



CMG Pension Trustees Limited

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CMG UK Pension Scheme Implementation Statement

30 September 2021



1. Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee is required to produce an annual Implementation Statement, setting out how, and the extent to which, the Statement of Investment Principles (“SIP”) has been followed.

This is the second such statement produced by the Scheme’s Trustee in respect of the Scheme. It is intended to meet the updated regulations and will be included in the Scheme’s Report & Accounts. In preparing this statement, the Trustee has taken advice from its professional advisers.

This Implementation Statement covers the Scheme’s accounting year to 30 September 2021 and relates to the relevant SIP in force over the accounting period, namely:

- The SIP dated August 2020

This Implementation Statement should be read in conjunction with the SIP which can be accessed here: <https://www.cgi.com/uk/en-gb/cm-g-pension-trustees-ltd-statements-of-investment-principles>

2. Changes to SIP during 30 September 2020 to 30 September 2021

No changes were made to the SIP between September 2020 and September 2021

3. Review of how policies in the SIP have been followed for the year to 30 September 2021

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee’s policies in the SIP, relating to the Fund as a whole.

Trustee Policy	In the year to 30 September 2021
<p>Section 2 -Governance/Division of Responsibilities</p> <p>The Trustee is responsible for setting the general investment policy and ensuring that it is consistent with the Scheme’s funding objectives and its assessment of the employer covenant.</p>	<p>There have been no changes to the Scheme’s governance structure over the year to 30 September 2021.</p> <p>Since 2018 the Trustee has delegated responsibility to BlackRock as its Fiduciary Manager (“the Manager”) to manage the Scheme’s assets in line with the Investment Management Agreement. Further detail of the Governance structure is detailed in Section 2 of the SIP.</p> <p>The Trustee is satisfied that the investment governance of the Scheme is consistent with the Statement of Investment Principles and is appropriate for the circumstances of the Scheme. In addition, the Trustee is comfortable with the actions the Manager has taken over the 12 months in order to effectively manage the Scheme’s assets against its investment objective. The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee’s policies in the SIP, relating to the Fund as a whole.</p>

Trustee Policy	In the year to 30 September 2021
<p data-bbox="97 264 411 300">Section 3 - Objectives</p> <p data-bbox="97 331 638 465">The objective of the Scheme is to invest the assets prudently with the intention that the benefits promised to members are provided</p>	<p data-bbox="670 264 1508 600">Given the Trustee’s objective is to ensure that the Scheme can meet its obligations to its members, based on cashflow data provided by the actuary at the time, the Trustee has set the Manager an investment objective of full funding on a self-sufficiency basis by September 2022. In January 2021 the Trustee became aware that the Scheme liabilities were expected to increase once the actuarial valuation as at 30 September 2021 was completed. The Trustee therefore extended the full funding target end date from September 2022 to 30 November 2023.</p> <p data-bbox="670 631 1508 734">The Manager measures the Scheme’s funding level relative to this objective and ensures that the Trustee is able to monitor and assess performance relative to this objective.</p> <p data-bbox="670 766 1508 900">The Trustee is satisfied that performance of the Scheme’s assets over the 12-month period to 30 September 2021 was appropriate for the objective given the backdrop of the global pandemic and the volatility it caused to financial markets..</p>

Trustee Policy	In the year to 30 September 2021
<p>Section 4- Fiduciary Manager Arrangements</p> <p>The Trustee has reflected its investment strategy and investment objective in the Investment Management Agreement (“IMA”) with the Manager whereby, within certain permitted ranges, the Manager determines an appropriate asset allocation which seeks to achieve such investment objective. In doing so the Manager takes into account the restrictions contained within the IMA, which outlines the parameters the Manager must operate within. The IMA is subject to change over time as the strategy evolves.</p>	<p>The Trustee sets out the investment objective, asset allocation ranges and eligible instruments. The Manager has discretion to implement the investment strategy subject to these restrictions. The Trustee also sets out a Journey Scheme with de-risking triggers in the IMA. This is to ensure that the Manager takes an appropriate level of risk as the funding level of the Scheme increases.</p> <p>The Trustee sets out allowable asset classes and ranges in the IMA. This is to ensure the Manager implements an investment strategy which diversifies risk across different asset classes and instruments, whilst not exposing the Scheme to any risks which the Trustee does not believe are appropriate. The Trustee has prescribed minimum and maximum asset allocation ranges in the IMA in order to ensure the Scheme’s assets are suitably invested and risk is well diversified.</p> <p>The Trustee has appointed PiRho as its advisor. The advisor ensures that the investment objective and restrictions detailed in the IMA are appropriate.</p> <p>The Manager selects asset classes and underlying pooled funds to invest the Scheme’s assets in, with the aim of achieving the investment objective in the IMA.</p> <p>The Trustee monitors the investment performance and actions taken by the Manager on at least a quarterly basis.</p> <p>Over the 12 months to 30 September 2021 the Trustee has ensured that the objective and restrictions set out in the IMA remain suitable. The Trustee expects to update the IMA every three years in line with the actuarial valuation, or more frequently should the Manager advise the Trustee that it would be appropriate to review any of the objectives or restrictions in the IMA.</p> <p>The Trustee has also overseen that the investment arrangements have remained within the prescribed levels of discretion over the period in question.</p> <p>During the year the Trustee amended the IMA in March 2021 to reflect the extension of the full funding target date from September 2022 to 30 November 2023.</p>

Trustee Policy	In the year to 30 September 2021
<p>Section 5- Risk Management</p> <p>The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk.</p>	<p>As detailed in Section 5 of the SIP, the Trustee has identified a number of risks which have the potential to cause a deterioration in the Scheme’s funding level and therefore contribute to funding risk.</p> <p>The Trustee considers both quantitative and qualitative measures for these risks when evaluating the Manager’s actions relating to the management of the Scheme’s assets.</p> <p>The Manager includes a Risk Dashboard in the quarterly investment report which details the risk level and potential risk impact of each of the risks identified in the SIP. The Trustee uses this Dashboard to ensure that both the likelihood and possible severity of each risk on the Scheme’s funding level is appropriate. The Manager scores each risk in order to help the Trustee easily evaluate and measure changes in risks quarter on quarter. Over the year to 30 September 2020 the Trustee has remained comfortable with the overall risk score noting that most risks are classified as low risk level or low risk impact. More importantly, the Trustee is aware that that no risk was classified as “High” in either level or impact during the year.</p> <p>The Trustee ensures risk is monitored in the quarterly investment report. This report provides the Trustee with a funding level risk figure and detailed breakdown on a quarterly basis.</p> <p>Over the one year to 30 September 2021 the Trustee’s assessment is that the Scheme’s risk profile remained suitable (Funding Level Risk ranged from 4.6% to 6.9%). This is below the risk ceilings set out in the SIP and IMA.</p>

Trustee Policy	In the year to 30 September 2021
<p data-bbox="108 365 592 427">Section 6- Corporate Governance & ESG</p> <p data-bbox="108 465 644 667">The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives and therefore the Trustee has considered how to evaluate and manage these risks when setting its investment strategy</p> <p data-bbox="108 701 649 936">The Trustee’s consideration of financially material considers such as factors including environmental, social and governance factors, is delegated to BlackRock who in turn delegate this to the appointed underlying investment managers.</p> <p data-bbox="108 969 644 1205">Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</p>	<p data-bbox="678 365 1495 533">The SIP includes the Trustee’s policy on Environmental, Social and Governance (‘ESG’) factors and stewardship. This policy sets out the Trustee’s beliefs on ESG and the processes followed by the Trustee in relation to voting rights and stewardship.</p> <p data-bbox="678 566 1495 768">In order to establish these beliefs and produce this policy, the Trustee undertook ESG training provided by the Manager which covered what ESG considerations are, the difference between values- and value-based investing, the Trustee’s beliefs and how these can be incorporated into an investment strategy. This training was provided in September 2019.</p> <p data-bbox="678 801 1495 969">The Trustee receives ESG reporting in their quarterly report, which includes aggregate and asset class level reporting of ESG scores relative to an appropriate benchmark. The Trustee uses this to measure how the overall Scheme’s assets are invested and how it improves over time.</p> <p data-bbox="678 1003 1495 1238">The Manager now rates each underlying strategy based on the strength of their ESG policies and actions and provides a summary of the ESG scores to the Trustee on a quarterly basis, as part of the investment report. This allows the Trustee to establish how each underlying manager scores from an ESG perspective as well as measure relative improvements quarter on quarter.</p> <p data-bbox="678 1272 1495 1473">As of 30 September 2021, 5 of the 11 active strategies had an ESG score of “Advanced”, the highest rating. The remaining 7 strategies scored “Aligned”. The Trustee is comfortable that these scores are a strong reflection of their beliefs with all managers having the two highest scores (Advanced and Aligned).</p> <p data-bbox="678 1507 1495 1776">Furthermore, the Trustee recognises that the Manager is engaging with the underlying managers to ensure they work to further improve their ESG policies and actions over time. The Manager noted that the ESG rating for the one of the EMD managers increased from “Aware” to “Aligned” over the year, reflecting the progress the manager had made over the year. Further detail was provided to the Trustee in the quarterly report.</p>

Trustee Policy	In the year to 30 September 2021
<p>Section 6- Corporate Governance & ESG continued</p>	<p>As part of the Trustee’s ESG policy, the Manager is required to request the underlying manager’s policies and their adherence to them. The Manager reviews the policies of each underlying manager to ensure that these are appropriate.</p> <p>Furthermore, the Manager is required to engage with underlying managers to better understand their actions and understand their level of engagement. As at 30 September 2021, the Manager has noted that the level of voting and engagement varies between managers. Notably, Schrodgers has been recognised as one of the underlying managers who is very strong in both voting and disclosure. In addition, the Manager has noted that both PIMCO and Wellington have made strong progress in engagement, creating specific teams to focus on engagement of underlying holdings. The Trustee is comfortable that the underlying managers are taking their voting and engagement responsibilities seriously.</p> <p>The Trustee expects the Manager to continue to work with underlying managers in order to ensure those on the weaker side of voting and engagement take action to make improvements. The Manager has acknowledged that all managers have been taking steps to improve both their voting and engagement and “best in class’ continues to evolve.</p> <p>The Trustee will be closely monitoring developments over the coming years.</p>
<p>Section 6.2 - Responsible Investing</p> <p>The Trustee does not take into account non-financial matters when selecting, retaining and realising investments. Non-financial matters are defined as the views of members and beneficiaries, including (but not limited to) their ethical views, and their views relating to social and environmental impact and quality of life.</p>	<p>No proof required</p>

Trustee Policy	In the year to 30 September 2021
<p>Section 7 – Monitoring</p> <p>The Trustee monitors the performance and risk exposures of the portfolio on a regular basis. The Trustee receives periodic reports. In the SIP the Trustee has outlined a list of items which they expect the Manager to include in the reports to enable them to monitor the portfolio.</p>	<p>The Manager provides the Trustee with a quarterly investment report. This report covers the required items as well as additional information which the Manager considers useful for the Trustee to be aware of.</p> <p>The Manager also provides abridged monthly reports detailing the latest funding level against the agreed Journey Plan</p> <p>The Trustee monitors the portfolio to ensure that it has sufficient liquidity for any collateral purposes and to pay benefits when due. The Manager takes into account the liquidity and dealing cycles of pooled funds when selecting funds to invest in. The Manager has been able to meet all cashflow requirements the Trustee has had over the year.</p> <p>The Trustee has delegated the responsibility to the Manager for ensuring the underlying pooled funds remain appropriate. In order to monitor the Manager and ensure appropriate monitoring of the underlying managers, the quarterly report includes ratings for each fund and commentary where there has been a notable development.</p> <p>The Manager also provides the Trustee with ad hoc updates where changes have been made to the portfolio to ensure the Trustee is kept up to date with changes during the quarter.</p>

4. Concluding Remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 30 September 2021.

- Additional detail on the voting policies and actions of underlying managers.
- A summary of the voting and engagement of each of the funds that the Scheme holds.
- Information around Cost Disclosures reporting.



5. Appendix – Voting examples

The Trustee has delegated to the Manager the responsibility of collecting the stewardship and engagement reports of the underlying managers and assessing the suitability. The Trustee also expects the Manager to monitor the underlying manager’s activity to ensure compliance and confirm that it remains a suitable investment for the Scheme.

The Trustee is comfortable that under the governance structure the responsibility sits with the Manager to communicate with the underlying managers and on a regular basis collect information as required.

The Manager has noted that there is variability between managers in the extent of their engagement and voting policies, with equity managers generally having made more progress than fixed income. Two external managers which the Manager has noted stand out in terms of their policies are Schroders and Wellington, both of which manage equity funds which the Scheme invests in (Emerging Markets and Global Small Cap respectively).

The Trustee also recognises that the Manager has a responsibility in terms of its own Stewardship and Engagement Policy, which impacts the internal underlying pooled funds. The Manager publicises its own policies as well as quarterly updates online (<https://www.blackrock.com/corporate/about-us/investment-stewardship>), which the Trustee has visibility of. This includes details of any changes to policies and also reports at an aggregate level the impact of its voting and engagement. As at 30 September 2021 the Scheme had c. 45% of its Growth assets invested in funds managed by the Manager, therefore the Trustee is aware of the importance of ensuring that the Manager’s own policies and actions are appropriate for the Scheme.

The Trustee is comfortable that the transparency of the Manager in publicising reports and developments online ensures alignment with the interests of the Scheme.

The Trustee has included a couple of examples of notable engagements these managers have made over the 12 months, in respect to the funds the Scheme is invested in.

Schroders:

<p>Anhui Conch (Building materials manufacturer)</p>	<p>Schroders is a member of the Climate Action 100 investor group. In December 2019, the Sustainable Investment team drafted a letter to Anhui Conch on behalf of the group, as part of the group’s initiative to engage with the world’s 100 largest corporate greenhouse gas emitters.</p> <p>Schroders encouraged Conch to set a carbon emissions reduction target to 2025 and beyond; to increase its disclosure of climate-related financial information; and to understand more about the CCS (carbon capture and storage) scheme and how effective it is at sequestering carbon.</p> <p>At the end of December, Schroders received a reply from Conch’s Chairman describing the company’s efforts to promote environmental protections and reduce carbon emissions. This is a promising start, and Schroders will be following up with recommendations for target setting and reporting.</p>
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Schroders continued:

<p>SK Hynix (Electronic component manufacturer)</p>	<p>Schroders contacted the company to encourage positive change in view of the implementation of the Korean Stewardship Code in 2019, as well as the Financial Services Commission (FSC) and Ministry of Justice’s proposed measures to improve corporate practices.</p> <p>Two issues were raised during this engagement:</p> <p>Firstly, the shortage of female board members. The lack of gender diversity at board level is common to the South Korean market and reflects the lack of regulatory requirements to improve gender diversity on boards. However, diversity is something Schroders are looking to promote alongside evolving corporate governance codes and best practice in Asia.</p> <p>Secondly, improved disclosure, particularly over attendance at committee meetings. Schroders believe that this information is instructive for shareholders and aligns with the FSC’s new focus on corporate disclosure.</p>
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Wellington:

<p>First Solar (Solar panel manufacturer)</p>	<p>First Solar (FSLR) is a solar panel manufacturer that Wellington have held in the portfolio and maintained an ongoing dialogue with over the years. Between March 2019 and March 2020, portfolio manager Kenny Abrams met or spoke with them on several occasions.</p> <p>Abrams has believed that First Solar’s management team is best in class, as they have been able to sustain an industry-leading balance sheet and technological position over the years. Meanwhile, many of the company’s peers have gone bankrupt as the technology moved rapidly and Chinese manufacturers invested in lower cost solutions. Despite headwinds in the industry, the Fund has maintained a position in First Solar due to that high conviction in the management team and in the company’s competitive edge.</p> <p>The high level of competition in the industry led to concerns at First Solar that peers would copy or reverse engineer their technology, and as a result the company disclosed very little about their manufacturing for years. This unfortunately led to low ESG score for the company, which Abrams and his team felt confident was not representative of the company. Through previous site visits and meetings with management, Wellington believed that First Solar were on the leading edge of sustainable manufacturing. Throughout 2019 and 2020, Abrams and the team have encouraged management at First Solar to improve their disclosures, particularly from an environmental standpoint. As a result, they began disclosing their recycling successes and their goal of carbon-neutral lifetime solar cell technology</p>
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