Statement of Investment Principles (SIP)

The Hendre Limited Retirement Benefits Scheme – ML98

Implementation Statement - ESG

New regulations which come into force in October 2019 have changed the way in which trustees must document their statements of investment principles (SIP) to include how they have considered "environmental, social and governance" (ESG) factors in making investment decisions and their policy towards "stewardship".

From October 1, 2020, trustees of certain schemes must include an implementation statement in the annual report setting out to what extent the SIP has been followed during the scheme year.

This has prompted the need for this statement which is in relation to the consideration of ESG factors.

Extent to which social, environmental, governance or ethical considerations are taken into account in the selection, retention and realisation of investments

The trustees core belief is that investment decisions wherever possible should reflect environmental, social and governance considerations.

It is the trustees belief that ESG considerations enhance risk-adjusted return potential by reducing investment risk and creating investment value. A well run and responsible company that cares about its people, customers and the environment, is more likely to exhibit a greater level of resilience and outperform its peers than one that does not. ESG analysis can provide valuable insights about factors that can have a significant impact on the financial metrics of a company and therefore better inform investment decisions.

When taking ESG considerations into account, it is not just a case of evaluating the products and services provided by a company, but also its behaviour, conduct, supply chain and other considerations in running the business. ESG analysis must also consider the future, taking into account not only a company's latest ESG disclosures, but also its strategy, overall impact and evidence that it is keeping to its commitments and standards.

The world faces major sustainability challenges – such as climate change, ageing population, and inequality – which require radical solutions that will bring huge yet hard to predict changes to the global financial system. By facing up to these challenges, and recognising that capital allocation decisions have a real impact on the world, and holding bold visions of the future, investors can hope to make good long-term investment decisions.

The Scottish Widows With-Profits Fund & it's approach to ESG

The Scottish Widows With-Profits Fund is the default investment fund for all active members and this is a pooled investment. This restricts the ability of the trustees to redefine the default investment fund, not least of which would result in the loss of the members Guaranteed Annuity Rates. Instead the trustees rely on Scottish Widows to adapt its investment approach in the With-Profits Fund to accommodate ESG factors.

Having questioned Scottish Widows regarding its plans to adapt the With-Profits Fund to have an ESG focus, the trustees were able to ascertain that:-

'During 2020, Scottish Widows significantly increased activity relating to responsible investment. This trend is expected to continue over the next few years. Executive oversight is provided by a Responsible Investment Committee, which with strong Board support, plays a pivotal role in setting Scottish Widows' sustainability agenda and provides strategic direction to our Responsible Investment activity.

Over the coming years, asset allocation models will increasingly incorporate climate-risk factors to inform more efficient portfolio optimisation decisions. Portfolios will become further resilient to changing customer preferences and growing risks to corporate performance stemming from ever more stringent regulation.

The dominant equity portion of the With-Profits Fund will have exclusions applied in the short-term in line with Scottish Widows' published exclusions policy.

The policy is designed to mitigate long-term investment risk by excluding investment in companies which fail to meet minimum criteria and/or invest in activities that are outside our Responsible Investment Framework.

Tracker funds managed by Aberdeen Standard Investments on behalf of Scottish Widows do not currently inherit exclusions, however these tracker funds will have exclusions applied by revised index in Q1 2022.

Schroders have strong credentials on an environmental, social and governance (ESG) basis, recently confirming their investments are 100% ESG integrated, across all asset classes. Schroders' integration approach spans the breadth of the investment process, from identifying trends, analysing securities and constructing portfolios through to engagement, voting and reporting.

Climate change has already started to impact the performance of investments and will continue to do so in the decades ahead. This will be influenced by how successful the companies we invest in are in transitioning to a low-carbon economy. Those that fail to amend their businesses to be less carbon-intensive are at risk of being caught out by regulation or becoming out-of-favour with consumers and investors, leading to significant falls in their value.

Taking account of the climate change risks and opportunities for the companies we invest in will be vital to limiting risk and maximising returns. Scottish Widows will use its size and influence to encourage the companies we invest in to make changes at the scale and pace needed, driving decarbonisation in the real economy.'

Ongoing monitoring of Scottish Widow's commitment to ESG

The trustees will continue to regularly monitor the progress being made by Scottish Widows to adapt the With-Profits Fund to have more of an ESG focus and will report on this annually.

The trustees are currently waiting for answers from Scottish Widows and its Asset Managers, to the following questions and will continue to press for further details:-

- What do you think re the most financial material ESG risks to our portfolio of funds in the With-Profits fund and why?
- How are you managing climate change risk and opportunities on our behalf?
- In what ways are you influencing companies on our behalf?
- What is your approach to voting in pooled funds?
- Can we direct how our votes are used in pooled funds?
- Describe a situation where you engaged with a company, the processes you followed and the outcome?

September 2021