

## Covrad Heat Transfer Limited Pension Scheme (the 'Scheme') - Investment Accounting Disclosures

### Trustees' Policies

This section sets out the policies in the Statement of Investment Principles ('SIP') in force at the Scheme year end, relating to the following:

- Financially Material considerations
- Non-financial matters
- Investment Manager Arrangements

Stewardship including the exercise of voting rights and engagement activities and non-financial matters is set out in the 'Voting and Engagement' section.

### Financially Material considerations

*The Trustees have considered their approach to environmental, social and corporate governance ("ESG") factors for the long term time horizon of the Scheme and believe there can be financially material risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's Investment Managers. The Trustees require the Scheme's Investment Managers to take ESG and climate change risks into consideration within their decision-making, in relation to the selection, retention or realisation of investments, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.*

*The Trustees will seek advice from the Investment Consultant on the extent to which their views on ESG and climate change risks may be taken into account in any future Investment Manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Consultant, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.*

### Investment Manager Arrangements and fee structure

#### **Review process**

*Appointments of Investment Managers are expected to be long-term, but the Trustees will review the appointment of the Investment Managers in accordance with their responsibilities. Such reviews will include analysis of each Investment Manager's performance and processes and an assessment of the diversification of the assets held by the Investment Manager. The review will include consideration of the continued appropriateness of the mandate given to the Investment Manager within the framework of the Trustees' investment policies.*

*The Trustees receive quarterly performance monitoring reports from the Investment Manager which consider performance over the quarter, one and three year periods. In addition, any significant changes relating to the criteria below that the Investment Consultant is aware of will be highlighted, which may lead to a change in the Investment Consultant's rating for a particular mandate. These ratings help to determine an Investment Manager's ongoing role in implementing the investment strategy. If there are concerns, the Trustees may carry out a more in-depth review of a particular Investment Manager. Investment Managers will also attend Trustees meetings as requested.*

*Fund manager remuneration is considered as part of the manager selection process. It is also monitored regularly with the help of the Investment Consultant to ensure it is in line with the Trustees'*

*policies and with fee levels deemed by the Investment Consultant to be appropriate for the particular asset class and fund type.*

## **Selection / Deselection Criteria**

*The criteria by which the Trustees will select (or deselect) the Investment Managers include:*

- *Parent - Ownership of the business;*
- *People - Leadership/team managing the strategy and client service;*
- *Product - Key features of the investment and the role it performs in a portfolio;*
- *Process - Philosophy and approach to selecting underlying investments including operational risk management and systems;*
- *Positioning - Current and historical asset allocation of the fund;*
- *Performance - Past performance and track record;*
- *Pricing - The underlying cost structure of the strategy;*
- *ESG – Consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments.*

*An Investment Manager may be replaced, for example (but not exclusively), for one or more of the following:*

- *The Investment Manager fails to meet the performance objectives set out in Appendix II;*
- *The Trustees believe that the Investment Manager is not capable of achieving the performance objectives in the future;*
- *The Investment Manager fails to comply with this Statement.*

## **Investment Managers' fee structure**

*The Investment Managers are remunerated by receiving a percentage of the Scheme's assets under management and, in some cases, through the application of a flat fee. In addition, a performance related fee may be payable. Details of the fee arrangements are set out in Appendix II. It is felt that this method of remuneration provides appropriate incentives for the Investment Managers to target the agreed level of outperformance whilst adhering to the level of risk specified by the Trustees.*

## **Portfolio turnover**

*The Trustees require the Investment Managers to report on actual portfolio turnover at least annually, including details of the costs associated with turnover, how turnover compares with the range that the Investment Manager expects and the reasons for any divergence.*

## Voting and Engagement

The Trustees is required to disclose the voting and engagement activity over the Scheme year. The Trustees has appointed Minerva Analytics ('Minerva') to obtain voting and investment engagement information ('VEI') on the Scheme's behalf.

This statement provides a summary of the key information and summarises Minerva's findings on behalf of the Scheme over the Scheme year.

### Voting and Engagement Policy and Funds

The Trustees policy on stewardship is as set out below in the SIP dated September 2020:

*As the Scheme invests in pooled funds, the Trustees acknowledge that they cannot directly influence the policies and practices of the companies in which the pooled funds invest.*

*They have therefore delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers. The Trustees encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters such as strategy, capital structure, conflicts of interest policies, risks, social and environmental impact and corporate governance as part of their decision-making processes. The Trustees require the Investment Managers to report on significant votes made on behalf of the Trustees.*

*If the Trustees become aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustees' expectation, then the Trustees may consider terminating the relationship with that Investment Manager.*

*When considering the selection, retention or realisation of investments, the Trustees have a fiduciary responsibility to act in the best interests of the beneficiaries of the Scheme, although they have neither sought, nor taken into account, the beneficiaries' views on matters including (but not limited to) ethical issues and social and environmental impact. The Trustees will review this policy if any beneficiary views are raised in future.*

The table below sets out the funds the Scheme invested in over the Scheme year and states the use of a proxy voter.

Fund / Product Manager	Investment Fund/Product	Investment Made Via	Fund / Product Type	Period Start Date	-	Period End Date	'Proxy Voter' Used?
Standard Life	Index Linked Bond Fund	Direct	DB Fund	06/04/20	-	05/01/21	
	Long Bond Fund	Direct	DB Fund	06/04/20	-	05/01/21	
	Managed Fund	Direct	DB Fund	06/04/20	-	05/01/21	
	Pooled Property Fund	Direct	DB Fund	06/04/20	-	05/01/21	
	UK Gilt Fund	Direct	DB Fund	06/04/20	-	05/01/21	
Scottish Widows	Annuity Product	Direct	Annuity	06/04/20	-	05/01/21	
Aviva	AVC Product	Direct	DC - AVC	06/04/20	-	05/01/21	
Utmost Life	AVC Product	Direct	DC - AVC	06/04/20	-	05/01/21	
	Confirmed by Manager	Not Yet Confirmed by Manager		*Not Applicable			

### Exercise of voting rights

The voting activity was requested from all of the Scheme's managers, where appropriate, but they have not provided the information. Therefore, the Trustees are unable to confirm whether their voting policies have been followed. Neither is it possible for the Trustees to describe

voting behaviour that has been undertaken on their behalf. Please see section on ‘Outstanding Information’ for further details.

## Manager Engagement Information

The Trustees believe that an important part of responsible oversight is for the Scheme’s investment managers to engage with the senior management of investee companies on any perceived risks or shortcomings – both financial and non-financial – relating to the operation of the business, with a specific focus on ESG factors. As such, they expect the Scheme’s managers to engage with investee companies where they have identified any such issues.

The engagement activity was requested from all of the Scheme’s managers, but they have not provided the information. Therefore, the Trustees are unable to confirm whether their engagement policies have been followed.

## Outstanding Information

This section sets out the status of outstanding information Minerva have requested.

Fund / Product Manager	Investment Fund/Product	Information Request Acknowledged	Voting Info Available?	Engagement Info Available	Info Rec'd by Minerva Deadline
Standard Life	Index Linked Bond Fund	Positive Response	Nothing to Report	Nothing to Report	*Not Applicable
	Long Bond Fund	Positive Response	Nothing to Report	Nothing to Report	*Not Applicable
	Managed Fund	Positive Response	Nothing to Report	Nothing to Report	*Not Applicable
	Pooled Property Fund	Positive Response	Nothing to Report	Nothing to Report	*Not Applicable
Scottish Widows	UK Gilt Fund	Positive Response	Nothing to Report	Nothing to Report	*Not Applicable
	Annuity Product	Not Provided	Nothing to Report	Nothing to Report	*Not Applicable
Aviva	AVC Product	Not Provided	Nothing to Report	Nothing to Report	*Not Applicable
Utmost Life	AVC Product	Positive Response	Nothing to Report	Nothing to Report	*Not Applicable

\*Indicates that from previous communications the manager had provided the required voting and/or engagement – or had indicated that there was none to report

Minerva is continuing to engage with the relevant managers on the identification and provision of any missing VEI information and will provide the Scheme with an update as soon as all of the managers have formally reported back, and any information provided has then been analysed.

## Conclusion

This statement has shown that no voting and engagement information has been provided by any of the managers. Minerva will seek any outstanding information and will agree a way forward on any actions identified with the Trustees once this information is available.