



Vascutek 2002 Pension Scheme Implementation Report

December 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 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.

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://terumoartico.com/policies/>.

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 Trustee 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 Trustee 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 they invest;
- and voting behaviour covering the reporting year up to 30 June 2023 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

- In response to liquidity pressures over September and October 2022, the Trustee agreed to fully redeem the CQS Credit Multi-Asset Fund (a monthly dealt fund). An initial redemption of £3m took place on the 1 November dealing date, following by a c. £3.9M redemption on 1 December 2022. Proceeds were reallocated to the daily dealt BlackRock Aquila Life MSCI World Fund, the BlackRock Dynamic Diversified Growth Fund, and the BlackRock LDI Funds.
- The Trustee agreed to a restructure of the Scheme's assets to improve ease of governance, and increase liquidity, with LGIM to be appointed the manager for equity, diversified growth, absolute return bond and LDI mandates.
- BlackRock have informed the Trustee of an issue in relation to proxy voting on the equity fund in which the Scheme invests. The manager has confirmed that the issue related to votes not being made in relation to US securities, dating back to 2014. they have also confirmed that no significant votes were missed, and that the issue has not impacted the outcome of any vote (given the size of the positions held by the fund).
- The Trustee agreed to redeem £3m from the IFM Global Infrastructure Equity Fund, again, to enhance liquidity within the Scheme. The instruction was actioned on 30 December 2022. The payment was received in April 2023.

Implementation Statement

This report demonstrates that the Vascutek 2002 Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed  **Lorna McGill**
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Position **Compensation and Benefits Manager**

Date **05-Dec-2023**

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 90% of these risks, measured on the Technical Provisions basis.	The revised investment strategy agreed by the Trustee included a new, revised, 90% hedge target.
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), and to provide collateral to the LDI/synthetic equity/credit manager.	The Trustee's revised investment strategy has a significant focus on improving liquidity, both on an ongoing basis and in times of market stress.
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 decision making process around the revised investment strategy took market risks into account.
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. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	The decision making process around the revised investment strategy took credit risks into account.
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 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	The agreement of the revised investment strategy, including the appointment of LGIM to manage a range of new mandates, incorporated the review of ESG considerations throughout the process.

		<p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>6. UK Stewardship Code signatory</p> <p>The Trustees monitor the mangers on an ongoing basis.</p>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.

Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 30 June 2023.

Fund name	Engagement summary	Commentary
BlackRock Aquila Life MSCI World Fund ¹	<p>Total Engagements: 1,741</p> <p>Environmental: 829</p> <p>Social: 777</p> <p>Governance: 1,592</p>	<p>BlackRock's Investment Stewardship Team (BIS) is responsible for and carry out all voting and engagement activities. This approach is consistent across all of BlackRock's passive equity funds.</p> <p>The BIS engage across all funds at an issuer level thereby leveraging all the capital at their disposal (across equity, credit etc.) to maximise engagement effectiveness. BIS increased the level of detail reported on certain engagement topics, providing more relevant information and transparency in engagements post August 5, 2022.</p> <p>Examples of significant engagements include:</p> <p>Dentsu Group, Inc. – BIS have engaged regularly with the Company to discuss corporate governance topics that they believe drive long-term shareholder returns, reputational, and operational risk. These included, among others, the overall board composition and effectiveness, and board oversight of risk management and compliance with policies.</p> <p>In March 2023, BIS engaged with the Company and discussed the component of effective board composition, aiming to understand</p>

		<p>how the board assesses directors' ability to act independently in the interests of all shareholders.</p> <p>J Sainsbury plc – BIS have engaged with the Company on a range of corporate governance and sustainable business matters. BlackRock engaged on a shareholder proposal on the election of directors and executive compensation at the meeting held in July 2022. BIS supports companies paying their workers a wage equal to or above living wage standards, and engages with boards and management on approaches to recruiting and retaining workers.</p>
<p>BlackRock Dynamic Diversified Growth Fund¹</p>	<p>Total Engagements: 435</p> <p>Environmental: 181</p> <p>Social: 168</p> <p>Governance: 395</p>	<p>BlackRock engage with their portfolio companies through their BIS team in order to provide feedback and inform their voting decisions.</p> <p>Example of a significant engagement:</p> <p>Siemens AG - BlackRock has a constructive history of regular engagement with Siemens. BlackRock has discussed a range of topics, including corporate strategy, board composition, sustainability reporting, and climate risk management. In July 2022, the German government passed a new law that permits virtual-only annual general meetings (AGMs) of shareholders. On 9 February 2023, BIS engaged on a proposal to approve the Virtual-Only Shareholders meetings until 2025. BIS considered concerns that some virtual-only AGMs could potentially impede meaningful exchanges between management and shareholders, and the potential benefits, such as a potential reduction in climate emissions in connection with director and executive travel. Following analysis of the proposals and engagement with the company, BIS believed that Siemens proposed an appropriate approach that is unlikely to undermine shareholder rights.</p>

<p>IFM Global Infrastructure Fund</p>	<p>IFM currently do not issue the total number of engagements that have occurred over the one-year period to 30 June 2023. Isio are actively engaging with the manager to encourage providing of such information.</p>	<p>IFM provide some case specific information about ESG-related initiatives for assets held in the Fund over the year, however IFM do not show how they have engaged in those cases.</p> <p>Examples of significant ESG-related initiatives implemented by assets held in the Fund over the year include:</p> <p>Sydney Airport (SYD) – Sydney Airport (SYD) entered a partnership with ID Know Yourself, a non-profit organisation which supports Aboriginal children receiving out of home care. As part of the partnership, SYD staff volunteer to support and mentor the indigenous children.</p> <p>Manchester Airport Group ('MAG') – Manchester Airport Group (MAG) signed a memorandum of understanding with Fulcrum BioEnergy to support the development and delivery of Sustainable Aviation Fuel (SAF). As part of the agreement, SAF will be supplied to Manchester airport, meaning that up to 10% of the fuel used by aircraft at the airport could be replaced by SAF.</p>
<p>Partners Group Private Markets Credit Strategies ('PMCS') 2020 Fund</p>	<p>Total engagements: 2 Corporate: 1 ESG: 1</p>	<p>Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks.</p> <p>An example of the ESG activity undertaken within the portfolio include:</p> <p>Schwind – Partners Group engaged with the equity sponsor in relation to the ESG margin ratchet. Partners Group participated in discussions with the Sponsor and the Company related to ESG KPIs terms, which were agreed with a focus on greenhouse gas emissions</p>

<p>BlackRock LDI Funds</p>		<p>and gender ratio at company and board level. The disclosure and a first reporting date is set for end of 2023.</p>
	<p>BlackRock currently do not provide details of their engagement activities for these funds as there are no equity positions held in this portfolio. Isio will work with BlackRock on the development of the firm's engagement reporting.</p>	<p>BlackRock's ESG related engagements are led by the BIS team. BlackRock have started to engage with derivative counterparties on governance issues and are working on engaging with them on environmental issues. At firm-level, BlackRock engages with many companies and informs clients about its engagement and voting policies via various forms of communication.</p>

Notes: ¹ For some managers, total engagements do not sum up, as a number of engagements are related to a combination of E,S and G issues.

Voting (for equity/multi asset funds only)

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on its behalf.

The Scheme's equity and diversified growth manager has provided details on its voting actions including a summary of the activity covering the reporting year up to 30 June 2023. The Trustee has adopted the manager's definition of significant votes and has not set stewardship priorities. The manager has provided examples of votes they deem to be significant. When requesting data annually, via their investment consultant, the Trustee informs their managers what they deem most significant.

BlackRock have informed the Trustee of an issue in relation to proxy voting on the equity fund in which the Scheme invests. The manager has confirmed that the issue related to votes not being made in relation to US securities, dating back to 2014. they have also confirmed that no significant votes were missed, and that the issue has not impacted the outcome of any vote (given the size of the positions held by the fund).

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Aquila Life MSCI World Fund	<p>Voteable Proposals: 13,878</p> <p>Proposals Voted: 13,521</p> <p>For Votes: 12,650</p> <p>Against Votes: 755</p> <p>Abstain Votes: 100</p> <p>Withheld Votes: 16</p> <p>Votes With Management: 12,714</p> <p>Votes Against Management: 807</p>	<p>New World Development Company Limited – BlackRock voted with management for a proposal to approve the re-election of members to the Company's board of directors on 22 November 2022. BIS supported this proposal in recognition that the shareholders would be well served by an orderly renewal of the board. This proposal was passed. The security represents <0.1% of the Fund.</p> <p>Techtronic Industries Co., Ltd. – On 12 May 2023 BlackRock voted against management, and against a proposal to approve the amendments to the Share Award Scheme and the Share Option</p>	<p>BlackRock use Institutional Shareholder Services (ISS) electronic platform to execute vote instructions; however, voting decisions are made by BlackRock Investment Stewardship team in accordance with their voting policies and procedures. While the team may reference data and analysis produced by proxy research firms, the team doesn't rely solely on this information when making voting decisions, nor does it follow any proxy research firm's voting recommendations. BlackRock categorise their voting actions into two groups: holdings directors</p>

		<p>Scheme. BIS rationale for this vote was that they believe the incentive arrangements do not support the long-term economic interests of shareholders, given they allow for providing options to service providers and have relatively short vesting periods. This proposal was passed. The security represents <0.1% of the Fund.</p>	<p>accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.</p>
<p>BlackRock Dynamic Diversified Growth Fund</p>	<p>Voteable Proposals: 7,685</p> <p>Proposals Voted: 7,179</p> <p>For Votes: 6,610</p> <p>Against Votes: 338</p> <p>Abstain Votes: 120</p> <p>Withheld Votes: 18</p> <p>Votes With Management: 6,782</p> <p>Votes Against Management: 397</p>	<p>Broadcom Inc. – At the April 2023 AGM, BIS voted against the committee compensation member proposal. BIS stated several concerns including the company granting a one-time award to the CEO for consecutive years, and a long term pay plan that in BIS’s view was overly oriented to the short term. BIS also rationalised their decision stating there were insufficient transparency and risk-mitigating measures. This proposal was passed. The security represents <0.1% of the Fund.</p> <p>Shell Plc - BlackRock voted for a proposal (with the management) to approve the Shell Energy Transition Progress Update. BIS supported this proposal in recognition of the Company’s disclosed energy transition plan to manage climate-related risks and opportunities and the Company’s progress against this strategy. This proposal was passed. The security represents <0.1% of the Fund.</p>	

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Envelope Sent	Hashed/Encrypted	04 December 2023 15:13
Certified Delivered	Security Checked	05 December 2023 08:30
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