



R G Carter Limited and Associated Companies Pension Fund Implementation Report

May 2022

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 Fund has updated its SIP in response to the DWP regulation to cover:

- Policies for managing financially material considerations including ESG factors and climate change; and
- Policies on the stewardship of the investments.

The SIP can be found online at the web address: <https://www.rgcarter-construction.co.uk/wp-content/uploads/2022/03/SIP-2022.pdf> changes to the SIP are detailed on the following page.

Implementation Report

This Implementation Report is to provide evidence that the Fund 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; and
- Voting behaviour covering the reporting year up to 31 December 2021 for and on behalf of the Fund including the most significant votes cast by the Fund or on its behalf.

Summary of key actions undertaken over the Fund reporting year

The ISC has agreed an Environmental Social and Governance Policy, which formalises the Trustee's ESG beliefs and its policy on how ESG factors should be integrated in investment decision-making.

These policies can be seen on page 7 of this Implementation Statement.

Implementation Statement

This report demonstrates that R G Carter Limited and Associated Companies Pension Fund has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed 

Position **Chair of Trustees**

Date **30 May 2022**

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions taken in the year ending December 2021
Interest rates and inflation	The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of these risks on a Technical provisions Basis. The Trustee monitors the hedge and will update the strategic hedge on a regular basis with advice from the investment consultant (Isio).	The Trustee increased the level of the Scheme's hedging from 70% to 90% over the course of the year.
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.	No changes to the policy were made and over the year.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where practicable.	No changes to the policy were made and over the year.
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. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Fund for the risk of default.	No changes to the policy were made and over the 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 Fund'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	Further detail provided later in this report.

		<p>2. Implemented via Investment Process</p> <p>3. A track record of using engagement and any voting 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>	
<p>Currency</p>	<p>The potential for adverse currency movements to have an impact on the Fund's investments.</p>	<p>Hedge all currency risk on all assets that deliver a return through contractual income where possible.</p>	<p>No changes to the policy were made and over the year.</p>

Changes to the SIP

The ISC has agreed an Environmental Social and Governance Policy, which formalises the Trustee's ESG beliefs and its policy on how ESG factors should be integrated in investment decision-making.

These policies can be seen on the following page.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Funds policy with regards to ESG as a financially material risk. The Trustee has a separate ESG policy in place which describes their ESG beliefs and how the Fund monitors ESG risks including climate change in the investment portfolio.

Implementing the Current ESG Policy

Risk Management	<ol style="list-style-type: none"> ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	<ol style="list-style-type: none"> The Trustee wants to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 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 seek to allocate to these sectors. The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Reporting & Monitoring	<ol style="list-style-type: none"> ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Voting & Engagement	<ol style="list-style-type: none"> 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. 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. The Trustee wants to understand the impact of voting & engagement activity within their investment mandates.
Collaboration	<ol style="list-style-type: none"> Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD.

ESG summary and actions with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
Legal & General LDI and Synthetic Equity Fund	LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. LGIM integrates ESG factors in their processes by using proprietary tools to quantify and monitor ESG risk. LGIM have shown that they are improving their reporting processes, with ESG LDI and Derivatives reports available on an ad hoc basis which include engagement summaries.	LGIM should include the ESG scoring of counterparties in regular client reporting of LDI Funds.	Isio engaged with LGIM in Q4 2021 on the Trustee's behalf to review their ESG policies and set actions and priorities.
Legal & General Managed Property Fund	LGIM have a strong and integrated ESG approach which follows a robust framework. At a firm level, LGIM have a strong history of active engagement, voting and collaboration on ESG related topics. At a real assets business level, LGIM believe that sustainable investments are crucial to provide resilient long-term investment returns.	<p>LGIM developed a net zero carbon roadmap, detailing milestones required to achieve net zero carbon across their real estate platform by 2050 – it would be useful to have more evidence of LGIM's progress in implementing these actions.</p> <p>Provide more granular information/data on the diversity metrics in place at portfolio level, including ethnicity, gender and social mobility stats.</p> <p>LGIM to consider whether they can log engagements and progress on ESG initiatives in their reporting, annually or quarterly.</p>	Isio engaged with LGIM in Q4 2021 on the Trustee's behalf to review their ESG policies and set actions and priorities.
BlackRock Dynamic Diversified Growth Fund	The Fund benefits from BlackRock's scale to drive improvements in its ESG capabilities. The integration of ESG	BlackRock should consider adopting specific targets for the Fund.	Isio engaged with BlackRock in Q4 2021 on the Trustee's behalf to review their ESG policies

	<p>factors is clear in the identification of risks and opportunities which ultimately translate into investment decisions.</p>	<p>BlackRock should consider producing regular diversity reports which clearly show BlackRock's and the Fund's diversity metrics and the progress made towards any targets, which should align with the firm-wide diversity policies.</p> <p>BlackRock to consider running climate change scenario analysis on the portfolio. This can be via an external provider or through Aladdin Climate once available.</p> <p>BlackRock should include the Fund's ESG metrics as well as significant voting and engagement data in their quarterly client reporting.</p>	<p>and set actions and priorities.</p>
<p>M&G Total Return Credit Fund</p>	<p>M&G have evidenced their ability to consider the significance of ESG factors in this fund. M&G should consider measurable ESG objectives for the Fund as well as a framework to reach Net Zero by 2050.</p> <p>M&G are actively developing tools to improve ESG modelling and reporting and should continue to increase the number of ESG metrics available for reporting purposes.</p>	<p>M&G should provide specific ESG objectives and policy for the Fund.</p> <p>M&G should continue the development climate scenario modelling and temperature pathways.</p> <p>M&G should continue to improve their ESG reporting capabilities, e.g., by including TCFD metrics.</p> <p>M&G should aim to be able to provide specific ESG ratings for each asset in the Fund.</p>	<p>Isio engaged with M&G in Q4 2021 on the Trustee's behalf to review their ESG policies and set actions and priorities.</p>

Engagement

As the Fund invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 December 2021.

Fund name	Engagement summary	Commentary
Legal & General LDI and Synthetic Equity Fund	<p>LGIM have engaged with a number of industry participants on long-term strategic issues in relation to LDI, including:</p> <ul style="list-style-type: none"> - The introduction of central clearing; - The LIBOR transition; - Recognising the pricing issues with bilateral RPI swaps. 	<p>LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments, and other industry participants to address long-term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>
Legal & General Managed Property Fund	<p>Total entities engaged with: 13</p> <p>Number of Engagements: 28</p>	<p>LGIM Investment Management Real Assets ("LGIMRA") has an established framework to monitor ESG and Climate Change issues and has a dedicated ESG team. LGIMRA have introduced an added level of ESG monitoring, analysis and reporting through their partnership with Evora, a specialist supplier in this area. Evora provide LGIM's specialist ESG data platform and carry out data collection, analysis and reporting on energy, greenhouse gas emissions, water and waste. Using this platform, Evora provide quarterly analysis at asset and fund level and provide LGIM's annual reporting data for their annual report and TCFD, as well as data inputs into LGIM's annual GRESB submissions. EPC ratings are shared upon request and will soon make up part of the Fund's quarterly updates.</p>
BlackRock Dynamic Diversified Growth Fund	<p>Total entities engaged with: 410</p> <p>Number of Engagements: 749</p>	<p>BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. These engagements largely relate to the Fund's equity positions only, which comprised c.32% of the overall portfolio as at 31 December 2021.</p> <p>Examples of significant engagements include:</p> <p>Chevron Corporation - BlackRock has a long history of constructive engagement with Chevron where they discuss corporate governance and sustainability topics that they believe drive long-term shareholder</p>

	<p>value. Key topics discussed were climate risk, board quality and effectiveness, corporate political activities.</p> <p>Woodside Petroleum Ltd. – BlackRock regularly monitors Woodside’s governance practices and risk profile as part of its responsibility to shareholders. In recent engagements with the company’s board, BlackRock had extensive discussions on a range of material issues including the company’s approach to the Task Force on Climate-related Financial Disclosures (TCFD), board composition and diversity, broad refreshment and supply chain-related issues.</p>
<p>M&G Total Return Credit Fund</p>	<p>Total Engagements: 33</p> <p>Environmental: 23</p> <p>Social: 1</p> <p>Governance: 9</p> <p>M&G’s engagement activities remain consistent with firm-wide ESG policies, utilising a systematic approach to engagement, whereby specific objectives are outlined in advance and measured based on the outcomes from the engagements. M&G monitor the success of engagements by assessing whether they have met their objective and log this on a central system.</p> <p>Examples of significant engagements include:</p> <p>Avantor Sciences – M&G engaged with Avantor, following a Bloomberg article which raised concerns over the potential misuse of acetic anhydride outside of the regulated supply chain. M&G wanted Avantor to increase disclosure of the customer due diligence process, specifically focusing on high risk jurisdictions. M&G had a meeting with the head of Investor Relations to discuss the issue. As a result, Avantor seized all acetic anhydride sales in Mexico following the control issues and have since taken steps to further their due diligence on the audit of the distribution paths. M&G believe there is further progress needed and continues to monitor the due diligence and disclosures on this area.</p> <p>Experian – M&G met with the company’s head of investor relations to discuss concerns around press reports on an Information Commissioner’s Office (ICO) investigation into data usage, as well as a data breach in South Africa and reported accusations of consumer credit reporting company Experian’s role in a data breach in Brazil. The company provided a comprehensive repost to the ICO allegations and explained how the claims in Brazil were false. The South African situation was, however, an Experian issue, and the company said it was going through the processes to fix this by improving the onboarding process.</p>

Voting

As the Fund invests via fund managers, the managers provided details on their voting actions (where applicable) including a summary of the activity covering the reporting year up to 31 December 2021. The managers also provided examples of any significant votes.

This section only relates to the BlackRock DGF Fund as the other mandates do not include any equity shareholdings.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock – Dynamic Diversified Growth Fund	<p>Meetings eligible to vote for: 965</p> <p>Resolutions eligible to vote for: 12,082</p> <p>Resolutions voted on: 100%</p> <p>Resolutions voted with management: 93%</p> <p>Resolutions voted against management: 6%</p> <p>Resolutions abstained from: 1%</p>	<p>AT&T Inc. – voted against the proposal to approve executive compensation based on a pay and performance misalignment. BlackRock expect a company’s board of directors to put in place a compensation structure that incentivizes and rewards executives against appropriate and rigorous goals and metrics. Outcomes should be aligned with shareholder interests –particularly the generation of sustainable long-term value. As that was not demonstrated in this case, we voted against the executive pay package (Item 3) and held members of the Compensation Committee accountable for poor compensation practices and structures.</p> <p>Chevron Corporation – BlackRock voted for a proposal to reduce Scope 3 Emissions. BlackRock believe it is particularly important for companies in carbon intensive industries to assume responsibility, where reasonable, for the complete emissions profile of the company as the world transitions to a low carbon economy.</p>	<p>BlackRock use Institutional Shareholder Services’ electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holdings directors accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.</p>

