

# Advice on the annual Implementation Statement

## Nelson Hurst Group Pension Scheme 4

22 August 2023

*This note has been prepared for the Trustee of the Nelson Hurst Group Pension Scheme 4 (the “Scheme”) in response to your request that we provide a draft Implementation Statement for the Scheme.*

### Background and introduction

There is a requirement for most trust-based defined benefit (“DB”) and defined contribution (“DC”) pension Schemes to produce an annual Implementation Statement (the “Statement”) which covers the Scheme Year.

The Department for Work and Pensions (“DWP”) issued [Statutory Guidance](#) in June 2022 which applies to Statements that Trustees are required to prepare in respect of any Scheme year ending on or after 1 October 2022. The guidance gives an overview of the items which Trustees “must”, “should”, are “encouraged”, “could” or “may” include in their Statements.

“Must” items are requirements imposed by legislation. “Should” items are expected to be followed, and if not followed, Trustees should describe concisely the reasons for deviating from the guidance approach. For “Could”, “May” and “Encouraged” items, it is hoped that Trustees will address them where possible but they are not expected to explain reasons if not followed. We have included all “must” and have excluded “should” items that are not applicable to the Scheme.

The guidance has clarified that the Pensions Regulator is the primary audience for the IS. At the same time, the IS should be written in plain English as far as possible, such that a reasonably engaged and informed member could interpret and understand the disclosures. Schemes are encouraged to consider producing member-facing summary versions of the IS (with signposting to the full document) if Scheme-specific research has found that members are more likely to engage with a different style of communication, such as a summary version. Please let us know if you would like us to prepare a summary version of the IS for members.

The DWP has confirmed that it is important that Trustees of all Schemes understand and consider financially material Environmental, Social and Governance (“ESG”) factors and stewardship approaches in their investment decision. Furthermore, DWP will revisit the extent to which the new guidance has been followed in the second half of 2023 when it is expected to review stewardship disclosure requirements.

For DB Schemes without a DC section (such as your Scheme), the Statement should set out how, and the extent to which, the Trustee has followed the **voting and engagement policies** in its Statement of Investment Principles (“SIP”) during the Scheme Year. In addition, Trustees should seek to demonstrate they have had regard to the Statutory Guidance.

The Statement is also required to include a description of the voting behaviour by, or on behalf of, Trustees (including the most significant votes cast by trustees or on their behalf) during the Scheme Year and state any use of the services of a proxy voter during that year.

The DWP’s guidance states<sup>1</sup>: “where Trustees use the voting policy of the asset manager, they should briefly summarise in the IS whether the asset manager’s voting behaviour was aligned with the Scheme’s stewardship priorities.”

### Key points to note

We have produced the draft Statement in this note based on our current understanding of the regulatory requirements and the DWP’s stewardship guidance. Ultimately it is the Trustee’s responsibility to produce a compliant Statement and the Pensions Regulator can impose fines for non-compliant statements. Therefore, you may wish to obtain legal advice to ensure that all requirements have been met.

There is interest in Implementation Statements from the Pensions Regulator, policymakers, and the media; as such please ensure you are comfortable with the content being in the public domain.

### Next steps

We propose that you review the Statement and include it within your Report & Accounts ending 30 April 2023 to comply with the relevant regulations. The Report & Accounts need to be finalised within seven months of the end of the Scheme Year, ie by 30 November 2023. **You are required to publish your**

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**Statement on a website for public access as soon as reasonably practicable after the Report & Accounts are signed off.**

We expect you will use the same location for the Statement as last year: <https://global.lockton.com/gb/en/nelson-hurst-pension-scheme>. It remains very important that the website is readily and publicly available. A specific web address for the location of the published materials on the internet must be included in members' Annual Benefit Statements (where members do not receive one, they must be sent a separate notification containing this information).

Please let us know if you have any questions or would like to discuss.

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## Contact details

*Lee Dodds, FIA*

*Partner*

+44 (0)20 7432 0686

Lee.Dodds@lcp.uk.com



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# *Nelson Hurst Group Pension Scheme 4*

## *Implementation Statement, covering the Scheme Year from 1 May 2022 to 30 April 2023*

The Trustee of the Nelson Hurst Group Pension Scheme 4 (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Scheme Year. This is provided in Sections 1 and 2 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

In preparing the Statement, the Trustee has had regard to the guidance on [Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement](#), issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

### **1. Introduction**

The Scheme completed its second buy-in transaction (and the transfer of the majority of assets) to Rothesay Life during the Scheme Year (mid-May 2022). Following completion of the transaction, the Scheme held a balance in the Legal & General (“L&G”) Sterling Liquidity Fund. The SIP was reviewed and updated in the same month to reflect the purchase of the second bulk annuity contract which covered the Scheme’s liabilities. The first annuity policy was purchased in November 2010 with Legal & General Investment Management.

No changes were made to the voting and engagement policies in the SIP during the Scheme Year. The SIP in place as at the Scheme Year end was dated May 2022. The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the Scheme Year.

### **2. Voting and engagement**

The Trustee has delegated to its remaining investment manager the exercise of rights attaching to investments, including voting rights, and engagement. The policy is here: <https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf>

However, the Trustee takes ownership of the Scheme’s stewardship by monitoring and engaging with the manager as detailed below. As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

Following the introduction of DWP’s guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. In March 2023, the Trustee set climate change as the Scheme’s stewardship priority, and the investment manager has been notified of this priority.

This priority was selected because the Trustee believes that it is a key market-wide risk and an area where good stewardship and engagement can improve long-term financial outcomes.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with the manager to clarify expectations and encourage improvements.

### **3. Description of voting behaviour during the Scheme Year**

The SIP notes that the Scheme’s investments are held in units of pooled funds and two annuity policies. The Trustee therefore does not have any direct voting rights; any voting rights are indirect as they pertain to the underlying investments within the pooled funds and annuity policy. Hence, in effect the Trustee has delegated voting rights to the investment managers of the pooled fund and the annuity provider. The Trustee itself has not used proxy voting services over the Scheme Year.

Throughout the Scheme Year, the Scheme did not invest in any funds that held listed equities or assets with voting opportunities.