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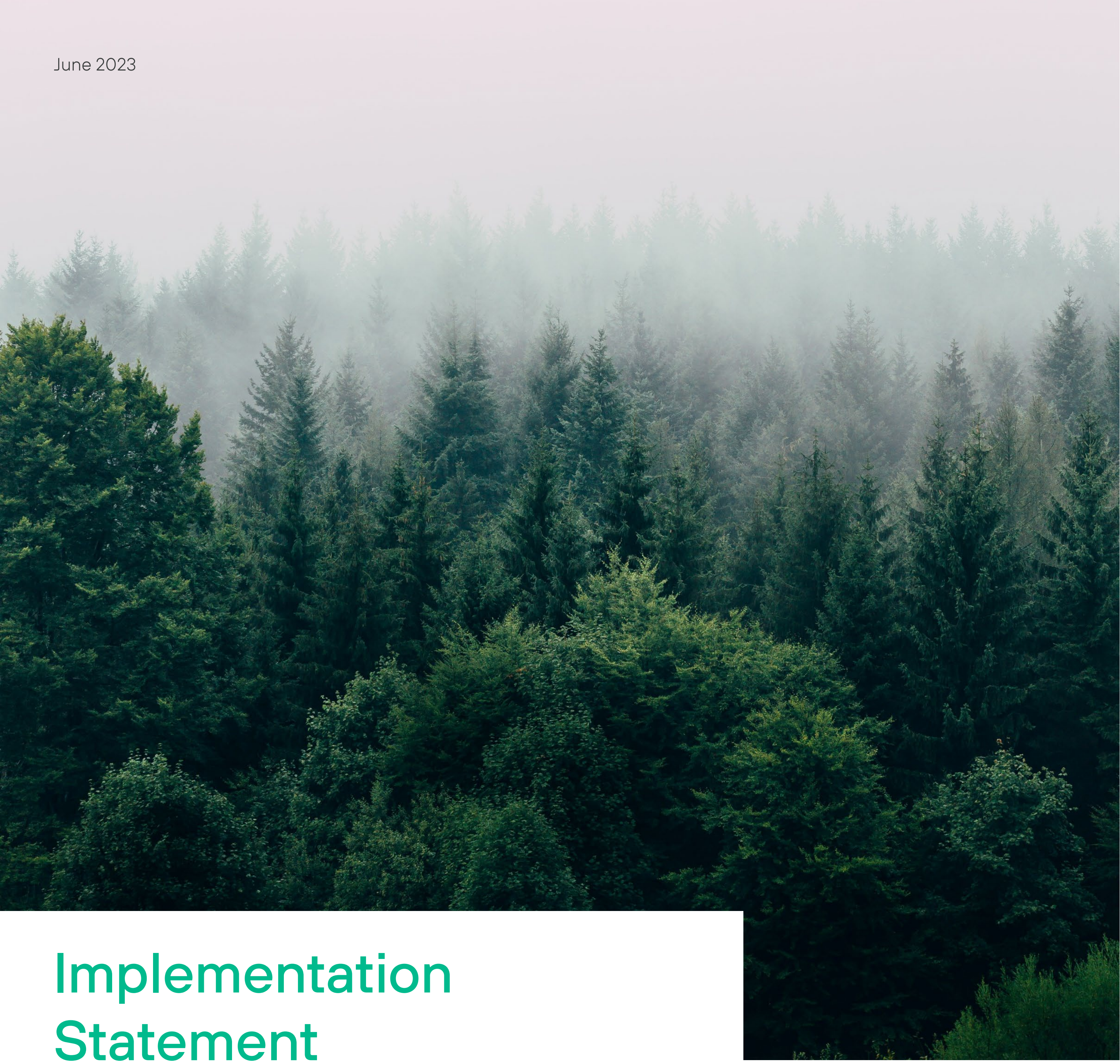

Implementation Statement

Charles Wells Directors' Pension Scheme – Year to 30 November 2022

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Document classification: Public

Background to the Implementation Statement

Background

The Department for Work and Pensions ('DWP') has increased regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ('ESG') factors as financially material and requires schemes to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require schemes to detail their policies in their Statement of Investment Principles ('SIP') and demonstrate adherence to these policies in an implementation statement.

Statement of Investment Principles ('SIP')

The Scheme has updated its SIP in response to the DWP regulations to cover:

- Policies for managing financially material considerations including ESG factors and climate change.
- The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflict of interest, risks, social and environmental impact and corporate governance.
- Policies on the stewardship of the investments.

The SIP can be found online at the web address https://www.wellsandco.com/customer-service/pensions and recent changes to the SIP are detailed in this statement.

Implementation Statement

This implementation statement is to provide evidence that the Scheme 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 the Scheme's SIP.
- The current policy and approach with regard to ESG and the actions taken to manage ESG risks.
- The extent to which the Trustee has followed the Scheme's policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandates.
- It is noted that one of the requirements for the Implementation Statement is to cover the Trustee's and the investment managers' approach to voting rights attached to investments (where applicable). During the year to 30 November 2022 there were no voting rights attached to the investments, which were either credit based or through derivatives. This statement is therefore focused on the Trustee's and the investment managers' approach to engagement and stewardship.

The previous Implementation Statements are available upon request.

Summary of the key actions undertaken over the Scheme reporting year

The Trustee monitors the Scheme's investments on an ongoing basis, including receiving regular reporting from the Scheme's investment adviser and the investment managers.

Reporting includes monitoring the Scheme's asset allocation versus the strategic allocation detailed in the SIP, reviewing the performance of the investment managers versus relevant benchmarks and their stated objectives, and monitoring investment risks.

During the year to 30 November 2022, the Trustee made changes to the investment strategy to further align the asset allocation with the Scheme's long-term objectives and reduce risk.

The Scheme's estimated funding position improved over the year to 30 November 2022. Following this, the Trustee decided to de-risk the investment strategy in order to boost Scheme liquidity and further reflect the improvements in funding level.

During Q4 2022, the Trustee fully removed the Scheme's equity exposure, partly to free up further liquidity for the LDI portfolio amidst an environment of extreme yield volatility, as well as reduce market risk in the portfolio.

In October 2022, the Trustee placed a redemption request for holdings in the Apollo fund to significantly increase liquidity within the portfolio and therefore de-risk, whilst retaining sufficient expected return within the portfolio. The proceeds of this disinvestment were allocated to a liquid multi-asset credit fund during 2023.

Following the end of the year to 30 November 2022 reporting period, the Trustee agreed to increase the hedge levels for interest rate and inflation hedging to 100% of Technical Provision liabilities, in order to further reduce funding level risk. The SIP was updated after the reporting period to reflect the changes in the investment strategy outlined above. The Trustee keeps the Scheme's SIP under ongoing review.

Alongside traditional investment considerations, the Trustee receives reporting on ESG considerations, for example from the investment managers at Trustee meetings. The Trustee has reviewed the managers from an ESG perspective and the Scheme's investment adviser regularly meets with the investment managers to review their ESG policies and practices.

Implementation Statement

This report demonstrates that the Trustee of the Charles Wells Directors' Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Risk management policies and implementation

As outlined in the SIP, the Trustee adopts an integrated risk management approach. The three key risks associated with this framework and how they are managed is stated below.

Further, a summary of the actions the Trustee has taken to implement this framework over the 12-month period to 30 November 2022 is included.

Risk	Definition	Policy	Actions taken in implementing the policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.	• The Trustee monitors the performance of the Scheme's assets versus the investment objective on an ongoing basis. • The Trustee de-risked the investment strategy over the reporting year in order to increase the level of certainty around the target investment return.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	• The Trustee receives regular funding updates. • As part of the 30/11/2022 Actuarial Valuation process the Trustee will receive funding advice from the Scheme Actuary. An appropriate funding basis will be agreed based on, amongst other considerations, the investment strategy.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.	• The Trustee receives regular updates on the financial performance of the sponsoring company. • As part of the 30/11/2022 Actuarial Valuation process the Trustee will receive covenant advice from its advisers.

Risk management policies and implementation: continued

As outlined in the SIP, the Scheme is exposed to a number of underlying risks and financially material considerations relating to the Scheme's investment strategy.

The Trustee's policies in respect of these issues, including how financially material considerations are taken into account in the selection, retention and realisation of investments are summarised below. A summary of the actions the Trustee has taken to implement the policies over the 12-month period to 30 November 2022 is also included.

Risk	Definition	Policy	Actions taken in implementing the policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% (as at 30 November 2022) of these risks on the Technical Provisions basis through the LDI portfolio.	Post reporting year-end target hedge levels were increased from 90% to 100% to further protect from interest rate and inflation risk.
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.	The Trustee monitors the level of liquid assets available to the LDI manager on an ongoing basis. Sufficient liquidity was maintained over the period to ensure all cashflow requirements were met in a timely and cost-efficient manner. During the period, liquidity was increased in the Scheme's assets by selling a significant proportion of the allocation to the quarterly-traded credit fund with Apollo. The proceeds were invested in a daily traded credit portfolio with M&G after the reporting period's end. Liquidity was further boosted by the sale of the synthetic equity exposure.

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 Trustee maintained a diversified portfolio over the year to 30 November 2022. In October 2022 the Trustee materially reduced the Scheme's market exposure through the removal of the Synthetic Equity.
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 Trustee maintained a diversified portfolio of credit assets over the year to 30 November 2022. The Scheme's allocation to the BlackRock Diversified Debt Fund manages credit risk through significant diversification across private credit strategies, alongside diversification of sectors and geographies. The liquid credit strategies with Aegon, Apollo and M&G generally focus on higher credit quality issuers and further manage risk through their active management and underwriting process. The Scheme's investment adviser meets with the Scheme's investment managers on a regular basis to monitor portfolio risk.
Environmental, Social and Governance ("ESG")	Exposure to ESG factors, including but not limited to climate change, which can affect 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 criterion: 1. Responsible Investment Policy / Framework 2. Consideration of ESG factors integrated into 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 The Trustee monitors the managers on an ongoing basis.	The Trustee has carried out an in-depth review of the investment managers' ESG policies and practices. The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies. ESG was considered as part of the due diligence on the new M&G mandate and ESG would be a key part of the investment criteria for any new mandates for the Scheme.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To invest in funds that hedge all or the majority of currency risk.	The vast majority of Scheme assets were held in sterling denominated assets over the period.

Changes to the SIP

After year-end, in June 2023, changes were made to the Trustee's SIP to reflect changes in the investment strategy and regulatory updates, focussed on ESG engagement, voting (where applicable), and stewardship.

These changes include the reduction in the allocation to the Apollo fund and the onboarding of the M&G Total Return Credit Investment Fund, which is a daily-dealt liquid credit fund invested in during 2023.

The SIP was updated to reflect the Trustee increasing the target level of interest rate and inflation hedging from 90% to 100% of Technical Provisions liabilities, implemented in May 2023.

The SIP was also updated to reflect the Trustee's decision to remove the target equity exposure of Scheme assets.

Current approach and implementation of ESG and Stewardship policies

The "Stewardship of investments" section of the SIP outlines the Trustee's policies in relation to stewardship of the investments, including ESG.

Stewardship

All decisions about the day-to-day management of the assets have been delegated to the investment managers. This includes decisions about:

- Selection, retention, and realisation of investments including taking into account all financially material considerations in making these decisions.
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes the investment managers' policies in the above respects into account when selecting and monitoring the investment managers.

In order to ensure the investment managers' stewardship of the Scheme's assets is in line with the Trustee's policies, the Trustee meets with the investment managers and receives regular reports from the Scheme's investment adviser.

Environmental, Social, Governance ('ESG') factors and the exercising of rights

The framework for monitoring the managers from an ESG perspective is set out in the SIP as outlined below.

Method for monitoring and engagement:

- The Trustee's investment managers provide periodic reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.
- The Trustee receives information from its investment adviser on the investment managers' approaches to engagement.

The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflict of interest, risks, social and environmental impact and corporate governance. Circumstances for additional monitoring and engagement:

- The manager has not acted in accordance with their policies and frameworks.
- The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

As outlined on the following page, the Trustee has undertaken a detailed review of the investment managers from an ESG perspective and has met with the investment managers to discuss their ESG policies and practices. The Trustee is comfortable that the investment managers' ESG policies and practices satisfy its requirements. Further, the Trustee is comfortable with the new investment mandate with M&G from an ESG perspective.

The Scheme's investment adviser engages with the investment managers on a regular basis including regarding ESG factors.

The Trustee expects that the Scheme's investment managers will engage with investee companies, including on ESG factors. A summary of the investment managers' engagement activity over the year to 30 November 2022 is outlined later in this report.

ESG summary

The Trustee has carried out a review of the Scheme's investment managers from an ESG perspective with the assistance of the Scheme's investment adviser. The key findings of the review are summarised below, including the new investment with M&G.

The investment managers are integrating ESG factors within their investment decisions. Each of the managers has demonstrated that ESG factors are being given significant attention at a business level, highlighted by in-house ESG teams, ESG policies and engaging with third parties on ESG issues.

The credit managers (Apollo, Aegon, Alcentra, BlackRock and M&G) have outlined that ESG factors are considered within their analysis of companies, broader risk management and the delivery of long-term returns. Where ESG practices are less established within LDI, Schroders have outlined the steps they are taking to integrate ESG factors through their engagement with counterparties.

A summary of the individual investment managers' ESG policies and practices is outlined below.

Manager	ESG Summary
Apollo Semi-liquid Credit Portfolio	Apollo have a specialist ESG officer for ensuring ESG is integrated at the business level. Within the Fund, ESG is considered at the pre-acquisition phase and embedded in the due diligence. Apollo provided evidence of reporting and gave examples of material ESG factors. Apollo's client reporting in relation to ESG factors is less extensive than some of their peers.
Aegon Absolute Return Bond Portfolio	Aegon have demonstrated they have sufficient ESG specialists and a robust process for integrating ESG factors. Aegon has a well-developed Responsible Investment framework and has committed to the Net-Zero Asset Managers' Initiative. Aegon publishes a semi-annual ESG report for the Fund that includes a breakdown of ESG ratings and a summary of engagement information, including case studies and carbon metrics.
Alcentra Direct Lending Portfolio	Alcentra have a specialist team that helps support the business in achieving their ESG related objectives. They have a dedicated team which is responsible for co-ordinating ESG related work. ESG is integrated within its fundamental credit and risk analysis.
Schroders LDI	Schroders have a strong team providing ESG support at a business level. However, the use of this ESG team within the LDI mandate is limited, especially around engaging with potential counterparties on ESG issues. We believe it is a positive sign that Schroders have recognised these are areas for improvement in this mandate.
BlackRock Diversified Private Debt	BlackRock has a firmwide ESG policy, including a net zero commitment, however there are no fund-specific ESG policy or objectives. For the Direct Lending and Opportunistic Credit sleeves, BlackRock use quantitative scorecards, but this is only qualitative for Real Estate Debt.

	BlackRock have started to introduce ratchets in loans whereby coupons fall/rise depending on if the underlying firms meet/fail ESG objectives.
M&G Total Return Credit Investment Fund	M&G have a well integrated sustainable investment policy to ensure ESG considerations are incorporated across all stages of the investment process and regularly update their scorecard, in line with ESG best practice. M&G have identified firm-wide engagement targets for Climate Change, Diversity & Inclusion, and Biodiversity. Engagements are recorded centrally and maintained by the Stewardship & Sustainability team. M&G are a signatory to a number of key organisations, have a UNPRI score of A+ and are a member of various organisations such as Climate Bonds Initiative and Impact Management Project.

Engagement

The Trustee delegates the day to day management of the Scheme's assets to investment managers. Details of the investment managers' engagement actions, including a summary of the engagements for the year to 30 November 2022, are included below. (Note M&G has not been included as this investment was made after the reporting period).

Manager	Engagement summary	Commentary
Apollo Semi-liquid Credit Portfolio	**Total engagements: 54*** *This is based on the 2022 calendar year rather than the year to 30 November 2022.	Apollo uses an ESG credit risk assessment process to identify any significant risks to a company's long-term financial performance, as well as identify any company with strong ESG practices which present the opportunity for positive outcomes. Examples of significant engagements include: **Kiwi Holding IV S.A.R.L:** Apollo actively engaged with the company to include 2 sustainability-linked targets within the deal structure. The company's scope 1 and 2 emissions will be measured in line with the Greenhouse Gas ("GHG") Protocol and International Standards in relation to quantifying and reporting on emissions. It will have emissions targets of a 5% annual reduction flatlining at 20% from the end of 2025. The company will continue to provide Apollo with information and progress on GHG emissions and management diversity. **Air France-KLM**: Apollo engaged with the company to gather data on a project to show whether the engines included will contribute to the sustainability and decarbonisation goals. Air France will keep Apollo updated on their fuel use and emissions.
Aegon Absolute Return Bond Portfolio	**Total engagements: 27*** *This is based on the 2022 calendar year rather than the year to 30 November 2022.	As bond investors, Aegon do not have voting rights and therefore company engagement is a key part of the ESG process. Engagements are carried out on an ongoing basis as part of the risk analysis and due-diligence process. Aegon will identify key issues, including ESG factors, and look to encourage company management to implement best practices from an ESG perspective. In 2022, Aegon incorporated a number of sustainable regulatory initiatives which aim to standardise asset manager disclosures around sustainability.

		One of Aegon's significant engagements during the year includes working with energy company SSE. The engagement focused on climate change end ensuring their external climate policy engagement is in line with the Paris Agreement. The goal of the engagement is to encourage the company towards emissions reductions, better climate governance, and stronger disclosures. Other areas of engagement during 2022 included that relating to human capital management, biodiversity and pollution, and governance of an Information Technology company.
Alcentra Direct Lending Portfolio	**Total engagements: 40** (Engagements are those made by Alcentra rather than fund specific)	Alcentra have improved on their Fund-level engagement reporting to provide a number of engagements for specific topics. An example of a significant engagement is: **Consumer Markets Insights Provider**: Alcentra took ownership of the company and made ESG a key pillar to the company's strategy. Alcentra has helped to improve governance by ensuring an independent external non-executive director was appointed as the Chairman of the Board to help with better decision making. Alcentra has also implemented a new diversity and inclusion policy, and has set key performance indicators ("KPIs") based on community service, employee diversity and satisfaction. Alcentra will continue to monitor the progress against the set KPIs and continue improvements with the company's Board.
Schroders LDI	Schroders does not share a log of fund engagements for LDI portfolios (which is principally holdings in UK government bonds); however, they have provided qualitative information on their approach.	Schroders engage with a wide range of market participants on ESG issues, including existing and potential counterparty banks, the Bank of England, the Debt Management Office, governments, and clearing houses. Schroders actively engage on industry initiatives and regulation within the LDI sphere to represent views of clients to key public bodies and effectively deliver better outcomes for clients. They engage directly with various Government bodies such as the Bank of England on market liquidity and gilt issuance. The gilt market continued to innovate in the ESG sphere with green gilts being issued by the DMO in September and October. Other topics discussed in investor engagement include: - Possible green projects to signal the UK's climate ambitions to future generations. - How to promote public acceptance of green expenditure. - Robustness of metrics for measuring impact.
BlackRock Diversified Private Debt Fund	BlackRock does not share a log of fund engagements for private credit portfolios; however, they have provided qualitative information on their approach.	As with many private market funds, BlackRock do not yet produce regular engagement reporting for the DPD fund. However, they are proactively leading in the market to support middle-market companies with their reporting, permitting BlackRock to better engage on the topic. ESG criteria are integrated within the DPD fund's investment processes. BlackRock provide an annual mandatory ESG questionnaire to all borrowers. This monitors key ESG factors and helps to provide triggers for engagement where improvement is required.

Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 30 November 2022. The majority of the assets are credit based where there are no voting rights attached. The Scheme's equity mandate was invested in equity index derivative contracts rather than physical stocks, and therefore no voting rights were attached to the investment.

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