stewardship in appointment and monitoring of investment managers

It is the responsibility of the FISC to lead our engagements with investment managers. We will not appoint new investment managers that cannot demonstrate the standards to which we hold existing investment managers. These expectations can be summarised as:

- Effective processes for and delivery of stewardship activity, alignment with leading standards, and evidence of positive engagement outcomes related to our key themes;*
- Provision of tailored reporting on stewardship activities and outcomes;*

We expect our investment managers to provide specific evidence they have acted in accordance with these expectations which should provide us with enough insight to ascertain whether our investment managers are practising effective stewardship that is best aligned with our long-term interests. Where we identify deficiencies we will escalate accordingly, with the ultimate response being the removal of mandates where we believe it is in the interests of our members to do so. We view incremental improvements by our investment managers as the key success measure of our own stewardship activities.

Engagement: expectations and process

We expect investment managers to engage with issuers to maintain or enhance long-term value of our investments and limit negative externalities on the planet and society. We recognise that there is no 'one-size-fits-all' stewardship approach and instead encourage our investment managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company or other asset.

Investment managers are expected to have robust ESG, climate change, and stewardship policies and processes in place. These are used to define how underlying companies are monitored and engaged with, how progress is measured, and when escalation is required. We expect manager engagement with companies to be underpinned by engagement on public policy matter where relevant. We expect that these assessments and progress in stewardship activities are tracked over time, to maintain continuity of activity and to assess the effectiveness of stewardship delivery. We will challenge our investment managers when we feel their engagements are not of sufficient quality.

In order to drive corporate change, and where initial engagement has made little progress, we expect our investment managers to escalate engagement accordingly. We allow our investment managers discretion over the appropriate tools to deploy; however, we expect these to be communicated with issuers' management teams. Should there still be little progress made after escalation, we expect our investment managers to consider divestment as a final course of action.

Voting: expectations and process

We expect our managers to use as appropriate all the tools arising from their investments, including the rights and responsibilities associated with the instruments or other assets in which they invest. While we do not currently have any direct equity investments and so do not have the voting rights that are associated with such instruments, we recognise that there are rights and responsibilities associated with other asset classes.”

The Trustee discloses manager voting records to members annually in this Statement. The manager voting records are included below in Section 6.

6. Voting behaviour

All the Trustee’s holdings in listed equities are within pooled funds and the Trustee has delegated to its Investment Managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year. A description of the Scheme’s managers’ use of proxy voting services has been included later in this section.

Although the Trustee is not able to direct how votes are exercised, the voting policies of its Investment Managers align in a number of areas with the Scheme’s stewardship priorities that are outlined within the Scheme’s SIP . Examples of this alignment include how the managers will seek to enhance long-term shareholder value through constructive engagement with companies in which they invest, as well as seeking to exercise voting rights, where held, in a manner consistent with the Scheme’s long-term best interests.

In this Implementation Statement we have included voting data on the Scheme’s funds that hold equities as follows:

- Threadneedle Dynamic Real Return Fund
 - Voting policy: [Link](#)
- Aberdeen Standard Investments Life Diversified Growth Fund
 - Voting policy: [Link](#)

The Trustee delegates the collation of annual manager voting data to its Investment Consultant, Redington, to assist with the preparation of its annual statement.

6.1. Columbia Threadneedle Investments (“CTI”)

Voting

Below is the voting activity over the period for the Scheme’s asset managers which held listed equities over the period from 1 April 2022 to 31 March 2023:

	Threadneedle Dynamic Real Return Fund
How many meetings were you eligible to vote at over the year to 24/06/2022*?	37
How many resolutions were you eligible to vote on over the year to 24/06/2022*?	559
What % of resolutions did you vote on for which you were eligible?	100.0%
Of the resolutions on which you voted, what % did you vote with management?	85.7%
Of the resolutions on which you voted, what % did you vote against management?	11.8%
Of the resolutions on which you voted, what % did you abstain from?	2.5%
In what % of meetings, for which you did vote, did you vote at least once against management?	64.9%
Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	<p>As active investors, well informed investment research and stewardship of our clients’ investments are important aspects of our responsible investment activities. Our approach to this is framed in the relevant Responsible Investment Policies we maintain and publish. These policy documents provide an overview of our approach in practice (e.g., around the integration of environmental, social and governance (ESG) and sustainability research and analysis).</p> <p>While analysing meeting agendas and making voting decisions, we use a range of research sources and consider various ESG issues, including companies’ risk management practices and evidence of any controversies. Our final vote decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations such as ISS, IVIS and Glass Lewis as well as MSCI ESG Research. Proxy voting is effected via ISS.</p>
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	N/A

* The Scheme fully disinvested from the Threadneedle Dynamic Real Return Fund on 24 June 2022

Most significant votes

Below are details of the most significant vote:

Threadneedle Dynamic Real Return Fund

- **General Motors Company, June 2022. Vote:** For.

Summary of resolution: Report on the Use of Child Labour in Connection with Electric Vehicles

Approximate size of holding as at the date of the vote: c.£49m

Rationale: Supporting better ESG risk management disclosures

Criteria for which vote has been assessed as “most significant”: Vote against management on certain environmental or social proposals & >20% dissent

Whether the intention to vote against management was communicated to the company ahead of the vote: No

Outcome of the vote: Fail

Next steps: Columbia Threadneedle have noted that active stewardship (engagement and voting) continues to form an integral part of our research and investment process

6.2. Aberdeen Standard Investments (“ASI”)

	ASI Life Diversified Growth Fund
How many meetings were you eligible to vote at over the year to 21/09/2022*?	453
How many resolutions were you eligible to vote on over the year to 21/09/2022*?	6,771
What % of resolutions did you vote on for which you were eligible?	97.6%
Of the resolutions on which you voted, what % did you vote with management?	86.1%
Of the resolutions on which you voted, what % did you vote against management?	13.3%
Of the resolutions on which you voted, what % did you abstain from?	0.5%
In what % of meetings, for which you did vote, did you vote at least once against management?	64.9%

Which proxy advisory services does your firm use, and do you use their standard voting policy or created your own bespoke policy which they then implemented on your behalf?	Aberdeen Standard Investment utilise the services of ISS for all our voting requirements. Proxy voting decisions are made in accordance with the principles established in the Aberdeen Standard Investment Proxy Voting Principles (Principles) document provided on the website: https://www.abrdn.com/docs?editionId=08bef34e-1287-404f-8196-03393c3fb91e
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	9.5%

* The Scheme fully disinvested from the ASI Life Diversified Growth Fund on 21 September 2022

Most significant votes

Below are the details of the most significant vote:

ASI Life Diversified Growth Fund

- **FedEx Corporation, September 2022. Vote:** Against.

Summary of resolution: Report on Racism in Corporate Culture

Approximate size of holding as at the date of the vote: c.£32m

Rationale: This proposal is onerous as the company has a number of practices in place to address and report on racism in corporate culture. These include disclosure in its ESG report, oversight mechanisms to ensure DEI standards are met and various initiatives to promote DEI.

Criteria for which vote has been assessed as “most significant”: Significant Vote Category 2 (“SV2”): Shareholder and Environmental & Social (E&S) Resolutions

Outcome of the vote: Fail

Signed: Huw Evans

Chair of the Trustee Board of the LV= Employee Pension Scheme

Dated: 20 September 2023