

# The Ethika Auto Enrolment Pension Scheme

## Implementation Statement

for the year ending 31 May 2022

**This Implementation Statement (“the Statement”) has been prepared by Dalriada Trustees Limited (“the Trustee”) for The Ethika Auto Enrolment Pension Scheme (“the Scheme”).**

**It has been prepared to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734), as amended by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (SI 2018/988) (“the Disclosure Regulations”).**

**The Ethika Auto Enrolment Pension Scheme**

**October 2022**

# Introduction

Dalriada Trustees Limited (“Dalriada”) was appointed Trustee of the Scheme (“the Trustee”) by Order of The Pensions Regulator (“TPR”) amid concerns as to how the Scheme was being managed by the former trustees and, further, that members may have been victims of a pensions scam.

A Statement of Investment Principles (“SIP”) dated September 2020 was prepared by the Trustee and published on 30 September 2020, to comply with Section 35 of the Pensions Act 1995 as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

As such, the SIP has been in force for the Scheme Year and the Scheme’s assets have been invested in line with the SIP and Investment Strategy over the period. No SIP was in place prior to 30 September 2020, due to the particular circumstances of the Scheme, as outlined below.

The Scheme appointed Advisory Investment Services Limited (“AIS”) as Investment Adviser in the previous Scheme Year and AIS has remained in this role during the current Scheme Year.

This Statement has been prepared in accordance with the Disclosure Regulations, in as far as it has been possible to do so, given the circumstances of the Scheme.

## BACKGROUND OF THE SCHEME

Prior to Dalriada’s appointment as Trustee, the former trustees had invested Scheme assets in inappropriate and unorthodox investments, without taking appropriate advice, as required by pensions legislation. These assets were generally illiquid and/or of uncertain value.

Therefore, the Trustee’s aim is to recover what funds it can for members, resolve any associated tax or legal issues and, thereafter, to allow members to transfer the value of their pension pots to alternative, more appropriate arrangements and wind-up the Scheme. Given the irregular nature of the Scheme, the time frame for this is uncertain and may extend to a number of years.

In so far as it is possible to do so, the Trustee invests the available assets to secure a return over cash, with a lower level of risk. The tolerance to capital losses is minimal, accepting there will be drawdowns on the capital value, not least to meet ongoing expenses.

The SIP and this Statement only apply to those assets that the Trustee has been able to recover and realise, such that they are capable of being invested in accordance with the SIP. If the Trustee is able to recover and realise these unorthodox investments, such funds will be invested in line with the SIP.

Under applicable legislation, the Scheme is a defined contribution (“DC”) scheme, for the purpose of this Statement. The Trustee’s investment powers are set out in the Trust Deed and Rules and subsequent amending deeds. The SIP is consistent with those powers.

In this Statement we seek to:

- set out the Trustee’s investment policies as per the SIP;
- comment on the voting and engagement behaviour and how the Trustee’s policy has been followed during the Scheme Year; and
- set out how, and the extent to which, the SIP has been followed during the Scheme Year.

# Trustee Investment Policies

Generally, the ultimate objective of any (legitimate) pension scheme is to provide an income in retirement for its members which reflects the level of funds paid into members' individual accounts and the returns achieved from the investment funds held.

This section sets out the policies in the SIP in force at the Scheme year end, relating to the following:

- Financially Material Considerations for the Investment Strategy
- Non-Financial Matters
- Stewardship (Voting and Engagement)
- Investment Manager Arrangements

## FINANCIALLY MATERIAL CONSIDERATIONS FOR THE INVESTMENT STRATEGY

The Trustee has, to the extent possible given the particular circumstances of the Scheme, considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine the investment strategy over the length of time it is anticipated the Scheme will remain ongoing.

The Trustee believes that, to the extent possible given the particular circumstances of the Scheme, financially material considerations (including climate change) are allowed for when setting the investment strategy.

To invest in the best financial interests of the beneficiaries, the Trustee has elected to invest realised assets through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest or of the unorthodox investments held by the Scheme. However, the fund managers and the investment consultant are expected to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment managers' own philosophy and processes to ESG issues. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies will also be reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors, including climate change, could impact the Scheme and its investments;
- Use ESG ratings information to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers share information about their ESG policies and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' processes, it will take this into account on whether to select or retain an investment manager.

#### NON-FINANCIALLY MATERIAL CONSIDERATIONS

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

#### STEWARDSHIP

The Trustee's policy on the exercise of rights attaching to investments, including any voting rights, is that these rights should be exercised by the investment managers on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment managers should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the fund managers to engage with investee companies on the capital structure of those companies and their management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment managers, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

#### INVESTMENT MANAGER ARRANGEMENTS

The Trustee, after considering suitable advice from the Investment Adviser, appointed BlackRock and Legal & General Investment Management as the managers ("Investment Managers") of the assets held by the Scheme, all of which are held on the Mobius Life investment platform ("Mobius").

The investment managers are authorised and regulated by the FCA and are responsible for stock selection, asset allocation and the exercise of any voting rights. All the managers are remunerated by fund-based charges on the value of the Scheme's assets that they hold.

#### ***Incentives to align investment managers investment strategy and decisions with the Trustee's policies***

The Scheme invests in pooled funds. The Trustee acknowledges the funds' investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy, taking into account the fees being charged, which acts as the fund managers' incentive.

The Trustee uses the fund objective/benchmark as a guide on whether the fund's investment strategy is being followed and monitors this regularly.

#### ***Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial 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***

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company, as it believes that these factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as cash and bonds, as they may not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fees paid to the fund managers incentivises them to execute their investment policies consistently, as the longer the units are held the larger the income to the investment manager.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

***How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies***

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the individual funds over at least a 3-5 year period or over a market cycle, if appropriate, when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Scheme will depend upon the asset allocation. The charges are considered as part of the manager selection process. The charges are monitored regularly with the help of its investment consultant to ensure they are in line with the Trustee's policies for each fund. The Trustee believes that its and each fund manager's goals are aligned.

***How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range***

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manage. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

***The duration of the arrangement with the asset manager***

The Trustee plans to hold each of its investments for the period which the Scheme expects to remain ongoing, but will keep this under review.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

# Stewardship – Voting and Engagement

The Trustee is required to disclose the voting and engagement activity over the Scheme year, where applicable. The Trustee requested the Scheme's Investment Adviser to obtain voting and investment engagement information from the Investment Managers (LGIM and Blackrock) on the Scheme's behalf.

This statement provides a summary of the key information provided by the Investment Managers to the Investment Adviser in relation to the Scheme Year.

## VOTING AND ENGAGEMENT ACTIVITY

The Trustee's policy in relation to stewardship is set out on page 8 of the SIP.

As the Scheme's investments are exclusively in cash and bond funds, with no voting rights, there was no voting activity to report.

Should the Investment Strategy of the Scheme (and the SIP) be amended in the future to include an element of listed equities or other assets that carry voting rights and afford fund managers the opportunity to engage with investee companies, the Trustee will work with its Investment Adviser and Investment Managers in relation to providing information regarding voting and engagement activity in future implementation statements.

For completeness, as the Scheme's investments carry no voting rights, no "significant votes" have been identified or voted on over the course of the Scheme Year.

## MANAGER ENGAGEMENT INFORMATION

The Trustee believes that an important part of responsible oversight is for 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, it expects the Scheme's Investment Managers to engage with investee companies where they have identified any such issues.

The engagement activity was requested from all of the Scheme's Investment Managers, where appropriate.

### LGIM

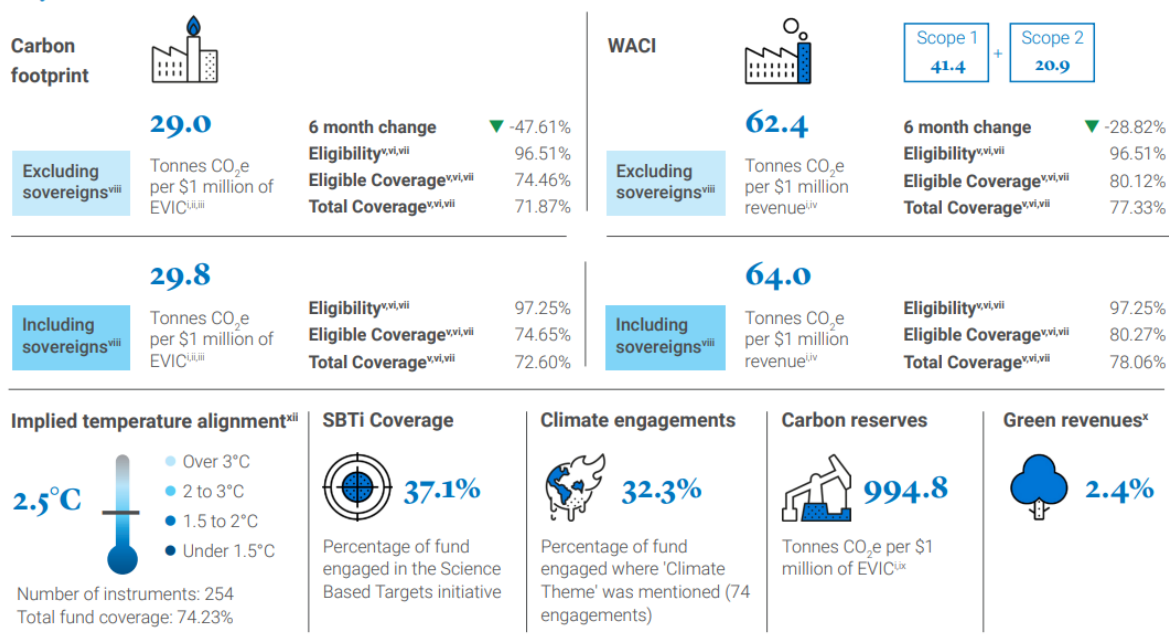
LGIM have provided the summary overleaf of the engagement activity for their Short-Dated Sterling Corporate Bond Index Fund.

## Engagement (12 month period)<sup>xi</sup>



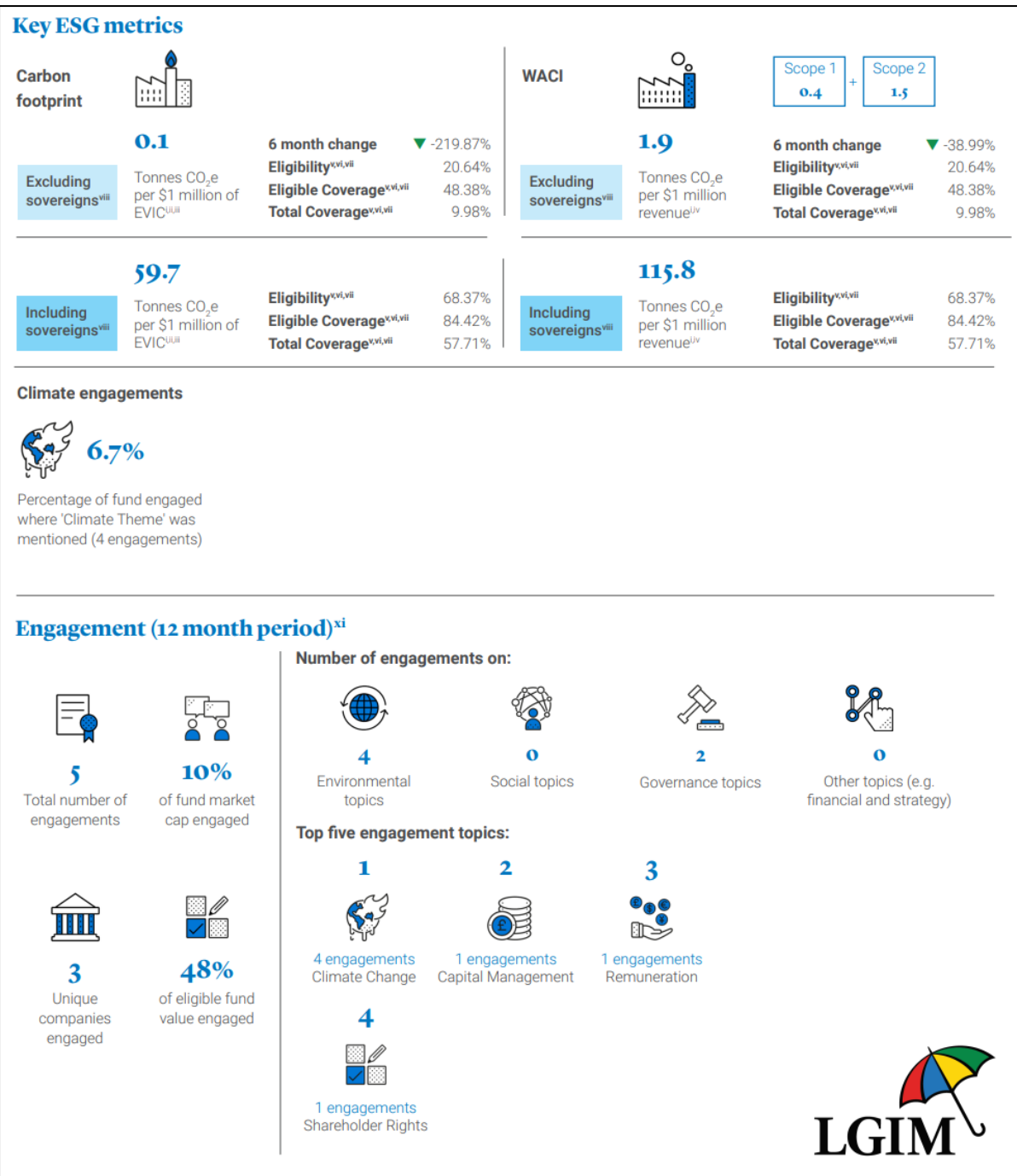
In relation to this fund, LGIM also provided the below summary of their key ESG metrics.

## Key ESG metrics



Although the LGIM Cash Fund will have limited potential for engagement activity, or ESG activity, LGIM still provided similar summaries for said fund, as detailed overleaf.





### Blackrock

Blackrock were unable to provide fund level engagement information in respect of the Sterling Corporate Bond 1-5 years Fund. However Blackrock did provide the Investment Adviser with an asset-level report, in respect of their Sterling Fixed Income funds.

In Q1 2022, the Blackrock Investment Stewardship ("BIS") team held more than 806 engagements with more than 719 unique companies across 43 markets. The BIS team also voted at more than 2,600 meetings in relation to over 22,000 management and shareholder proposals. Blackrock also states that as of 31 May 2022 they managed over \$37 billion on behalf of clients in green bonds.

Blackrock have produced a set of Global Principles, which set out the core elements of corporate governance that guide their investment stewardship activities globally. The Global Principles were

updated for 2022 to include climate risk, board diversity, sustainability reporting, ESG in executive compensation and changes to corporate form.

Blackrock have provided two examples of engagement with corporates (i.e. Barclays Plc and Shell Plc), in relation to votes supporting the efforts of both companies to manage their climate-related risks and opportunities. The report provided states that Blackrock is an active participant in the capital markets, but specific examples in relation to the Sterling Corporate Bond 1-5 years Fund were not available.

## OUTSTANDING INFORMATION

This section sets out the status of outstanding information the Investment Adviser has requested.

While Blackrock provided information at an asset class level, they did not have data at the fund level. The Investment Adviser has encouraged the Investment Manager to produce fund level reports in the future.

## CONCLUSION

As the Scheme's investments are exclusively in cash and bond funds, with no voting rights, there was no voting activity to report. For completeness, as a result, no "significant votes" have been identified or voted on over the course of the Scheme Year.

LGIM were able to provide fund specific summaries in relation to engagement and ESG metrics, for both the cash and bond funds. The engagement in relation to the LGIM Cash Fund was understandably low, given the nature of the fund. In relation to the Bond Fund, the LGIM summary indicates that engagement focused heavily on ESG issues, with climate change being the most significant engagement topic.

While the nature of the Scheme's portfolio does not lend itself to high levels of voting and engagement activity, the Trustee will continue to review the information provided. As this is the first year any engagement information has been provided, it is difficult to critically analyse how effective the Investment Managers have been with their engagement.

The Scheme's Investment Adviser will seek any outstanding information and will agree a way forward on any actions identified with the Trustee should this information become available.

# Review and Changes to the SIP during the Scheme Year

The Scheme did not have a SIP in place prior to September 2020. The SIP that applied over the Scheme Year, which was dated 30 September 2020, can be found [here](#).

The Trustee prepared and signed the SIP in September 2020, complying with all the legislative requirements including the requirements on clarifying and strengthening trustee duties that came into force on 1 October 2019, as well as other changes that came into force on 1 October 2020. The Scheme's assets, excluding the inappropriate assets, were invested in line with the SIP in January 2021.

The SIP sets out the Trustee's policies relating to:

- Investment strategy;
- Types of investment;
- Balance between different types of investment;
- Expected return on investments; Realisation of investments; and
- Risks.

Full details of these policies can be viewed in the SIP (linked above).

In order to comply with the requirements on clarifying and strengthening trustee duties (that came into force on 1 October 2019), the Trustee also set out the following in the SIP:

- how they take account of financially material considerations over the appropriate time horizon of the investments, including those arising from ESG considerations, including climate change;
- their policies in relation to the stewardship of the investments, including engagement with investee firms and the exercise of the voting rights associated with the investment, where applicable; and
- The Trustee decided not to set a policy for non-financial matters in the selection, retention and realisation of investments. Whilst the Trustee believes it looks out for the best interests of the members, they have not yet explicitly taken into account the member views on ESG or ethical views due to the particular circumstances of the Scheme.

In order to comply with the requirements on investment manager arrangements as well as policies on engagement and stewardship (that came into force on 1 October 2020), the Trustee set out the following in the SIP:

- Arrangements with any asset manager, including incentives, remuneration, performance evaluation, portfolio turnover and duration of the arrangement.
- How they monitor the investee company on capital structure and how they manage actual and potential conflicts of interest in relation to their engagement.
- The Trustee also set out how they would monitor financially material considerations.

The Trustee remains of the view that that all of the above policies will help deliver long-term value for all members.

#### REVIEW AND CHANGES TO THE INVESTMENT STRATEGY

During the Scheme Year, in response to the impact of the Covid-19 pandemic, disruptions to supply chains and inflationary pressures, and the consequent volatility in the financial markets, the Trustee sought the advice of the Investment Adviser to confirm the suitability of the SIP and associated investment strategy.

The primary aim of the investment strategy was to avoid default risk whilst achieving a return above that available on cash. The strategy was created for a benign economic environment, with relatively stable inflation and interest rates.

Given the higher-than-expected volatility in the market, the Trustee (with the advice of the investment advisor) decided to reduce the exposure of the Scheme to the current corporate bond funds and increase the proportion of funds invested in cash, based on the Scheme's expected time to wind-up. The timescale for the winding-up of the Scheme is uncertain, but the wind-up will begin after a successful application to the Fraud Compensation Fund ("FCF") has resulted in compensation being paid to the Scheme.

Given the estimate that the Scheme is three years from a possible wind-up, the Scheme's exposure to corporate bonds was not reduced and the proportion of funds held in cash was maintained.

This amendment to the strategy was agreed by the Trustee, further to the advice of AIS. The SIP has been updated to reflect the amendment to the strategy and can be found via the link above.

# Compliance with SIP during the Scheme Year

The Trustee is of the opinion that the SIP has been followed over the Scheme Year. The actions taken over the year in compliance with the SIP are as follows:

- The Trustee has monitored the investments via regular reviews with the Investment Adviser to ensure that this objective is being met. This includes areas such as manager performance, fees and costs, as well as overall governance costs. Mobius also provide quarterly reports that have been reviewed by the Trustee and the Investment Adviser going forward.
- The ongoing monitoring of the investments identified that the volatility in the financial markets – due to the pandemic, supply chain disruptions and inflationary pressures – required an amendment to the strategy to help reduce the volatility in the Scheme’s portfolio. The Trustee sought appropriate advice from the Investment Adviser and decided to reduce risk by increasing the proportion of cash held in the portfolio. This action was taken in accordance with the objectives of the SIP and a consequence of the ongoing monitoring performed by the Trustee and Investment Adviser.
- Prior to investing the Scheme’s funds in January 2021, the Trustees engaged with the Investment Adviser at length and obtained advice as to the most appropriate funds and Investment Fund Managers to best implement the Investment Strategy. The Investment Adviser considered the performance of various funds and fund managers, including the costs of the funds, the fund managers’ philosophy, the underlying assets of the funds, before recommending the chosen Investment Managers. The managers were also selected as they are UN PRI signatories. The Trustee is of the opinion that the manager selection exercise satisfied the requirements of the SIP and the conclusions remain appropriate following subsequent reviews with the Investment Adviser during the Scheme Year.
- Implemented the Investment Strategy in line with the Scheme’s SIP and the advice of the Investment Adviser. The primary objective of the investment Strategy is to provide a reasonable, stable investment portfolio, that targets some return over cash whilst protecting against further capital loss. Investing in the funds detailed above was in line with this objective and also ensured that the Investment Strategy of the Scheme is consistent with relevant legislation/regulations, the Scheme’s Trust Deed and Rules and best practice. The requirement to include diversification in the portfolio was also satisfied by the implementation.
- The Scheme’s Investment Adviser has been able to obtain engagement and ESG information from the Investment Managers, which has enabled the Trustee to consider and review these requirements in line with the SIP. While the information provided is limited by the nature of the Scheme’s fund portfolio, the Trustee is of the opinion that the requirements of the SIP in relation to voting, engagement and ESG have been met.

# Conclusion

The Trustee is of the view that the Scheme's SIP has been followed during the Scheme year.

As identified in this Statement, the Trustee implemented an amendment to the investment strategy in response to the volatility in the financial markets over the course of the Scheme Year. The SIP has been amended to reflect this agreed change in approach.

With the input of the Investment Adviser, the Trustee will continue to review the Scheme's Investments on a quarterly basis and take action should the Investment Objectives and other SIP policies not be met.