

# Dawn Somerset Retirement and Death Benefit Scheme

## Statement of Investment Principles – Implementation Statement

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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 23 September 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 April 2023 to 31 March 2024.

### 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 liabilities as they fall due.
- To invest in assets of appropriate liquidity and diversity, which will generate income and capital growth to meet, together with contributions from the sponsoring employer, the benefits which the Scheme provides;
- 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 Scheme have a reasonable chance of being achieved in practice.
- Where future opportunities arise to improve protection against the interest rate risk and inflation risk associated with the valuation of the Scheme's Technical Provisions without adversely affecting their 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.
- Over the longer term to bring the Scheme into a position where it has a strong funding position and relatively a low-risk investment strategy.

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 Trustees did not review the SIP during the year. The SIP was last reviewed in September 2022, following which the SIP was updated to take account of the change in investment strategy.

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 SIP in force during the year.

## Investment managers and funds in use

During the year, the Trustees' investment strategy was as shown in the table below, which reflects the Trustees' SIP.

Asset Class	Fund	Target Asset Allocation
Multi-asset	LGIM Dynamic Diversified Fund	30.5%
	Threadneedle Dynamic Real Return Fund	30.5%
Long-dated gilts	LGIM 2065 Gilt Fund	39.0%
	LGIM 2068 Gilt Fund	
	LGIM 2071 Gilt Fund	
	LGIM 2062 Index-Linked Gilt Fund	
	LGIM 2068 Index-Linked Gilt Fund	
	LGIM 2073 Index-Linked Gilt Fund	
<b>Total</b>		<b>100%</b>

## Investment governance

The Trustee board is responsible for making investment decisions, and seeks advice as appropriate from Broadstone Corporate Benefits Limited ("Broadstone"), as the Trustees' investment consultant.

The Trustees do not actively obtain the views of the membership of the Scheme to help form their policies set out in the SIP as 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. The objectives put in place for Broadstone were reviewed in December 2022, and are next due to be reviewed by December 2025, or earlier. 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.

There were no changes to the investment management agreements with LGIM or Threadneedle during the year.

## 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
<b>Selection of Investments</b>	<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 March 2024.
<b>Balance of Investments</b>	<p>The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their 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 employer 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 March 2024.
<b>Delegation to Investment Managers</b>	<p>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.</p>	No deviation from this policy over the year to 31 March 2024.
<b>Realising Investments</b>	<p>The Trustees make disinvestments from the Investment Managers with the assistance of their administrators, Broadstone, as necessary, to meet the Scheme's cashflow requirements.</p>	No deviation from this policy over the year to 31 March 2024.
<b>Maintaining the Target Asset Allocation</b>	<p>The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation, and the hedging levels relative to the Target Hedging Ratios. The Trustees monitor the asset allocation and hedging ratios on a periodic basis with the assistance of their investment adviser, and will consider switching assets as appropriate.</p>	No deviation from this policy over the year to 31 March 2024.

<b>Performance Benchmarks and Objectives</b>	<p>The multi-asset funds used by the Trustees are actively managed, with specific risk and return objectives.</p> <p>The single-stock government bond funds invest in gilts and index-linked gilts issued by the UK Government. The funds are expected to provide a gross of fees return in line with the total return on these specific securities.</p>	The performance benchmarks and objectives were reviewed on a periodic basis over the year to 31 March 2024.
<b>Investment Management Charges</b>	The investment management charges of the funds used are set out on page 5 of the SIP.	No deviation from the management charges over the year to 31 March 2024.
<b>Financially and Non-Financially Material Considerations</b>	The Trustees' policy on financially and non-financially material considerations is set out from page 8 of the SIP and in full below.	No deviation from this policy over the year to 31 March 2024 (see below).
<b>Engagement and Voting Rights</b>	<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, on request, 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>	No deviation from this policy over the year to 31 March 2024 (see below).
<b>Additional Voluntary Contributions (AVCs)</b>	The Scheme holds AVCs separately from the assets, using a policy provided by the Prudential Assurance Company.	No deviation from this policy over the year to 31 March 2024.

## 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 below:

Asset Class	Active/Passive	Trustees' views
<b>Risk-controlled multi-asset</b>	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 each manager to use its 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.
<b>Government bonds</b>	Passive	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.

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 on request from the Investment Managers 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

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 are unable to vote on the underlying holdings, given the pooled nature of the Scheme’s investments. The Trustees’ stewardship policy is detailed at the start of this document although this has not been shared with the investment managers to influence what they believe to be the most significant votes.

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.

To complement this monitoring, the Trustees receive stewardship and governance reports from LGIM and Threadneedle on a quarterly basis.

Within the current investment arrangements, the LGIM Dynamic Diversified Fund and the Threadneedle Dynamic Real Return Fund contain publicly listed equity holdings. These funds have voting rights attaching these underlying equities, and the Trustees have delegated these voting rights to LGIM and Threadneedle. A summary of the votes made by LGIM and Threadneedle from 1 April 2023 to 31 March 2024 on behalf of the Trustees for each fund currently used by the Scheme is provided in the table below. Voting data has not been broken down into Environmental, Social and Governance categories. The Trustees will continue to request the breakdown of this data in future periods.

Manager	Fund	Resolutions voted on	Total Resolutions Voted:		
			For	Against	Abstained
<b>LGIM</b>	Dynamic Diversified Fund	98,702	76%	23%	1%
<b>Threadneedle</b>	Dynamic Real Return Fund	4,985	89%	10%	1%

Source: LGIM and Threadneedle.

All the Scheme’s assets are invested in pooled funds. Information regarding proxy voting is detailed below:

- LGIM’s Investment Stewardship team use ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions.

- Columbia Threadneedle’s Portfolio Management team use ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote on clients’ shares. Voting decisions are based on the voting rules set out by the Responsible Investment team, where the Corporate Governance team assess votes deemed complex by the manager, while they delegate routine voting activity to the proxy service.

## Significant votes

The Trustees have also requested details of the significant votes made on behalf of the Trustees by LGIM and Threadneedle for each fund in which the Scheme invests in and which has voting rights. In determining significant votes, investment managers 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.

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

SIGNIFICANT VOTE 1	
<b>Investment Manager</b>	LGIM
<b>Company</b>	Shell Plc
<b>Date</b>	23 May 2023
<b>% of portfolio invested in firm</b>	c.0.3% of multi-asset fund.
<b>Resolution</b>	Approve the Shell Energy Transition Progress Update
<b>Why significant</b>	This vote is significant as it is an escalation of LGIM’s climate-related engagement activity.
<b>How voted</b>	<b>Against</b>
<b>Manager Comments</b>	<i>“We expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario.”</i>
<b>Vote outcome</b>	The proposal was carried by the majority of shareholders.

SIGNIFICANT VOTE 2	
Investment Manager	Threadneedle
Company	Mastercard, Inc
Date	27 June 2023
% of portfolio invested in firm	c.0.6% of multi-asset fund.
Resolution	Report on Lobbying Payments and Policy
Why significant	<i>Vote against management on certain environmental or social proposals.</i>
How voted	<b>For</b>
Manager Comments	<i>Comprehensive, aggregate disclosure on political spending is best practice. In addition, the company should identify key relationships with trade associations that engage in lobbying on the corporations behalf, as well as describe its policies and processes for giving. We ask that the board provide ultimate oversight for political donations.</i>
Vote outcome	The proposal was not carried by the majority of shareholders.

## Engagement activities

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

**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 the first-mover advantage in CCS. LGIM raised questions regarding the relative costs and economics of CCS, external factors affecting viability of CCS 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 believe CCS 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.

- **Threadneedle** engaged with Fresenius SE, a German healthcare group, that were undergoing a large restructuring process. The manager met with key individuals in the sustainability team to discuss ESG topics amid the restructure, these focused on product quality and animal welfare. Due to the fragmented nature of the business, the sustainability team struggled to be effective and there were not clear targets within the group.

Due to decentralised reporting systems and fragmented leadership structures, Threadneedle spoke to leads within the department to encourage them to set clear goals. The manager notes that after these discussions the firm has set clear ESG related KPI's and the board has acknowledged and set

clear goals. Threadneedle will continue to monitor the firm as they go through the restructuring to ensure management set quantifiable goals and improve reporting of their progress in these areas.

The Trustees believe that the most significant votes detailed above are aligned with the Scheme's stewardship priorities as detailed at the start of this document.

Signatories to the UNPRI (United Nations Principles for Responsible Investment) will receive an overall 'score' which represents how well ESG metrics are incorporated into managers' investment processes. Investment managers will submit a transparency report on their processes across different categories which is then assessed by the UNPRI and graded in a formal report. Scores are presented in performance bands ranging from one to five stars. The latest UNPRI scores of the investment managers are outlined in the table below.

Manager	UNPRI Score
LGIM	★★★★★
Threadneedle	★★★★☆

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 the Investment Managers to ensure the investment objectives set out in their SIP are being met.

**Signed: Isla Roebuck**

**Date: 27/08/2024**

**On behalf of the Trustees of the Dawn Somerset Retirement and Death Benefit Scheme**