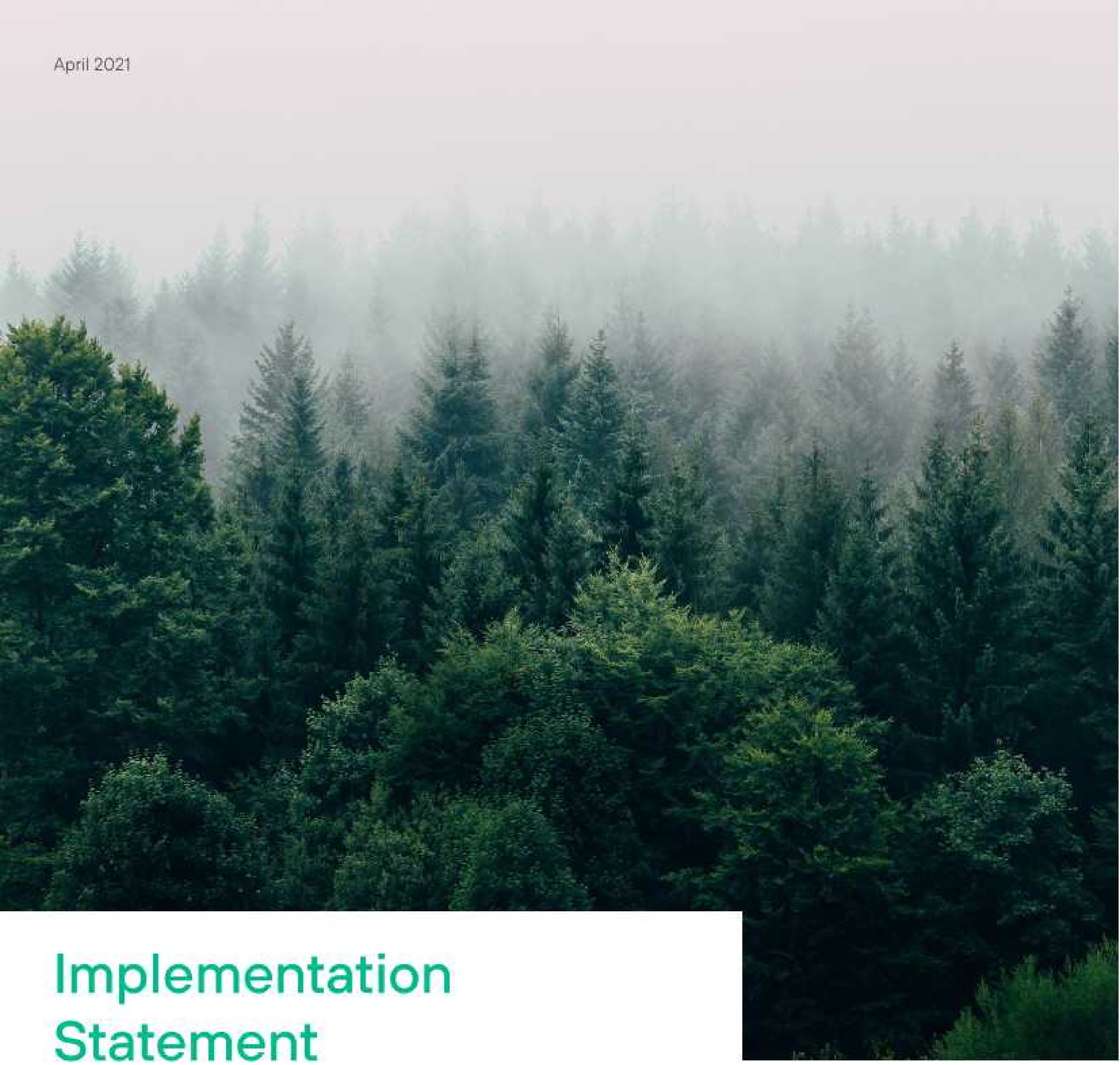
April 2021



Implementation Statement

Charles Wells Directors' Pension Scheme – Year to 30 November 2020

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Background to the 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 requires schemes 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 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.

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.

There were no changes to the Scheme's strategic asset allocation over the 12-month period to 30th November 2020.

Alongside traditional investment considerations, the Trustee receives regular reporting on ESG considerations. The Trustee reviewed the managers from an ESG perspective in 2019 and the Scheme's investment adviser regularly meets with the investment managers to review their ESG policies and practices.

The Trustee keeps the Scheme's SIP under ongoing review. There were no changes made to the SIP during the 12-month period to 30th November 2020 due to no strategic changes being made.

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.

Tom. F. Wells

Signed

Position **Director**

Date 24 September 2021

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 30th November 2020 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.
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.	• 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. • The Trustee receives regular funding updates.
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.	• As part of the 30/11/2019 Actuarial Valuation process the Trustee received covenant advice from its advisers. • The Trustee receives regular updates on the financial performance of the sponsoring company.

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 30th November 2020 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 80% of these risks on the Technical Provisions basis through the LDI portfolio.	The target hedge was maintained at 80% over the year to 30th November 2020.
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 30th November 2020.
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 30th November 2020. 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 carried out an in-depth review of the investment managers' ESG policies and practices during 2019. The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies. The Scheme made no new investment manager appointments over the period but will consider ESG factors in any future selection of investment managers.
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

There were no changes to the Trustee's Statement of Investment Principles ('SIP') over the 12-month period to 30th November 2020 as there were no changes in the Scheme's strategic asset allocation over the period.

The most recent changes to the Scheme's SIP were made during September 2019, which reflected changes to the investment strategy including the implementation of the Synthetic Equity mandate and the increase in liability hedging.

The September 2019 SIP update also included adding further policies on how the Trustee considers financially material matters such as ESG factors and how the Trustee incentivises the investment managers to align with its polices.

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 undertook a detailed review of the investment managers from an ESG perspective during 2019 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.

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 30th November 2020 is outlined later in this report.

ESG summary

The Trustee carried out a review of the Scheme's investment managers from an ESG perspective in July 2019 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.

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. However, evidence of engagement and reporting on ESG factors could be improved further.
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 and Synthetic Equity Portfolios	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.

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 30th November 2020, are included below.

Manager	Engagement summary	Commentary
Apollo Semi-liquid Credit Portfolio	Total engagements: 28* *This is based on the 2020 calendar year rather than the year to 30th November 2020.	Apollo has a clear due diligence and engagement framework. The team continually engages with portfolio companies through discussion 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. Examples of significant engagements include: **Clearway Energy** - Apollo met with the firm's CEO and CFO to discuss the efficiency of the company's existing renewable wind farms, as well as the acquisition of new renewable wind and solar powered projects. Following this engagement, the company intends to invest at least $300m in renewable energy projects during 2020. **Gannett Co. Inc.** - As part of the Apollo Term Loan, Apollo negotiated two board observer rights for the company that extend to board seats based on certain leverage thresholds. This enabled Apollo to have greater engagement rights regarding the overall governance structure of the company. Following on from this engagement, Apollo built upon their close relationship with the company in order to increase their involvement in the day to day operations of the business.
Aegon Absolute Return Bond Portfolio	**Total engagements: 40** Governance: 18 Social: 4 Environmental: 5 Environmental, Social and Governance: 4 Environmental and Governance: 6 General Disclosure: 3	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. Examples of significant engagements include:

		BHP Group Ltd – Aegon had several conversations with the company over the period, including discussing financial disclosures and their alignment to the Paris climate agreement. **Ford Motor Company** – Aegon engaged with Ford on a number of issues over the period including the impact of COVID-19 on the balance sheet and the knock-on effect on Ford's ability to pursue sustainability goals, specifically achieving efficiency standards in Europe. Ford's response included that they are investing $11.5 billion in Electrified Vehicles globally through 2022. **Tesco PLC** – Aegon joined a group of investors calling for supermarkets, food-to-go, packaging, and fast-moving-consumer goods companies to commit and take voluntary action to remove all PFAS (a chemical) from their food packaging. Tesco has recently confirmed their commitment to removing all PFAS from their food packaging.
Alcentra Direct Lending Portfolio	Alcentra currently does not share a log of company engagements but have shared qualitative information on their approach.	Alcentra has a designated ESG Working Group, comprised of senior professionals from across the firm, which meets to discuss credit specific issues and approach to ESG at a corporate level. During Q1 2020, Alcentra introduced an ESG Questionnaire, which is sent to borrowers during the investment process and has been circulated to investee companies for completion. The aim of the questionnaire is for Alcentra to gain a greater understand of the borrowers' approach to managing ESG risk including the policies that the company adheres to, for example, a Code of Conduct, Anti-Bribery and Corruption, Diversity and Equal Opportunity. The questionnaire also assesses any company specific ESG initiatives and measures in place to track ESG performance: e.g. energy consumption, water consumption, waste management. Alcentra has received a response rate of over 80% to date. Results demonstrate that policies such as Data Protection and Security, Diversity & Equal Opportunity, Occupational Health & Safety and Anti-Bribery and Corruption are in place for more than 90% of companies. The majority have explicit Whistleblowing, General Environmental, Employee Health and Wellbeing policies in place.
Schroders LDI and Synthetic Equity Portfolios	Total engagements: 86* *This is based on the 2020 calendar year rather than the year to 30 November 2020.	Schroders have a firmwide ESG policy and have shown evidence of regular engagement with the relevant public bodies over the past 12 months. This includes attending working groups on issues surrounding reforming LIBOR, issues with gilt and repo markets, and derivatives. Examples of significant engagements include: **Bank of England, HM Treasury**: Schroders had a number of meetings representing their clients' interests over the year on the topics of LIBOR and RPI reform.

Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 30/11/2020. 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.

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