

Lucideon Group Pension Scheme

Statement of Investment Principles – Implementation Statement

The purpose of this Statement is to provide information which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated 15 December 2022 have been implemented.

It also includes the Trustees' voting and engagement policies, as well as details of any review of the SIP during the year, subsequent changes made and the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustees, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 January 2022 to 31 December 2022.

Investment Objectives of the Scheme

The Trustees' objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objective set out in the Statement of Funding Principles.

The Trustees' primary objectives are set out on page 2 of the SIP and are as follows:

- To ensure that the assets are of a nature to enable the Trustees to meet the Scheme's benefits as they fall due.
- To invest the Scheme's assets in an appropriately diverse and liquid range of investments.
- To invest in a way that is consistent with the Scheme's funding objectives, i.e. to invest so that the investment return assumptions used to determine the Trustees' funding plan have a reasonable chance of being achieved in practice.
- To target a limit of exposure to downside equity-like risk of around 25% of the Scheme's assets.
- To target a level of hedging of 100% of the risk to funding associated with the impact of changes in long-term interest rates and future inflation expectations, on the Scheme's Technical Provisions, assuming the Scheme to be fully funded.
- Where future opportunities arise to reduce risks in such a way that it does not invalidate the Trustees' funding plan, the Trustees will consider steps to further reduce the volatility of the Scheme's funding position relative to its liabilities calculated under the SFO.

The Trustees appreciate that these objectives are not necessarily mutually exclusive.

The Trustees also recognise that it is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

Review of the SIP

The SIP was last reviewed in December 2022. The Trustees updated the SIP to reflect changes in the Scheme's investment strategy that were made over the year, which are detailed in the section below.

Prior to this, the SIP had last been updated in October 2019 to take account of new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustees have a policy on financially material considerations relating to ESG issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out later in this Statement and are detailed in the Trustees' SIP.

The Trustees' policies on financially and non-financially material considerations, as well as engagement and voting activities, were not updated in the revised SIP that came in force during the year.

Investment managers and funds in use

At the start of the year, the Trustees' investment strategy was as shown in the below table. This differed from the SIP in force at the start of the year as the Trustees had made an interim change to their investment strategy, due to the closure of the Barings Dynamic Asset Allocation Fund previously used by the Scheme, whereby the SIP would be updated following the completion of any wider restructuring.

Asset Class	Fund	Target Asset Allocation
Risk-controlled multi-asset	Baillie Gifford Diversified Growth Fund	40.0%
Risk-controlled multi-asset	LGIM Dynamic Diversified Fund	40.0%
Liability Driven Investment (LDI)	LGIM Matching Core Funds	20.0%
Total		100.0%

During the year, the Trustees implemented a revised investment strategy, which is shown in the table below. This investment strategy is reflected in the SIP in force at the year end, dated 15 December 2022.

Asset Class	Fund	Target Asset Allocation
Risk-controlled multi-asset	Baillie Gifford Diversified Growth Fund	16.0%
Risk-controlled multi-asset	LGIM Dynamic Diversified Fund	24.0%
Private markets	The Partners Fund	10.0%
Investment grade corporate bonds	LGIM Maturing Buy & Maintain Credit Funds	20.0%
LDI solution	LGIM Absolute Return Bond Fund	30.0%
	LGIM Matching Core Funds	
Total		100.0%

Investment Governance

The Trustees are responsible for making investment decisions, and seek advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP as the Trustees' primary objective is to meet the benefits of the Scheme as they fall due, and the current investment strategy in place is intended to meet this objective. In addition, the Trustees note that the Scheme is comprised of a diverse membership, which the Trustees expect to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

The Trustees have put in place strategic objectives for Broadstone, as the Trustees' investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were reviewed by the Trustees on 2 December 2022. These objectives cover demonstration of adding value, delivery of specialist investment consultancy services, proactivity of investment consultancy advice, support with scheme management, compliance and service standards.

Trustees' Policies

The table below sets out how, and the extent to which, the relevant policies in the Scheme's SIP have been followed:

Requirement	Policy	Implementation of Policy
Selection of Investments	<p>The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to, UK equities, overseas equities, government bonds, corporate bonds, commercial property, and alternative asset classes, such as hedge funds, private equity and infrastructure.</p> <p>The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.</p> <p>The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.</p> <p>The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part, or all, of the future liabilities due from it.</p> <p>The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.</p>	No deviation from this policy over the year to 31 December 2022.
Balance of Investments	<p>The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting the Scheme's investment objectives.</p> <p>The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities, or relevant regulations governing pension scheme investment.</p>	No deviation from this policy over the year to 31 December 2022.
Delegation to Investment Managers	The Trustees will delegate the day-to-day management of the Scheme's assets to professional Investment Managers and will not be involved in the buying or selling of investments.	No deviation from this policy over the year to 31 December 2022.
Realising Investments	The Trustees make disinvestments from the Investment Managers with the assistance of their administrator, Broadstone, as necessary, to meet the Scheme's cashflow requirements.	No deviation from this policy over the year to 31 December 2022.

Maintaining the Target Asset Allocation	<p>The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and Target Hedging Ratios. The Trustees monitor the asset allocation on a regular basis with the assistance of their investment adviser, Broadstone, and will consider switching assets between funds should the characteristics of the strategy move significantly away from that intended.</p>	<p>The Scheme's asset allocation deviated from the SIP in force at the start of the year as a fund previously used had closed and the SIP had not been updated, though the overall allocation between asset classes remained consistent with the SIP. Following a review of the Trustees' investment strategy and revision of the SIP, the Scheme's investment strategy was consistent with the SIP in force as at 31 December 2022.</p>
Performance Benchmarks and Objectives	<p>The multi-asset, private markets, corporate bonds, and absolute return bond funds used are actively managed and the investment managers have been set Performance Objectives to achieve returns in line with, or in excess of, a benchmark.</p> <p>The LDI funds have an objective to provide a prescribed level of hedging against changes in the value of the liabilities of a typical defined benefit pension scheme caused by interest rate and inflation risks. The practical method of implementing this level of hedging is delegated to the Investment Manager, with the expectation that the Investment Manager will choose the most cost-effective method.</p>	<p>No deviation from this policy over the year to 31 December 2022. The Scheme's hedging levels were broadly in line with their target as at 31 December 2022.</p>
Investment Management Charges	<p>The investment management charges of the funds used are set out on page 6 of the SIP.</p>	<p>No deviation from the management charges over the year to 31 December 2022.</p>
Financially and Non-Financially Material Considerations	<p>The Trustees' policy on financially and non-financially material considerations is set out on page 9 of the SIP and in full below.</p>	<p>No deviation from this policy over the year to 31 December 2022 (see below).</p>
Engagement and Voting Rights	<p>Responsibility for engagement with the issuers of the Scheme's underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustees can therefore only influence engagement and voting policy indirectly.</p> <p>The Investment Managers provide information to the Trustees on their actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Managers.</p>	<p>No deviation from this policy over the year to 31 December 2022 (see below).</p>
Additional Voluntary Contributions (AVCs)	<p>Members are not currently permitted to make AVCs to the Scheme.</p> <p>AVCs previously paid by members are invested with Prudential Assurance Company Limited. These arrangements will be reviewed by the Trustees from time to time to ensure that they continue to remain appropriate.</p>	<p>No deviation from this policy over the year to 31 December 2022.</p>

Financially and non-financially material considerations

The Trustees recognise that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets. The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustees have an expectation that the Investment Managers will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.

The Trustees' views on how ESG issues are taken account of in each asset class used is set out on page 9 of the SIP.

The Trustees do not currently impose any specific restrictions on the Investment Managers with regard to ESG issues, but will review this position from time to time. The Trustees receive information from the Investment Managers on request on their approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a longer-term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area with their investment adviser.

Voting rights and engagement activities

The Trustees currently invest in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have any legal right to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

However, the Trustees periodically meet with their investment managers, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustees. As part of this, the Trustees will seek to challenge their investment managers on these matters where they think this is in the best interests of members.

Out of the funds held by the Trustees over the year, the Baillie Gifford Diversified Growth Fund and the LGIM Dynamic Diversified Fund contain publicly listed equity holdings. These funds have voting rights attached to the underlying equities held within the funds, and the Trustees have delegated these voting rights to the managers, where each manager sets its own voting policy. A summary of the votes made by the managers from 1 January 2022 to 31 December 2022 on behalf of the Trustees for each fund used by the Trustees during the year was requested from the respective managers. We requested that the managers provide voting data broken down into Environmental, Social and Governance categories. However, the managers have informed us that the data is not yet available in this format. We will continue to request the breakdown of this data in future periods. The data in the table below is therefore provided at total fund level.

Manager	Fund	Resolutions Voted On	Resolutions Voted:		
			For	Against	Abstained
Baillie Gifford	Diversified Growth Fund	1,092	95.7%	3.5%	0.8%
LGIM	Dynamic Diversified Fund	98,021	77.6%	21.7%	0.7%

All of the Scheme’s assets are invested in pooled funds. Information regarding proxy voting, for managers where the Scheme invests in a fund which has voting rights, is detailed below:

- Baillie Gifford do not use a proxy-voting service and voting is performed in-house.
- LGIM do not use a proxy-voting service and voting is performed in-house.

The Trustees have requested details of the significant votes made on behalf of the Trustees by each manager of a fund in which the Scheme invests which has voting rights. In determining significant votes, each manager’s Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at the manager’s annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an any manager engagement campaign, for example in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

Significant votes

The Trustees believe the following are the most significant votes undertaken on their behalf over the scheme year:

SIGNIFICANT VOTE 1	
Investment Manager	Baillie Gifford
Company	Greggs plc
Date of vote	17 May 2022
Resolution	Shareholder Resolution – Remuneration
Why significant	Baillie Gifford believe this resolution is significant because they opposed the structure and level of the remuneration changes proposed.
Voting decision	Voted Against
Manager comments	We voted against the remuneration report due to concerns over executive pay increases and misalignment of pension rates. Following casting a vote, we reached out to the Company to provide reasons for our opposition on the remuneration report and ask for clarification on pay setting for the CEO. The Company acknowledged our feedback on pensions and pay increases for one executive and explained how the new CEO's salary was set.
Vote outcome	The proposal was voted for by the majority.

SIGNIFICANT VOTE 2	
Investment Manager	LGIM
Company	Apple
Date of vote	4 March 2022
Resolution	Report on Civil Rights Audit
Why significant	LGIM consider proposals relating to diversion and inclusion policies to be a material risk to companies.
Voting decision	Voted For
Manager comments	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
Vote outcome	The proposal was carried by the majority of shareholders.

Engagement activities

The Trustees have also delegated engagement activities to the Investment Managers. The notable engagement activities of the investment managers are provided below:

- **Baillie Gifford** engaged with Alibaba to seek improvement in their ESG reporting, which had been minimal since its first report in 2018. The company offered encouraging responses to the request and committed to a comprehensive report in 2022. In December 2021 Alibaba delivered a strong climate report with strong targets for scope 1 emissions, with more to come in 2022.
- **LGIM's** Investment Stewardship and Climate Solutions teams spoke directly with the management of Capricorn, a smaller-scale oil and gas company who announced their intention to merge with other energy companies in 2022, which had raised some concerns about the company's governance and decision-making process. LGIM voiced their concerns about the first proposed transaction to African-based Tullow Oil, as it did not seem to advance the energy transition strategy for Capricorn's shareholders, in light of the increased exposure to oil prices and geographical risks. Additionally, LGIM believed that such a merger would have resulted in increased financial leverage and dramatically elevate climate transition risks. In further conversations with Capricorn, LGIM asked detailed questions about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Nevertheless, despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger before a decision was taken by Capricorn to abandon it, citing concerns about market conditions and external factors as the reason. A second merger proposal with NewMed, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first. LGIM met again with Capricorn to voice their concerns. As a result of these unpopular proposals Palliser Capital, a key shareholder of Capricorn, called an Extraordinary General Meeting in January 2023 for shareholders to vote on a complete overhaul of the Capricorn Board of Directors.

The Trustees also consider an investment manager's policies on stewardship and engagement when selecting and reviewing investment managers.

Monitoring of Investment Arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustees receive performance reports on a quarterly basis from Baillie Gifford and LGIM, together with performance reports from Broadstone on a quarterly basis to ensure the investment objectives set out in their SIP are being met.

Signed: *Peter Langdon*

Date: 4/5/2023

On behalf of the Trustees of the Lucideon Group Pension Scheme