

Carter Thermal Industries Pension Scheme Implementation Statement for the year ended 31/12/2023

Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustees of the Carter Thermal Industries Pension Scheme (“the Scheme”) have followed their policy in relation to the exercising of rights (including voting rights) attached to the Scheme’s investments, and engagement activities during the year ended 31/12/2023 (“the reporting year”). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Background

The Scheme’s SIP was last reviewed and amended in May 2023 to reflect changes to the investment strategy. Additional wording was also included in the ‘Responsible Investment’ chapter of the SIP to ensure alignment with the DWP’s expectations, identifying how the Trustees will monitor and engage with the managers. The updated SIP notes that in order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager’s compliance with best practice stewardship standards. Relevant updates to the Scheme’s fund list stated in the appendix have also been made, following strategic allocation changes.

This version of the SIP was relevant throughout the whole of the reporting year. This review enabled the Trustees to consider how to update their policy in relation to ESG and voting issues.

How the SIP has been followed during the year

During the reporting year the Trustees are satisfied that they followed the investment policies in the following ways:

- Kind of investments to be held. The Trustees will seek to achieve a balance between return seeking asset assets and liability matching assets consistent with the profile of the members of the Scheme and the profile of the liabilities.
- Balance between different investments. The Trustees policy is to invest in a diversified portfolio of return seeking and liability matching assets in line with the benchmark allocation specified in Appendix I of the SIP. The benchmark allocation within the SIP has now been updated in 2023 to reflect the agreed strategic allocation following the investment strategy review that took place during the previous reporting year. The funds held at year end incorporate assets held with the objective of outperforming the Scheme’s liabilities (growth assets) and assets held with the objective of responding to changes in interest rates and inflation in the same way as the liabilities to minimise volatility of the funding position (matching assets). During the reporting year, the Scheme maintained allocations to the LGIM Global Diversified Credit SDG Fund, the LGIM Buy & Maintain Credit Fund and LGIM LDI portfolio, in line with the agreed strategic benchmark.
- Risks (measurement and management). The Trustees receive strategic investment advice from the Investment Consultant that includes risk modelling and quantification (e.g. Value at Risk) whenever strategic changes are considered. The Trustees consider each Investment Manager’s role and approach to managing risk as part of the

ongoing monitoring of such managers. The Trustees measure the asset returns relative to the benchmark, objective and the volatility of returns. In addition, the Trustees regularly review each Investment Manager's approach to risk within each fund in order to highlight any unintended risk being taken. The Trustees regularly review the asset allocation. During the reporting year, the Trustees recalibrated the LDI portfolio to increase the hedge to c.100% of changes in interest rates and inflation expectations against the total liabilities on a 2020 Technical Provisions Basis. This was implemented in Q1 2023.

- Meeting the expected level of investment return. The Trustees policy is to invest in a mixture of assets such that future investment returns will at least meet the rate of return underlying the Recovery Plan.
- Realisation of Investments. The Trustees recognise that assets may need to be realised to meet the Scheme's obligations and will ensure that an appropriate amount of readily realisable assets are held at all times. The Trustees also take into account how easily investments can be realised for any new investment classes it considers investing in, to ensure that this position is maintained in the future. The Trustees hold cash to the extent that it considers necessary to meet impending anticipated liability outflows and to be used as the collateral pool for the leveraged Liability Driven Investments ("LDI").
- Ongoing governance of the Scheme's investment strategy. The Trustees, with the assistance of the Investment consultant, monitor the processes and operational behaviour of the Investment Managers throughout the reporting year, to ensure they remain appropriate and in line with the Trustees requirements.
- ESG (including climate change). The Trustees policy is to delegate the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees monitor how ESG and climate change considerations are integrated within the investment processes adopted by its Investment Managers and considers these issues as part of the criteria when appointing new Investment Managers.
- Non-financial matters. The Trustees policy is to act in the best interests of the beneficiaries of the Scheme when selecting, retaining or realising investments. The Trustees have neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees seek professional advice in relation to the management of the assets of the Scheme to ensure that the decisions are made in the best interests of Scheme's beneficiaries.
- Voting rights. The Trustees have delegated responsibility for the exercise of rights attached to the Scheme's investments to the Investment Managers. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.
- Stewardship. The Trustees encourage the Investment managers to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees monitor how stewardship is integrated within the investment processes adopted by the Investment managers and considers this when appointing new Investment Managers. During the reporting year, following an update to the Statement of Investment Principles in May 2023, additional wording was included in the 'Responsible Investment' chapter identifying explicit ways in which sufficient oversight of the engagement, and voting practices of managers can be achieved. This considers greater communication with managers to encourage and discuss engagement that has taken place and assessment of the stewardship credentials of the manager.
- Arrangements with Investment Managers. Appointments of investment managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities. These reviews include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies. Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees' policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.
- Portfolio costs. The Investment Managers are remunerated by receiving a percentage of the Scheme's assets under management and, in some cases, through the application of a flat fee. Manager's remuneration is taken into consideration during manager selection exercises, to ensure the Scheme is not paying excessive fees that would

detract from the Scheme's return. The Trustees are satisfied that they followed this policy over the reporting year. The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.

- Conflicts of interest. The Trustees encourage investment managers to engage with investee companies and vote whenever it is practical to do so on financially material matters such as conflicts of interest policies. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

Manager selection exercises

One of the main ways in which the ESG policy is expressed is via manager selection: the Trustees seek advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. The Scheme undertook an investment strategy review and manager selection exercise, and implemented its credit-based strategy during the previous reporting year. No manager selection exercises were undertaken in the current reporting year.

Ongoing governance

The Trustees, with the assistance of XPS, monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this statement. Further, the Trustees have set XPS the objective of ensuring that any selected managers reflect the Trustees' views on ESG (including climate change) and stewardship.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on factors including developments within the industry. In particular, whilst the Trustees have not, to date, introduced specific stewardship priorities, they will monitor the results of those votes deemed by the managers to be most significant in order to determine whether specific priorities should be introduced and communicated to the managers. Stewardship and ESG matters are therefore regularly discussed at Trustees' meetings.

The Trustees encourage Investment Managers to make decisions in the long-term interests of the Scheme. The Trustees expect engagement with management of the underlying issuers of debt or equity and the exercising of voting rights. This expectation is based on the belief that such engagement can be expected to help Investment Managers to mitigate risk and improve long term returns. The Trustees also require the Investment Managers to take ESG factors and climate change risks into consideration within their decision-making as the Trustees believe these factors could have a material financial impact in the long-term. The Trustees therefore make decisions about the retention of Investment Managers, accordingly.

The Investment Managers are remunerated by receiving a percentage of the Scheme's assets under management and, in some cases, through the application of a flat fee. Currently a performance fee does not apply to the assets the Scheme invests in.

Investment Managers are incentivised to perform in line with expectations for their specific mandate as their continued involvement as Investment Managers as part of the Scheme's investment strategy – and hence the fees they receive – are dependent upon them doing so. They are therefore subject to performance monitoring and reviews based on a number of factors linked to the Trustees' expectations, including the selection / deselection criteria set out in the SIP.

Voting activity

As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest. The Trustees therefore delegate responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of

their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.

If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.

When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought nor taken into account the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.

In order to ensure sufficient oversight of the engagement and voting practices of their managers, the Trustees may periodically meet with their investment managers to discuss engagement which has taken place. The Trustees will also expect their investment adviser to engage with the managers from time to time as needed and report back to the Trustees on the stewardship credentials of their managers. The Trustees will then discuss the findings with the investment adviser, in the context of their own preferences, where relevant. This will include considering whether the manager is a signatory to the UK Stewardship Code. The Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

The main asset class where the investment managers have the ability to engage with voting rights is equities, as it represents the equity ownership and shareholder's stake within the underlying business. This can include equity funds and multi-asset funds which invest in equities. There are typically no voting rights for credit-based assets or funds that invest into them.

During the previous reporting year the Trustees conducted an investment strategy review, and as a result the Scheme fully disinvested from its holdings in equity and multi-asset funds, in favour of funds holding credit-based assets. Because of this, the Scheme had no significant voting activity to declare in the current reporting year.