Otter Controls Limited Retirement Benefits Scheme 31 October 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ("DWP") has increased the focus around environmental, social and governance ("ESG") policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a trustee's fiduciary duty.

Implementation Statement

This Implementation Statement is to provide evidence that the Otter Controls Limited Retirement Benefits Scheme (the "Scheme") continues to follow and act on the principles outlined in the Statement of Investment Principles ("the SIP"). The Scheme's current SIP is dated 29 March 2023.

The Implementation Statement details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP;
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate; and
- voting behaviour covering the reporting year up to 31 October 2023 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

This report demonstrates that the Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Summary of key actions undertaken over the Scheme reporting year

Over the reporting period, the Scheme changed its interest rate and inflation hedging strategy by replacing Liability Driven Investment ("LDI") funds with Index-Linked Gilts. In the process, the Scheme reduced its allocation to Corporate Bonds from 35% to 23% and retained its 52% exposure to Equities. The new strategy targets an expected return of Gilts + 2.4% per annum and hedges 47% and 75% of interest and inflation risks, respectively.

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Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	To select an achievable investment objective and investing in a diversified portfolio of assets.	The Scheme has an achievable agreed expected return and aims to achieve this by investing across a range of asset classes, including a material allocation to Passive Equities.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	The long-term objective and journey plan is discussed when reviewing and refreshing the Scheme's agreed investment strategy.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	The Trustee is to consider the covenant strength of the sponsor, ensuring the Scheme is exposed to an appropriate level of risk for the covenant to support.	The covenant strength is discussed when reviewing and refreshing the Scheme's agreed investment strategy.
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 47% of interest rate and 75% of inflation risks.	Over the reporting period, the Scheme had allocations to Index-Linked Gilts and Corporate Bonds, which aim to hedge part of the Scheme's inflation and interest rate risk.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).	The Scheme's assets are traded on a daily frequency, providing sufficient liquidity.

Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Scheme invests in a range of pooled funds which comprise of underlying holdings across several asset classes. The Trustee is satisfied that the Scheme's exposure to market risk is reasonably reduced through asset diversification.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors where possible.	The Scheme invests in pooled credit funds which invest across a variety of geographies and sectors, diversifying the underlying credit risk.
Environmental, Social and Governance	Exposure to ESG factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy /Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory.	As part of the investment management of the Scheme's assets, the Trustee expects the investment managers to make decisions on: • The selection, retention and realisation of investments taking into account all financially material considerations • The exercise of rights (including voting rights) attached to these investments • Undertaking engagement activities with investee companies and other stakeholders where appropriate.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To invest in GBP denominated share classes where possible.	All the Scheme's investments are in GBP denominated share classes.
Non-financial	Any factor, save for the above, that is not expected to have a financial impact on the Scheme's investments.	Such matters are not taken into account in the selection, retention, or realisation of investments.	The Scheme does not take non-financial matters into account in the selection, retention, or realisation of investments.

Changes to the SIP

A new SIP was signed in March 2023 to reflect recent regulatory requirements and the information below:

The SIP was updated to reflect the agreed investment objective, the SIP details that the Scheme's investment objective is to achieve a return of around 2.4% per annum above the return on UK Government bonds.

Under the Investment Management Arrangements section of the SIP, the following wording was added, "The investment managers' remuneration is based upon a percentage value of the assets under management".

The latest SIP also details that the Scheme hedges 47% of interest rate and 75% of inflation risks.

In the Liquidity Risk section, the wording was updated to remove the mention of providing collateral to the LDI manager, and under the Environmental, Social and Governance risk section, additional criteria were added to specify that the investment managers should also include ESG specific reporting.

Policies added to the SIP	
Date updated: 29 March 2023	
Voting Policy - How the Trustee expects investment managers to vote on its behalf.	• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on its behalf.
Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'.	• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on its behalf. • The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a risk as it potentially could have a material impact on investment risk and return outcomes. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. This section details how the Scheme's ESG policy is implemented.

The assets of the Scheme are invested in pooled vehicles and the Trustee accepts that pooled investments will be governed by the individual policies of the investment managers. These policies are reviewed as part of the consideration of pooled investments. As such, the Trustee has given its investment managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee is increasingly considering how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment managers. The Trustee will consider the ESG ratings provided by their Investment Advisor and/or platform provider on how the investment managers embed ESG factors into their investment processes. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically.

Implementing the current ESG policy

The following table outlines the areas by which the Scheme's investment managers are assessed on when evaluating their ESG policies. The Trustee will review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Areas for monitoring and engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights.	The Trustee receives information from its investment advisor/platform provider on the investment managers' approaches to engagement.	The manager has not acted in accordance with their policies and frameworks. The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with its investment advisor and/or managers to improve its alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Engagement and Voting

The Trustee has appointed Mobius Life as the platform provider which implements polices on their behalf. Mobius Life has adopted the managers' definitions of significant votes and has not set stewardship priorities. The managers have provided examples of votes they deem to be significant, and Mobius Life has shown the votes relating to the greatest exposure within the Scheme's investments. When requesting data annually, Mobius Life informs the managers what they deem most significant.

Please see the attached document from Mobius Life for details on engagement and voting actions including a summary of the activity, covering the 12-month period ending 31 October 2023. The platform provider also provides examples of any significant votes where possible.