



# Implementation Statement

Charles Wells Directors' Pension  
Scheme – Year to 30 November 2021

# 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 required 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.
- 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 investment managers' approach to voting rights attached to investments. During the year to 30 November 2021 there were no voting rights attached to the investments, which are either credit based or through derivatives. This statement is therefore focused on the Trustee's and investment managers' approach to engagement.

The previous Implementation Statement, for the year to 30 November 2020, can also be found online using the web address above.

### **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 2021, the Trustee made changes to the investment strategy to further align the asset allocation with the Scheme's long-term objectives and reduce risk.

In August 2021, the Scheme made a commitment to an investment in the BlackRock Diversified Private Debt ("DPD") Fund. The purpose of the allocation is to rebalance the Scheme's allocation towards the 17.5% target for Private Credit. The allocation is expected to contribute towards meeting the Scheme's return requirements within an acceptable level of risk.

Following strong funding level improvement over the period, the Trustee decided to reduce risk by increasing the interest rate and inflation hedging from 80% to 90% of Technical Provisions liabilities. The increase in hedging is expected to lead to a more stable funding position over time, helping to secure the current strong position.

Further, following the reporting period, in December 2021 the Trustee de-risked the Scheme further by reducing the target equity exposure from 25% to 15% of Scheme assets. The change reduces the level of investment risk whilst retaining sufficient expected return to meet the Scheme's long-term objectives.

The SIP was updated after the reporting period, in December 2021, 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 regular 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.

ESG criteria were a key factor within the investment adviser's due diligence on the Scheme's new allocation with BlackRock over the reporting year and BlackRock has presented on their ESG approach to the Trustee.

### **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 2021 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.	<ul style="list-style-type: none"> <li>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</li> <li>Investing in a diversified portfolio of assets.</li> </ul>	<ul style="list-style-type: none"> <li>The Trustee monitors the performance of the Scheme's assets versus the investment objective on an ongoing basis.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The Trustee receives regular funding updates and has received a 30/11/2020 funding update.</li> <li>As part of the 30/11/2019 Actuarial Valuation process the Trustee received funding advice from the Scheme Actuary. An appropriate funding basis was agreed based on, amongst other considerations, the investment strategy.</li> </ul>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The Trustee receives regular updates on the financial performance of the sponsoring company.</li> <li>As part of the 30/11/2019 Actuarial Valuation process the Trustee received covenant advice from its advisers.</li> </ul>

# 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 2021 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% of these risks on the Technical Provisions basis through the LDI portfolio.	The target hedge was increased from 80% to 90% over the year to 30 November 2021, further reducing 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 and synthetic equity manager.	The Trustee monitors the level of liquid assets available to the LDI and synthetic equity 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.
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 2021. After year-end, in December 2021 the Trustee reduced the Scheme's equity exposure from 25% to 15%. The change significantly reduces market risk.
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 2021.

			<p>The Scheme's new allocation to the BlackRock Diversified Debt Fund manages credit risk through significant diversification across private credit strategies, alongside diversification of sectors and geographies.</p> <p>The Scheme's investment adviser meets with the Scheme's investment managers on a regular basis to monitor portfolio risk.</p>
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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion:</p> <ol style="list-style-type: none"> <li>1. Responsible Investment Policy / Framework</li> <li>2. Consideration of ESG factors integrated into investment process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> </ol> <p>The Trustee monitors the managers on an ongoing basis.</p>	<p>The Trustee has carried out an in-depth review of the investment managers' ESG policies and practices.</p> <p>The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies.</p> <p>ESG was considered a key factor as part of the due diligence on the new BlackRock mandate and ESG would be a key part of the investment criteria for any new mandates for the Scheme.</p>
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 December 2021, changes were made to the Trustee's SIP to reflect changes in the investment strategy.

The changes include the addition of the BlackRock Diversified Private Debt Fund. The investment will increase the allocation to Private Credit back towards the 17.5% target over time.

The SIP was updated to reflect the Trustee increasing the target level of interest rate and inflation hedging from 80% to 90% of Technical Provisions liabilities.

The SIP was also updated to reflect the Trustee's decision to reduce the target equity exposure from 25% to 15% 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.

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 BlackRock from an ESG perspective and has received an update on BlackRock's ESG policies over the reporting year.

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 2021 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:

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) 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 and derivative strategies (such as synthetic equity), 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. A further summary has been added for BlackRock which was invested in during 2021 and reviewed as part of the due diligence on the Fund.

Manager	ESG Summary
<b>Apollo Semi-liquid Credit Portfolio</b>	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.
<b>Aegon Absolute Return Bond Portfolio</b>	Aegon have demonstrated they have sufficient ESG specialists and a robust process for integrating ESG factors. However, evidence of engagement and reporting on ESG factors could be improved further.
<b>Alcentra Direct Lending Portfolio</b>	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.
<b>Schroders LDI and Synthetic Equity Portfolios</b>	Schroders have a strong team providing ESG support at a business level. However, the use of this ESG team within the LDI and Synthetic Equity mandates 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.
<b>BlackRock Diversified Private Debt Fund</b>	BlackRock incorporate material environmental, social and governance information into investment decisions with the objective of improving the financial outcomes of clients' portfolios.  The Fund has a satisfactory approach to ESG risks. However, the Fund could improve further by having a DPD-specific ESG policy (currently the wider BlackRock policy is used) and a greater level of ongoing reporting on ESG. BlackRock has, however, presented to the Trustee on ESG in significant detail over the reporting year.


# 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 2021, are included below.

Manager	Engagement summary	Commentary
Apollo Semi-liquid Credit Portfolio	<p><b>Total engagements: 43*</b></p> <p>*This is based on the 2021 calendar year rather than the year to 30 November 2021.</p>	<p>Apollo has a clear due diligence and engagement framework. The team continually engages with portfolio companies through discussions with management, and these engagements have been a key driver for the production of formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.</p> <p>Examples of significant engagements include:</p> <p><b>Adani Transmission Limited</b> - Apollo met with the company to discuss steps to improve a broad range of ESG issues. These included reducing exposure to coal, improved governance structures in the organisation and the appointment of a new CFO. As a result, the company aims to increase the proportion of renewable energy in its power mix and a Corporate Responsibility Committee has been set up for independent directors to discuss and be accountable for ESG commitments.</p> <p><b>Ecopetrol SA</b> – Apollo engaged with Ecopetrol and sought to understand how the business will reduce its reliance on fossil fuels. Ecopetrol confirmed that the acquisition of Interconexión Eléctrica (ISA) will be a key driver in reducing their reliance on fossil fuel extraction. ISA has some renewable energy assets already and post-acquisition Ecopetrol will be specifically looking to include hydrogen projects in the business's growth strategy.</p>
Aegon Absolute Return Bond Portfolio	<p><b>Total engagements: 45*</b></p> <p>*This is based on the 2021 calendar year rather than the year to 30 November 2021.</p>	<p>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.</p> <p>Aegon will identify key issues, including ESG factors, and look to encourage company management to implement best practices from an ESG perspective.</p> <p>Their most significant engagement during the year related to <b>Barclays plc</b>, specifically on their fossil fuel funding strategy.</p>



		<p>Aegon worked with a group of investors and the company to formulate a plan to meet a commitment to Net Zero by 2050. This includes setting hard targets for reducing exposure to the most carbon-intensive sectors, setting an annual carbon limit for funding activities, and amending policies relating to fracking and oil sands.</p>
<p><b>Alcentra Direct Lending Portfolio</b></p>	<p>Alcentra currently does not share a log of company engagements but have shared qualitative information on their approach.</p>	<p>Alcentra has engaged with each of its borrowers on a full range of ESG topics. Alcentra send out an annual engagement questionnaire which allows them to understand their borrowers' approaches to managing ESG risk (policies in place, priorities, initiatives, etc.) and measure engagement and progress through qualitative and quantitative metrics. Their response rate to date to the questionnaire has been 90% (100% when excluding those borrowers going through a sale or refinancing process) and they look to use these responses to further engage with borrowers. Where they can, they utilise their strong relationships with management teams and shareholders to ask questions, make recommendations and share their experiences around ESG in the private debt market. It is well documented that the shift towards ESG integration in private markets is not without its challenges, including issues around access to data and data standardisation. Through the questionnaire, they hope to overcome some of these data barriers. Further, they work with the European Leveraged Finance Association Private Debt Committee to advance ESG engagement and the unification of data standards across the market more generally.</p> <p>As lenders, they typically do not participate in voting, but where they do have a representative on the board, they would exercise their influence through such roles. In the limited occasions where they have equity holdings, they engage with the management team directly as well as sometimes via the board.</p>
<p><b>Schroders LDI and Synthetic Equity Portfolios</b></p>	<p>Schroders does not share a log of fund engagements for the LDI and Synthetic Equity portfolios; however, they have provided qualitative information on their approach.</p>	<p>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.</p> <p>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. Over 2021, the gilt market continued to innovate in the ESG sphere with green gilts being issued by the DMO in September and October.</p> <p>Other topics discussed in investor engagement include:</p> <ul style="list-style-type: none"> <li>- Possible green projects to signal the UK's climate ambitions to future generations.</li> <li>- How to promote public acceptance of green expenditure.</li> <li>- Robustness of metrics for measuring impact.</li> </ul>
<p><b>BlackRock Diversified Private Debt Fund</b></p>	<p>BlackRock currently does not share a log of company engagements but have shared</p>	<p>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</p>



qualitative information on their approach.

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.

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# Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 30 November 2021. The majority of the assets are credit based where there are no voting rights attached. The Scheme's equity mandate invests in equity index derivative contracts rather than physical stocks, and therefore no voting rights are attached to the investment.



