



# HWG (2006) Limited Pension Plan Implementation Statement

May 2024

# Background and Implementation Statement

## Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

## Implementation Report

This implementation report covers the year to 31 December 2023 and is to provide evidence that the Plan continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address:

<https://hwgpension.co.uk/Public/RelevantDocuments>

Changes to the SIP are detailed on the following page.

The Implementation 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 in the investment mandate
- voting behaviour covering the reporting year up to 31 December 2023 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

## Summary of key actions undertaken over the Plan reporting year

- During the reporting period, the SIP was updated to reflect the new investment strategy and new regulatory requirements. Further details are set out later in this report;
- In addition, the LDI refinement exercise was completed in Q3 2023 and the target hedge ratios were reduced to 90% on a Technical Provisions basis for both interest rates and inflation;
- In order to bring the portfolio allocation closer to the strategic benchmark, the Trustee instructed a £5m redemption from the M&G Alpha Opportunities Fund in Q4 2023. The redemption was completed post reporting period.

#### Implementation Statement

This report demonstrates that the HWG (2006) Limited Pension Plan has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed by the Trustee

Date: 23 July 2024

# Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of these risks.	Over the reporting period, the Trustee undertook an LDI refinement exercise to ensure the Plan was in line with its target hedge ratio. This was implemented in Q3 2023.
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.	<p>Liquidity of the portfolio is monitored on a quarterly basis through the performance report.</p> <p>In Q4 2023, the Trustee reviewed the collateral adequacy of the Plan. To ensure sufficient liquidity in the portfolio, the Trustee instructed a £5m redemption from the M&amp;G Alpha Opportunities Fund with the majority of the proceeds being invested into the L&amp;G Absolute Return Bond Fund as additional collateral to support the LDI mandate in February 2024.</p>
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.	<p>The current investment strategy was agreed in Q2 2022. The investment strategy is expected to ensure the effectiveness and efficiency of the Plan's portfolio.</p> <p>The SIP reflects the current investment strategy. Further details are provided below.</p>

Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.</p>	This is considered as part of the investment strategy work.
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 Plan's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via 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 Trustees monitor the managers on an ongoing basis.</p>	<p>The SIP has been updated to reflect the new ESG regulations.</p> <p>Further details are provided later in this report.</p>
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Where possible, hedge all currency risk on all assets that deliver a return through contractual income.	<p>There is no direct currency risk within the Plan's investments, as all units are held in a Sterling share class.</p> <p>Indirect currency risk may exist within pooled vehicles if underlying investments are held in non-Sterling assets. Any potential currency risks are considered as part of the Plan's strategy reviews and investment selection exercises.</p>
Non-Financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention, or realisation of investments.	Any non-financial risks would be documented in the Plan's risk register.

# Changes to the SIP

During the Scheme year, the SIP was updated to reflect changes to the investment strategy and regulatory requirements relating to engagement and the exercise of voting rights.

## Policies added to the SIP

Date updated: 26 July 2023

Voting Policy - How the Trustees expect investment managers to vote on their behalf	<ul style="list-style-type: none"><li>• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their behalf.</li></ul>
Engagement Policy - How the Trustees will engage with investment managers, direct assets, and others about 'relevant matters'	<ul style="list-style-type: none"><li>• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf.</li><li>• The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.</li></ul>
Interest rates and inflation risk	<ul style="list-style-type: none"><li>• The Trustee updated the policy to hedge 90% of interest rate and inflation exposure of the liabilities measured on a Technical Provisions basis.</li></ul>

# Current ESG policy and approach

## ESG as a financially material risk

The SIP describes the Plan's policy with regards to ESG as a financially material risk. The Plan has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Plan's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none"><li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan.</li><li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.</li></ol>
Approach / Framework	<ol style="list-style-type: none"><li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li><li>4. ESG factors are relevant to investment decisions in all asset classes.</li><li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li></ol>
Reporting & Monitoring	<ol style="list-style-type: none"><li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li><li>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</li><li>8. The role of the Plan's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.</li></ol>
Voting & Engagement	<ol style="list-style-type: none"><li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li><li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li></ol>
Collaboration	<ol style="list-style-type: none"><li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li><li>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.</li></ol>

# ESG summary and actions with the investment managers

The Plan has not yet completed a Sustainability Integration Assessment and so we cannot provide a summary of the underlying manager's ESG policies.

# Engagement

As the Plan invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 December 2023.

Fund name	Engagement summary	Commentary
Alcentra European Direct Lending Fund II	<p>Total Engagements: 145</p> <p>Environment: 32</p> <p>Social: 22</p> <p>Governance: 6</p> <p>Other: 31</p> <p>Please note that the total engagement number above includes 54 ESG Questionnaires and covers Alcentra's Private Credit business as a whole.</p>	<p>Alcentra, as a signatory to the UK Stewardship Code, follows stewardship standards for asset owners and asset managers. In compliance with the Code, Alcentra reports their stewardship policies, processes and activities annually. Active engagement with portfolio companies is in place through company meetings, investor group discussions and/or written exchanges.</p> <p>Alcentra's ESG engagement efforts are aimed at improving disclosures, understanding risks, and encouraging sustainable practices among issuers in its portfolio companies.</p> <p>An example of a significant engagement includes:</p> <p>IoT provider</p> <p>The Company separated from its wider group with the support of Alcentra. However, the associated resources were retained by the former parent company, as such the Company lacked strong ESG infrastructure.</p> <p>As Alcentra holds a board observer position with the business, an additional meeting was arranged prior to the scheduled board meeting, between the Alcentra Investment team and the CEO and CFO to discuss ESG Strategy with the Group.</p> <p>Following the engagement, the Company has set up an ESG Committee - which consists of the CFO and, additional members of the business who have volunteered to act on the committee. Further discussions on ESG considerations, such as implementation of an ESG margin ratchet, is currently ongoing between Alcentra and the Company.</p>
LaSalle Real Estate Debt Strategies III	<p>Total Engagements: 4</p> <p>Environmental: 2</p> <p>Other: 2</p>	<p>LaSalle is a real estate asset management house thus they do not have management control over the underlying assets. Therefore their ability to dictate ESG initiatives at the asset level is limited. However, LaSalle works with clients and stakeholders to implement ESG strategies at portfolio and asset level. They also engage with industry bodies to drive market standards.</p> <p>An example of a significant engagement includes:</p> <p>Nobu Hospitality LLC</p>

		<p><u>BREEAM In-Use Assessment / Green Tourism Eco-Certification:</u></p> <p>LaSalle engaged with Nobu Hospitality LLC, in its capacity as Manager of Nobu Shoreditch and on behalf of Willow Corp Sarl (the owner of the property), to mandate Mission Net Zero (MNZ) in 2022 to assist with achieving:</p> <ol style="list-style-type: none"> <li>1) a BREEAM Excellent rating (in-use)</li> <li>2) a silver rating on Green Tourism.</li> </ol> <p>LaSalle mandated an external asset manager to support monitoring the progress made in achieving the above ratings.</p> <p>In January 2024, a rating of BREEAM Excellent and a gold rating on Green Tourism were awarded. The gold rating on Green Tourism exceeded LaSalle's original plan of silver.</p> <p><u>Sustainability Metrics and KPIs:</u></p> <p>Over 2022, LaSalle engaged with Nobu Hospitality LLC to implement the Greenview Portal System. This is a sustainability management system which allows Nobu to collect sustainability data, track and improve the sustainability performance of the hotel over time. The portal system also enables Nobu to communicate sustainability achievements supported by quantifiable impact metrics and stories.</p>
LGIM LDI Fund Range	<p>LGIM were unable to provide details of engagement for the LDI funds held.</p>	<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> <p>Details of LGIM's engagement policies can be found on their website: <a href="#">Investment stewardship &amp; governance   LGIM Institutional</a></p> <p>LGIM were unable to provide examples of significant engagement.</p>
LGIM Absolute Return Bond Fund	<p>Total Engagements: 278</p> <p>Environmental: 124</p> <p>Social: 34</p> <p>Governance: 84</p> <p>Other: 36</p> <p>Please note that the engagement data above covers multiple engagements with one company.</p>	<p>LGIM have a strong and integrated ESG approach for pooled funds which follows a robust framework.</p> <p>At a firm level, LGIM regularly monitor companies and where engagements are unsuccessful, the team will assess where problems arose and new approaches to be employed. LGIM engage with regulators, governments, and other industry participants to address long-term structural issues.</p> <p>LGIM currently do not provide details of their engagement activities at Fund level, however the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting.</p>
M&G Alpha Opportunities Fund	<p>Total Engagements: 9</p> <p>Environment: 6</p> <p>Social: 1</p> <p>Governance: 2</p>	<p>M&amp;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&amp;G monitor the success of engagements</p>

by assessing whether they have met their objective and log this on a central system.

Examples of significant engagements include:

Yara International ASA

Net Zero Emissions:

M&G engaged with Yara International ASA, a Norwegian chemical company, to encourage them to make a comprehensive commitment to reducing carbon emissions to net zero by 2050 or sooner. This covered all relevant business areas and all material greenhouse gas (GHG) emission scopes (1, 2 and 3). As part of a collective engagement with other investors through the IIGCC NZEI engagement initiative, M&G sent a letter to the Company to make their expectations known. M&G are currently waiting to hear back from the company.

Decarbonisation Levers:

As part of a collective engagement with NZEI, M&G engaged with YARA to request that the company discloses more granularity regarding their decarbonisation levers beyond the 2030 roadmap, including metrics to measure progress towards their targets. Additionally, M&G have requested that Yara publishes a verified scope 3 target through SBTi.

Yara have confirmed that they will explore ways to report more on their milestones, metrics, and abatement levers, although some information may be sensitive due to their position as a large player in renewable energy. M&G will have ongoing dialogue with Yara and provide suggestions for Yara's transition plan at the end of 2024.

# Voting

As the Plan has no equity holdings, there is no voting data to report.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.