Shaw Group Pension Scheme Implementation Statement – 2020

This document reviews the extent to which the Trustees of the Shaw Group Pension Scheme (the “Scheme”) have adhered to the policies and procedures set out in the Scheme’s Statement of Investment Principles (“SIP”) dated December 2019, which was in place at the Scheme year-end date, 5 April 2020. For the Defined Contribution (“DC”) section of the Scheme specifically, this covers reviews of the SIP and demonstrates compliance with the actions the Trustees sought to undertake (noting any areas where the policy was not followed and the reasons for this). This document also discusses the voting and engagement activity of the funds held by the Defined Benefit (“DB”) section and the DC section, over 6 April 2019 to 5 April 2020 (the “Scheme year”).

## Executive summary

Over the Scheme year, the Trustees:

* Updated the SIP in September 2019 and December 2019 to ensure it is compliant with the relevant regulatory requirements (including updates for changes in the investment strategy). The SIP was also updated following the year-end to incorporate additional information on the Trustees’ policies in line with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 requirements.
* Have reviewed the DC section policies set out in the SIP and feel these have been followed. The voting and engagement policies for the DB section have also been assessed and the Trustees feel these have also been followed.
* Reviewed the most significant voting and engagement activity of the Legal & General Investment Management (“LGIM”) and Baillie Gifford funds, that invest in equities. The Trustees were satisfied that these managers have appropriately carried out their stewardship duties.

The stewardship activities for funds that do not hold equities have not been reviewed as part of this exercise, as the Trustees feel there is limited scope to influence the practises of these issuers.

The Trustees have some outstanding queries with the investment managers regarding voting eligibility, voting actions and conflicts of interest.

Further details on each of these matters is presented in the pages that follow.

## Reviews of the SIP over the reporting period

The SIP was updated in September 2019 to disclose the Trustees’ policies regarding financially material matters, non-financial matters and stewardship, as required by the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

Furthermore, the SIP was updated in December 2019 to reflect changes to the investment strategy of the DB section of the Scheme.

Following the end of the Scheme year, the SIP was updated to incorporate additional information on the Trustees’ policies in line with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 requirements. Additional disclosures have been included to address the following areas in respect of the Scheme’s investment managers:

* How the arrangements incentivise the investment managers to align their investment strategy and decisions with the Trustees’ policies.
* How the arrangements incentivise the investment managers to make decisions based on medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
* How the method (and time horizon) of the evaluation of the investment manager’s performance and the remuneration for asset management services are in line with the Trustees’ investment policies.
* How the Trustees monitor portfolio turnover costs incurred by the investment managers, and how they define and monitor targeted portfolio turnover or turnover range.
* The duration of the arrangements with the investment managers.
* Trustees’ stewardship policy (voting rights, conflicts of interest & the capital structure of companies).

## Implementation of policies contained within the Scheme’s SIP – DC section

This section sets out the various policies within the Scheme’s SIP (that was in place as at 5 April 2020 – i.e. the end of the reporting period) and the actions that the Trustees have undertaken in respect of them over the year to this date. We have noted a few actions that were taken following the Scheme year-end that we feel are of relevance.

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| SIP policy | Comments |
| 1. **Investment governance** | |
| The Trustees set the structure and processes for carrying out their role.  The Trustees select and monitor the appointed investment advisers. The investment adviser is expected to advise on all aspects of the Scheme’s assets, including implementation, and on the SIP. Furthermore, the investment adviser provides the Trustees with training, when required.  The Trustees’ primary objective is to provide investments that are suitable for meeting members’ long and short-term investment objectives. The Trustees review their investment objectives from time to time and amend them accordingly. The Trustees use these objectives to set and agree the structure for implementing the Scheme’s investment strategy.  The Trustees will consult with Shaw Healthcare (Group) Limited (the ”Employer”) as part of the process for deciding on their investment strategy.  The Trustees have selected investment managers of pooled investment vehicles. The investment managers are responsible for the day-to-day management of the investments and select investments with regard to their suitability and diversification for the individual pooled vehicle. These consist predominantly of investments that are admitted to trading on regulated markets. Any investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.  The Scheme accesses its investments through an implementation solution provider. The Trustees have formal agreements in respect of this relationship.  The Scheme’s assets are held in custody by a third party, which has been appointed by the respective investment manager/pooled vehicle provider.  The Trustees monitor performance of the pooled investment vehicles using the quarterly investment reports provided by the investment managers.  The costs of the funds used are reviewed annually.  The Trustees prepare and maintain the SIP. | The Trustees’ investment policies and decision-making structure is set out in the Scheme’s SIP.  The Scheme’s investment adviser is Quantum Advisory. The Trustees have set strategic objectives for the investment adviser to ensure the Trustees’ requirements are clear and performance of the investment adviser is measurable.  The Trustees last reviewed the investment strategy in November 2017. The Trustees do not feel that their needs, or those of the membership, have changed since then, but keep this under consideration. As part of this review, a lifestyle strategy was agreed as the default option, and a range of self-select funds for those members who wish to invest their assets differently. The Employer was consulted on this change at the time.  The Trustees selected LGIM and Baillie Gifford as their investment managers, who manage a range of funds the Scheme uses. The Trustees remain of the view that these are suitable for the Scheme.  The Trustees appointed Mobius Life Limited as the Scheme’s implementation solution provider in August 2018. The Trustees are content with the services received.  Baillie Gifford have appointed BNY Mellon as their custodian and LGIM have appointed HSBC and Citibank. The custody of assets is held in the Mobius Life Limited name.  The Trustees review the performance of the funds available to members annually. The last review was undertaken as at 31 March 2020. The Trustees are comfortable with the performance that has been achieved, based on the market conditions.  The Trustees have reviewed the portfolio and transaction costs incurred over the year. These are reported in the DC Chair’s Statement. Whilst the Trustees do not have pre-defined targets for these, they appear reasonable. Furthermore, the default investment strategy was compliant with the charge cap on Member Borne Deductions of 0.75% p.a.  The Trustees undertook a “Value for Members” assessment in August 2019 and concluded that the Scheme represents good value for members. This is because the Trustees believe the costs and charges borne by the members represent good value, given the investment returns and the quality of the services provided.  The SIP has been reviewed over the period. Details on this are set out in section 1 of this report. |
| 1. **Responsible Investment** | |
| **Financially material considerations**  The Trustees acknowledge the potential impact upon the Scheme’s investments and members arising from financially material matters. The Trustees define these as including, but not limited to ESG matters (including but not limited to climate change).  With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when (i) appointing new investment managers; and (ii) monitoring the existing investment managers.  The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.  The Trustees acknowledge that as most of the Scheme’s investments are implemented on a passive basis. This restricts the ability of the investment manager to take active decisions on whether to hold securities based on their consideration of ESG factors. The Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.  The Trustees also consider ESG factors when determining future investment strategy decisions. To date, the Trustees have not established any restrictions on the appointed investment managers but may consider this in future.  **Stewardship**  The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing the existing investment manager. The Trustees have provided the appointed investment manager with full discretion concerning the stewardship of their investments.  **Non-financial matters**  The Trustees consider non-financial factors (where members have been forthcoming with their views), however the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments. | **Financially material considerations**  The Trustees have reviewed the investment managers’ publicly available ESG reporting during the period and have not raised any concerns with the manager.  **Stewardship**  The Trustees have reviewed the stewardship reports prepared by the investment manager. The Trustees did not have any immediate concerns around the votes cast.  The Trustees acknowledge that the voting practices of their investment managers will not necessarily reflect their views or those of the members and that they will have little, or no, influence on their investment managers’ voting practices. However, they will make their views known to their investment managers if they feel it is appropriate to do so, and in the event of frequent disagreement will review the suitability of retaining the investment manager in question.  Further details of the investment manager’s voting policies and histories are set out in the next section.  **Non-financial matters**  No members have been forthcoming with their views during the period. |
| **3. Risk management** | |
| The Trustees have identified the following investment risks:   * Investment returns not achieving expectations. * A fall in the real value of members’ assets due to increased inflation. * Assets experiencing high levels of volatility at retirement. * Members investing too cautiously, which is not supportive of their benefit aspirations. * Members allocating too high of a proportion of their funds in inappropriate asset classes. * Reliance on a single investment, which could impact the Scheme’s ability to meet its overall investment objectives. * Misappropriation, unauthorised use, or mis-delivery of members’ funds. * ESG factors adversely impact the value of the Scheme’s assets if misunderstood or not given due consideration.   The Trustees manage these risks by:   * Regularly reviewing investment performance * Educating members * Reviewing manager policies * Reviewing ongoing appropriateness of the strategy. | The investment strategy and choices have been designed in a manner that seeks to manage these risks. Specifically, the default investment strategy utilises a “lifestyle” that aims to provide members with capital growth in the earlier years, and greater capital protection as their retirement date approaches. The funds that are used in the default and self-select investment strategy invest in a diverse range of assets/issuers.  The Trustees review performance annually. The Trustees have considered the wider market environment and do not have any concerns around the performance of the investment managers/funds used by the Scheme.  The Trustees review members’ choices at retirement via the annual administration report to ensure the default investment strategy remains appropriate. The default investment strategy is designed to target Uncrystallised Funds Pension Lump Sum at retirement, which has been the most popular retirement choice for members since pension freedoms were introduced in 2015. |

## Investment Manager’s voting policies and histories

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### Trustees’ voting and stewardship policies

The Trustees have acknowledged the constraints that they face in terms of influencing change due to the size and nature of the Scheme’s investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) monitoring existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

As part of this exercise, the Trustees have reviewed the voting activity of the investments managers/funds where there is ability to influence positive practises (namely those that invest in equities). For the DC section the Baillie Gifford Multi Asset Growth Fund, LGIM Ethical Global Equity Index Fund, LGIM World Equity Index Fund, LGIM UK Equity Index Fund have been reviewed and for the DB section, the LGIM Global Equity Fixed Weights (70:30) Index Fund has been reviewed. Details on the voting policies and activities of these investment managers is set out below.

### Investment manager voting policies and process

Baillie Gifford

All voting decisions are made by Baillie Gifford’s Governance & Sustainability team in conjunction with investment managers. Baillie Gifford do not regularly engage with clients prior to submitting votes, however if a segregated client has a specific view on a vote then they will engage with them on this. If a vote is particularly contentious, Baillie Gifford may reach out to clients prior to voting to advise them of this or request them to recall any stock on loan.

Baillie Gifford believe that voting should be investment led, because how they vote is an important part of the long term investment process. The ability to vote on their clients’ shares also strengthens their position when engaging with investee companies.

Baillie Gifford do not outsource any part of the responsibility for voting to third-party suppliers. Baillie Gifford utilise research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with their Governance & Sustainability Principles and Guidelines and endeavour to vote every one of their clients’ holdings in all markets. Whilst they are cognisant of proxy advisers’ voting recommendations (ISS and Glass Lewis), they do not delegate or outsource any of their stewardship activities or rely upon their recommendations when deciding how to vote on their clients’ shares. All client voting decisions are made in-house. Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers’ policies. They also have specialist proxy advisors in the Chinese and Indian markets to provide more nuanced market specific information.

LGIM

LGIM’s Investment Stewardship team make all voting decisions, in accordance with LGIM’s Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This is intended to ensure LGIM’s stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM’s voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all of their clients. LGIM’s voting policies are reviewed annually and take into account feedback from clients.

LGIM’s Investment Stewardship team uses ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and strategic decisions are not outsourced. The use of ISS recommendations is purely to augment LGIM’s own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that are received from ISS for UK companies when making specific voting decisions. To ensure the proxy provider votes in accordance with LGIM’s position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability in all markets to override any voting decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as LGIM continue to develop their voting and engagement policies and define strategic priorities in the years ahead. LGIM also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

### Voting statistics

The table below sets out the key statistics on the investment managers’ voting eligibility and action over the Scheme year. This only covers the funds that invest in equities.

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| Statistic | Baillie Gifford MAGF | LGIM Ethical Global Equity Index Fund | LGIM World Equity Index Fund | LGIM Fixed Weights Global Equity 70:30 Index Fund | LGIM UK Equity Index Fund |
| Number of equity holdings as at 31 March 2020 | 216 | 1,036 | 2,761 | TBC | 685 |
| Meetings eligible to vote at | 67 | 1,026 | 2,436 | 4,523 | 846 |
| Resolutions eligible to vote on | 689 | 14,170 | 29,940 | 51,736 | 11,859 |
| Proportion of eligible resolutions voted on | 94.3% | 98.5% | 98.1% | 97.7% | 99.6% |
| Votes with management | 92.0% | 85.2% | 82.8% | 84.5% | 93.6% |
| Votes against management | 6.0% | 14.7% | 17.1% | 15.1% | 6.4% |
| Votes abstained from | 2.0% | 0.1% | 0.1% | 0.4% | 0.0% |
| Meetings where at least one vote was against management | 38.3% | 66.2% | 71.1% | 60.8% | 42.0% |
| Votes contrary to the recommendation of the proxy adviser | TBC | 9.2% | 10.4% | 8.7% | 5.3% |

The Trustees have reviewed this information and have queried the following areas with Baillie Gifford:

* Why the eligibility of meetings they can vote at is low relative to the number of equity holdings.
* Examples of votes that have been abstained from and the reasons for this.
* The proportion of meetings where at least one vote was against management.
* Whether any information can be provided on the proportion of votes that were aligned with that of the proxy adviser.

The Trustees have also asked LGIM for the number of equity holdings in the Fixed Weights Global Equity 70:30 Index Fund as at 31 March 2020 and why the proportion of meetings where at least one vote was against management was lower for the UK Equity Index Fund than the other funds.

The Trustees are awaiting a response from the investment managers on these matters.

### Conflicts of interest

This section assesses whether Baillie Gifford and LGIM are affected by the following conflicts of interest, and how these are managed.

1. The asset management firm overall having an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;
2. Senior staff at the asset management firm holding roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings;
3. The asset management firm’s stewardship staff having a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding;
4. A situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer; and
5. Differences between the stewardship policies of managers and their clients.

Ballie Gifford

Ballie Gifford have confirmed that they are not affected by these conflicts of interests.

LGIM

The Trustees have asked LGIM to confirm which of the above conflicts of interest they are affected by, but is yet to receive this information. On receipt of this, the Trustees will review any conflicts that have been identified and request additional information where required, to ensure they are comfortable with the way in which these are managed.

### Significant votes

Appendix 1 lists the most significant votes cast (as defined by the managers) in relation to the Baillie Gifford and LGIM funds, over the year to 31 March 2020.

The criteria the managers have applied in determining these are set out below.

**LGIM**

In determining significant votes, LGIM’s Investment Stewardship team consider the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

* High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
* Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
* Sanction vote as a result of a direct or collaborative engagement; and
* Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

**Baillie Gifford**

Baillie Gifford have identified the following criteria that they have used to determine their most significant votes.

* Baillie Gifford’s holding had a material impact on the outcome of the meeting.
* The resolution received 20% or more opposition and Baillie Gifford opposed.
* Egregious remuneration.
* Controversial equity issuance.
* Shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders.
* Where there has been a significant audit failing.
* Where Baillie Gifford have opposed mergers and acquisitions.
* Where Baillie Gifford have opposed the financial statements/annual report.
* Where Baillie Gifford have opposed the election of directors and executives.

This list is not exhaustive.

**Conclusions**

The Trustees have reviewed the most significant votes cast by each investment manager over the reporting period and is generally satisfied. The Trustees have queried with LGIM why they have deemed less than ten votes as significant, and why they have not disclosed the size of these holdings (as a proportion of the fund size). The Trustees are awaiting a response on these matters.

## Appendix 1 – Most significant votes cast









