

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 2023 to 31 December 2023.

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 to 31 December 2022.

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

The Trustees have a policy of financial 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 during the year.

Investment managers and funds in use

The investment funds used are set out in the table below, which reflects the 2022 SIP:

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 LGIM Matching Core Funds	30.0%
Total		100.0%

There have been no changes to either the investment managers or the target asset allocation for the Scheme's invested assets over the year.

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 objectives for Broadstone, as the Trustees' investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were last 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 2023.
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 2023.
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 2023.
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 2023.

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>There have been no deviations from the policy over the year to 31 December 2023.</p> <p>Whilst the hedging levels provided by the assets were broadly in line with target as at the year end, the overall asset allocation had deviated from its target. It is anticipated that the overall asset allocation will be reviewed during 2024, in conjunction with the Scheme's 1 January 2024 actuarial valuation.</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 2023, however the Scheme held no investment in the absolute return bond fund as at the year end.</p> <p>The Scheme's hedging levels were broadly in line with their target as at 31 December 2023.</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 2023.</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 2023 (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 2023 (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 2023.</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 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.

The Trustees' views on how ESG issues are taken account of in each asset class used is set out below:

Asset Class	Actively or Passively Managed?	Comments
Multi-asset funds	Active	The Trustees expect the investment managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use their discretion to generate higher risk-adjusted returns. The Trustees also expect their investment managers to engage with the underlying investee companies, where possible, although they appreciate that fixed income assets within the portfolio do not typically attract voting rights.
Private markets	Active	The Trustees expect the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk-adjusted returns. The Trustees also expect their investment manager to engage with the investee companies, where possible, to improve matters surrounding ESG.
Bonds	Active	The Trustees expect the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk-adjusted returns. The Trustees also expect their investment manager to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights.
LDI Solution	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

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 2023 to 31 December 2023 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. The Trustees 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	665	97%	3%	-
LGIM	Dynamic Diversified Fund	101,061	77%	23%	-

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.

Significant votes

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 any manager engagement campaign, for example in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

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	Nextera Energy Inc.
Date of vote	18 May 2023
Percentage of portfolio invested in	0.05%
Resolution	Shareholder Resolution – Social
Why significant	Baillie Gifford believe this resolution is significant because it was submitted by shareholders and received more than 20% support.
Voting decision	Voted for
Manager comments	<i>“We supported a shareholder resolution requesting the company report on median pay gaps across race and gender. We believe that additional disclosure would allow shareholders to better assess the internal equity of pay and would also allow comparability over time and across organisations.”</i>
Vote outcome	Resolution Failed

SIGNIFICANT VOTE 2	
Investment Manager	LGIM
Company	Shell Plc
Date of vote	23 May 2023
Percentage of portfolio invested in	0.28%
Resolution	Approve the Shell Energy Transition Progress
Why significant	LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant particularly when LGIM votes against the transition plan.
Voting decision	Voted against
Manager comments	<i>“We acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company’s leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations.”</i>
Vote outcome	Resolution Passed

Engagement activities

The Trustees have also delegated engagement activities to the Investment Managers. A notable engagement activity from each investment manager is provided below:

- **Baillie Gifford** met with management from China Longyuan Power Group Corporation Limited, the largest wind power producer in China, to discuss climate-related matters. Baillie Gifford reached out to commend the company for disclosing its Scope 1 and 2 emissions in its 2022 ESG report, increasing transparency, whilst also requesting details regarding timelines for disclosure of Scope 3 emissions and urging the company to make a formal commitment to an emissions reduction target.

The meeting confirmed to Baillie Gifford that whilst the company seems to be making progress in improving its environmental management and disclosure, this is slow and short-term progress in nature, given the environmental materiality of its operations. Baillie Gifford would have expected more to have been done to link the company's objectives to be a wind power leader and China's overarching and longer-term net zero ambition, though note the company's plans to reduce use of coal in the coming years will significantly reduce their carbon emissions.

Baillie Gifford advise that what they have learned from this engagement will contribute to an ongoing review of the investment case for the asset holding.

- **LGIM** met with the management team of Heidelberg Cement, a large international cement producer, during the year to discuss the progress and economic viability of the company's planned carbon capture and storage (CCS) projects. LGIM note that cement production is responsible for around 8% of global carbon emissions each year, and therefore believe the cement industry needs to decarbonise significantly for the world to reach net zero carbon emissions. As a result, the sector is designated as 'climate critical' by LGIM.

Heidelberg believes it has an industry leading decarbonisation policy as well as first-mover advantage in CCS. LGIM raised questions regarding the relative costs and economics of CCS, external factors affecting viability of CSS projects (such as possible regulation or government subsidisation), and expectations of demand for 'carbon-free' cement.

LGIM will continue to engage with Heidelberg Cement as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg Cement, LGIM believes CSS will only become economical when met with either an increase in the price of permits for generating carbon emissions, or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management going forwards.

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: 19/6/2024

On behalf of the Trustees of the Lucideon Group Pension Scheme