

Trustees' Report (continued)

Statement of Investment Principles - Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated 24 September 2020 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period from 6 April 2020 to 5 April 2021.

Investment managers and funds in use

Asset Class	Fund	Target Asset Allocation
Global equities	LGIM World Equity Index Fund – GBP Hedged	10.0%
	LGIM World Equity Index Fund	10.0%
Diversified growth funds	Baillie Gifford Multi Asset Growth Fund	22.5%
	BNY Mellon Real Return Fund	22.5%
Absolute return bonds	BNY Mellon Global Dynamic Bond Fund	10.0%
Liability driven investment	LGIM Matching Core Fixed Long Fund	10.0%
	LGIM Matching Core Real Long Fund	15.0%
Total		100.0%

Strategy Review

There have been no changes to the investment managers or target asset allocation over the year.

Scheme Governance

The Trustees' board is responsible for making investment decisions, and seeks advice from Broadstone Corporate Benefits Limited, as the Trustees' investment adviser.

The Trustees do not actively obtain views of the membership of the Plan to help form their policies set out in the SIP.

There were no changes to the objectives put in place for Broadstone Corporate Benefits Limited ('Broadstone') which were last reviewed in November 2019. The Trustees are due to formally review these objectives by November 2022.

There were also no changes to the investment management agreement with Mobius Life, the Plan's investment platform provider, during the year.

Statement of Investment Principles

The Trustees last reviewed the Statement of Investment Principles (SIP) in September 2020, which was updated in line with new regulations relating to Environmental, Social and Governance (ESG) considerations.

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The Trustees have a policy on financially material considerations relating to Environmental, Social and Governance (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 below and are detailed in the SIP.

There were no departures from the policies set out in the SIP, including the Trustees' policies on financially and non-financially material considerations, during the year.

Trustees' Policy: The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustees expect the Investment Managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees (delegating to the Investment Consultant where appropriate) assess the ESG integration capability of the Investment Managers.

Policy for taking into account financially material ESG considerations

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

The Trustees note that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustees are satisfied that the funds currently invested in by the Plan are managed in accordance with their views on financially material considerations, as set out above, and in particular with regards to the selection, retention, and realisation of the underlying investments held.

This position is monitored periodically. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the investment managers and input from their investment consultant on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers given they are investing in pooled funds.

A summary of the Trustees' views for each asset class in which the Plan invests is outlined in the table overleaf.

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Asset Class	Actively or Passively Managed?	Comments
Global equities	Passive	The Trustees acknowledge that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if they have concerns relating to ESG. The Trustees do expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
Diversified growth funds	Active	The Trustees expect the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustees also expect the investment manager, 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.
Absolute return bonds	Active	The Trustees expect the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustees also expect the investment manager, to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights.
Liability driven investment	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, 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.

Policy for taking into account non-financial ESG considerations

Trustees' Policy: *Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect their investment managers to consider non-financial factors in decision making only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

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Statement of Investment Principles - Implementation Statement (continued)

Policy on the exercise of voting rights and engagement activities

Trustees' Policy: *The Trustees believe that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, it must act as a responsible asset owner. The Trustees expect the Investment Managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustees (delegating to the Investment Consultant where appropriate) assess the stewardship and engagement activity of the Investment Managers.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have the administrative mechanism to cast votes on the underlying holdings, given the pooled nature of the Plan's investments.

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.

The Trustees have employed Broadstone to assist them in monitoring the voting and engagement activity of the investment managers. The Trustees, with the assistance of Broadstone, concluded that the voting and engagement activity of the investment managers is in line with their policy on voting and engagement.

Within the current investment arrangements, the equity and diversified growth funds contain equity holdings, and therefore have voting rights attached to these underlying equities.

All of the investment managers use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third party proxy voters used are confirmed in the table overleaf.

The Trustees have delegated engagement activities to the investment managers, and each investment manager reports to the Trustees on how they have voted on behalf of the Trustees for the underlying holdings.

A summary of the votes made by the investment managers on behalf of the Trustees (where the investment owns equities) is provided in the table overleaf, based on the latest information available from each investment manager.

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Statement of Investment Principles - Implementation Statement (continued)

Manager	Pooled or Segregated?	Third Party Proxy Voter	Manager uses own voting policy?	Resolutions Voted On ¹	Resolutions Voted:		
					For	Against	Abstained
LGIM	Pooled	ISS	Yes	77,062	81%	18%	1%
Baillie Gifford	Pooled	ISS/Glass Lewis	Yes	13,507	95%	3%	2%
BNY Mellon	Pooled	ISS	Yes	574	56%	41%	3%

The votes above are at the company level, rather than being scheme or fund specific. The Trustees will work with the investment managers to obtain this information in future years.

The notable engagement activities of the investment managers are provided below:

- **LGIM** engaged with Amazon after they were made aware Amazon had been interfering with its workforces efforts to unionise, ahead of a workforce vote on unionisation. LGIM, along with 70 other investors with a total AUM of \$6.4trillion, signed a letter to Amazon emphasising that they should meet the expectations set out in the UN Guiding Principles on Business and Human Rights, and that workers should be free to exercise their freedom of association and right to collective bargaining. This action resulted in Amazon launching its first Global Human Rights Principles and also commissioning a human rights impact assessment by an external consultant. Despite the moves, LGIM still retain concerns on how they will meet these commitments and will continue to engage with the company on the matter.
- **Baillie Gifford** spoke with Netflix to discuss a range of topics, including the competition for consumer attention, the promotion of Ted Sarandos to co-CEO, as well as data security. Netflix described a deliberate focus on promoting diversity and inclusion to support content creation for a diverse audience, while Sarandos' promotion was described as a formalisation of a long-term working practice, and, accordingly, the transition has been seamless. Data security is a standard topic for Netflix's audit committee, and the board takes it very seriously. The Netflix subscription model and absence of advertising places it in an advantageous position as it doesn't collect and sell members' data to generate revenue. This was another positive interaction with the Netflix board, which supports Baillie Gifford's confidence in its unconventional governance and ability to steward the business responsibly, with a focus on long-term value creation
- **BNY Mellon** met with BHP, an Australian mining company, to discuss how executive remuneration is linked to sustainability issues as well as their climate change strategy. On remuneration, BHP confirmed that climate change was linked to 3-4% of total variable pay whereas safety linked to 10%. BNY Mellon fed back that given deaths linked to air pollution were significantly higher than those from industrial accidents, climate change should rank at least equally with safety. BHP confirmed they would implement measurable climate-change targets within its remuneration structure and provide full disclosure.

¹ Unless otherwise stated, resolution summary figures cover the period from 1 April 2020 to 31 March 2021

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The Trustees are comfortable with the investment managers' approach for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

The Trustees also consider the investment managers' 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, the Trustees receive performance reports on a quarterly basis together with annual performance reports from Broadstone to ensure the investment objectives set out in their SIP are being met.

Signed: 
Date: 1/11/21

On behalf of the Trustees of the Quarr Group Limited Pension and Life Assurance Plan