

Date: July 2021

The Morris & Spottiswood Employees' Pension Scheme

Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change.
- policies on the stewardship of the investments

The SIP can be found online at the web address:

https://www.morrisandspottiswood.co.uk/site/assets/files/2108/the_morris_spottiswood_employees_pension_scheme_statement_of_investment_principles.pdf

Changes to policies contained in the SIP are detailed on the following pages.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustees have 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 Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 31 December 2020 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

Before the start of the Scheme Year, members were invested in With-Profits policies with Equitable Life. In January 2020, Utmost Life and Pensions took on these policies and invested them for a short period in the Secure Cash Fund (a unit-linked/pooled fund investment which provided capital security for the period of investment). An uplift was applied to members accounts on transfer from Equitable Life, in compensation for the loss of the capital guarantee inherent in the With-Profits policies.

By the end of 2020, the Secure Cash Fund had closed and members assets were transferred into the Utmost Investing by Age Lifestyle Strategy. The aim of the Investing by Age default strategy is to provide stable growth for members further away from retirement, with a focus on wealth preservation in later years as a member begins to approach their retirement date.

A range of pooled funds are also available through Utmost Life for members to choose based on their own individual circumstances and expected time horizon.

Implementation Statement

This report demonstrates that The Morris & Spottiswood Employees Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed Paul Brown

Position Trustee

Date 21/07/2021

Managing risks and policy actions DC

Risk / Policy	Definition	Policy	Actions
Interest rates	The potential for adverse interest rate movements to have an impact on the Scheme's bond investments.	Members are offered a range of funds to invest in and the default invests in a diverse range of assets to mitigate this risk.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.
Inflation	The potential that the Scheme's investments will not keep pace with inflation.	The Scheme offers funds which are expected to outperform inflation, including the default.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.
Liquidity	The potential that investments cannot be encashed when required.	The funds offered through the Scheme invest predominantly in assets which are readily redeemable in normal circumstances at reasonable prices.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.
Market	The potential for losses due to factors that affect the overall performance of financial markets.	Members are offered a range of funds to invest in and the default invests in a diverse range of assets to mitigate this risk. The Trustees are aware that in falling markets members may suffer losses.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.
Credit	The potential for losses due to a holding in a bond fund defaulting on their obligations.	The Scheme's bond funds invest in a range of bonds to minimise the impact of any default.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.

Managing risks and policy actions DC (continued)

Risk / Policy	Definition	Policy	Actions
Shortfall / pension conversion risk	The potential that a member has not saved sufficiently for retirement, or suffers an investment loss close to retirement leading to a pension shortfall	The Scheme's default option automatically de-risk members as they approach retirement and allow them to target specific retirement outcomes.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The funds which the Scheme invest in are Sterling denominated, however, members will still be exposed to currency risk where assets are held overseas on an unhedged basis. This is managed by communicating with members whose funds invest overseas.	There have been no changes to principles supporting this policy over the reporting year. However, the policy wording in the SIP was updated in 2020 to reflect the changes to the investment arrangements.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who account for ESG factors as part of their investment process. The Trustees monitor the managers in this regard on an ongoing basis.	More details of the ESG policy and how it was implemented are presented later in this report.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not considered in the selection, retention or realisation of investments.	There have been no changes to the policy over the reporting year.

Changes to the SIP

The following policies were reported in the previous Scheme Year's implementation statement but were updated in the SIP in December 2020 which is covered by the current reporting year.

Policies added to the SIP	
Date updated: 15th December 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	<ul style="list-style-type: none"> • As the Scheme offers members pooled funds, the Trustees have limited influence over the underlying fund managers, but they encourage them to improve their practices where appropriate. • There may be circumstances where managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long term performance of debt and equity issuers, engagement and portfolio turnover.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	<ul style="list-style-type: none"> • The Trustees review fund performance relative to their objectives on an annual basis. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	<ul style="list-style-type: none"> • The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate fund performance over a range of both shorter-term and longer-term periods. • Fund charges are reviewed annually to ensure these represent value for members.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	<ul style="list-style-type: none"> • The Trustees monitor turnover costs as part of the annual Chair's Statement in the Trustee Report & Accounts.
The duration of the Scheme's arrangements with the investment managers	<ul style="list-style-type: none"> • The duration of the arrangements are flexible and the Trustees will from time-to-time consider the appropriateness of the funds and whether they should continue to be offered.

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG, listing it as a financially material risk. This page details how the Scheme's ESG policy is implemented.

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

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none">The Trustees request their investment managers provide annual reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.	<ul style="list-style-type: none">The manager has not acted in accordance with their policies and frameworks.The manager's policies are not in line with the Trustees' policies in this area (once these have been set).

Areas of assessment and ESG beliefs

Risk Management	<p>1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees.</p> <p>2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.</p>
Approach / Framework	<p>3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities.</p> <p>4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors.</p> <p>5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.</p>
Voting & Engagement	<p>6. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors.</p> <p>7. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance.</p> <p>8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.</p>
Reporting & Monitoring	<p>9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge.</p> <p>10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.</p>
Collaboration	<p>11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD.</p> <p>12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.</p>

Engagement

The Scheme's investments were invested with Utmost Life and Pensions during the Scheme Year. We requested details on their engagement actions including a summary of the engagements by category for the 12 months to 31 December 2020. Due to the nature of the transaction this request was made to Utmost.

Fund name(s)	Underlying fund name	Engagement summary	Commentary
Utmost Life and Pensions Multi-Asset Moderate Pension Fund & Utmost Life and Pensions Multi-Asset Cautious Fund (default investment strategy from end of 2020)	JP Morgan UK Equity Core Fund JP Morgan Global Research Enhanced Index Fund JP Morgan Global Corporate Bond Fund JP Morgan Sterling Corporate Bond Fund JP Morgan US Research Enhanced Index Fund JP Morgan UK Government Bond Fund JP Morgan Global (ex-UK) Bond Fund JP Morgan Europe (ex UK) Research Enhanced Index Fund JP Morgan Emerging Markets Fund JP Morgan Global High Yield Bond Fund	No data available.	We requested this data from Utmost, however, they were unable to produce this level of reporting for the reporting year. We are working with them to ensure that this data is available in future.
Utmost Life and Pensions Money Market Pension Fund	JP Morgan GBP Liquidity LVNAV Fund	No data available.	We requested this data from Utmost, however, they were unable to produce this level of reporting for the reporting year. We are working with them to ensure that this data is available in future.

Fund name(s)	Underlying fund name	Engagement summary	Commentary
Utmost Life and Pensions Secure Cash Fund (default investment option throughout 2020 until fund closure)	N/a	No data available.	We requested this data from Utmost, however, they were unable to produce this level of reporting for the reporting year. We are working with them to ensure that this data is available in future.

Voting (for equity/multi asset funds only)

As the Scheme invests via Utmost Life and Pensions, we requested details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020.

Fund name(s)	Underlying fund name	Voting summary	Examples of significant votes	Commentary
Utmost Life and Pensions Multi-Asset Moderate Pension Fund & Utmost Life and Pensions Multi-Asset Cautious Fund (part of the default investment strategy from end of 2020)	JP Morgan UK Equity Core Fund JP Morgan Global Research Enhanced Index Fund JP Morgan US Research Enhanced Index Fund JP Morgan Europe (ex UK) Research Enhanced Index Fund JP Morgan Emerging Markets Fund	No data available.	Utmost have not provided us with any examples of votes carried out for the fund the Scheme was invested in for the reporting year. We are working with them to be able to provide such detail in future.	