

CDC Pensions Scheme (“the Scheme”)

Annual Engagement Policy Implementation Statement

Year Ending 31 March 2021

Introduction

This Statement sets out how, and the extent to which, the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year to 31 March 2021. The SIP is a document drafted by the Trustee in order to help govern the Scheme’s investment strategy. It details a range of investment-related policies, a summary of which is included below alongside the relevant actions taken by the Trustee in connection with each of these policies.

This Statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The principal objective of the Trustee has always been and remains to ensure, so far as they are able, the security of the members’ accrued benefits. To achieve this objective, the Trustee has entered into an agreement dated 13 November 2009 with Rothesay Pensions Management Limited to purchase a collateralised bulk annuity policy from Rothesay Life Limited, a life assurance company authorised and regulated by the Financial Conduct Authority, to secure the entitlements of all beneficiaries of the Scheme.

This insurance policy was subsequently extended on 17 December 2015 to include additional accrual for the small number of remaining active members since the date of the previous agreement.

Liabilities such as additional accrual for the one remaining active member at the time of the policy extension and other “discretionary” liabilities are not covered by the bulk annuity policy. The Scheme will hold assets as a reserve to meet these liabilities as and when they fall due.

Review of the SIP

During the year to 31 March 2021, the Trustee reviewed the Scheme’s SIP in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the Scheme’s arrangement incentivises investment managers to align their investment strategy and decisions with the Trustee’s policies;
- How that Scheme’s arrangement incentivises the manager to make decisions based on assessments of medium to long term financial and non-financial outcomes;
- How the method (and time horizon) of the evaluation of managers’ performance and remuneration are in line with the Trustee’s policies;
- How the Trustee monitors portfolio turnover costs;
- The duration of the arrangement with the asset managers.

Further to the regulatory requirements, the SIP review also included an update on how the Trustee considers Environment, Social and Governance (“ESG”) factors in the appointment or the evaluating of investment managers.

A revised SIP was signed in October 2020 and published on a publically available website, in line with the Investment Regulations.

Policy on ESG, Stewardship and Climate Change

The Scheme’s SIP includes the Trustee’s policy on ESG factors, stewardship and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. This was reviewed and updated in October 2020.

Engagement

The Trustee, supported by the investment consultant, requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. The investment manager confirmed to be signatory of the current UK Stewardship Code, or submitted the necessary reporting to the Financial Reporting Council by 31 March 2021, in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.

As per the Scheme’s SIP, The Trustee believes that the integration of environmental, social and governance (“ESG”) factors including climate change may have a material impact on the overall investment outcome. The Trustee notes that as most of the Scheme’s assets are invested in bulk annuities with the rest invested in cash and gilts, the integration of ESG factors may be difficult in practice.

The Trustee does not make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the investment managers, who are in a position to engage directly with such issuers in order to improve their performance.

The Trustee expects details of voting and engagement activities associated with the funds in which the Scheme invests in, to be available if requested. Should the need arise, the Trustee may challenge manager decisions that appear out of line with the investment fund’s objectives or the objectives/policies of the Scheme.

The Trustee will receive and consider written advice from the Investment Consultant at such intervals as the Trustee determines from time to time. The Trustee also receives regular performance reports from the Investment Managers (this includes ratings, both overall and specific to ESG, from the investment consultant) and meets them on a periodic basis to review and discuss the operation of their portfolios, including past and future policy decisions.

Voting Activity

Due to the nature of the assets held by the Scheme during the period ending 31 March 2021, no voting activity has been considered. Also, votes for the AVC funds have not been considered as they are not considered to be material in the wider context of the Scheme.