

Metal Improvement Company Hourly Paid Staff Pension Scheme

Annual Implementation Statement

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Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees of the Metal Improvement Company Hourly Paid Staff Pension Scheme ('the Scheme'), has been followed during the year to 31 December 2023. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator. The table later in the document sets out how, and the extent to which, the policies in the SIP have been followed.

Investment Objectives of the Scheme

The Trustees are required to invest the Scheme's assets in the best interest of the members, beneficiaries and the Sponsor, and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.

Within this context the Trustees' main objectives with regards to investment policy are:

- To achieve, over the long term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Sponsor in relation to the size and volatility of the Sponsor's contribution requirements.

Review of the SIP

The Trustees will review the Scheme's SIP at least once every three years and without delay after any significant change in investment policy. Any change to the SIP will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

The Scheme's SIP was most recently updated in September 2023 to reflect an updated approach to ESG risk management, as well as a section on socially responsible investment and ESG policies held by the Trustees.

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Assessment of how the policies in the SIP have been followed for the year to 31 December 2023

The information provided in the following table highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the policies in the SIP. The SIP is attached as an Appendix and sets out the policies referenced below.

In summary, it is the Trustees' view that the policies in the SIP have been followed during the Scheme year to 31 December 2023.

	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2023
1	Securing compliance with the legal requirements about choosing investments	<i>The investment responsibilities of the Trustees are governed by the Scheme's Trust Deed and Rules, as detailed in Section 2 of the SIP. In the Trustees opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.</i>	<p>There have been no changes to the Scheme's investment strategy over the year to 31 December 2023 and therefore no suitability advice was required during the year.</p> <p>Given the Scheme does not have a default arrangement, the requirements in relation to a default investment strategy (and a triennial review) do not apply to the Scheme. Nonetheless, the Trustees will periodically review the continuing suitability of the Scheme's investments, with assistance from their Investment Adviser as and when required.</p>
2	Kinds of investments to be held	<p><i>As outlined in section 5 of the SIP, the Scheme has no requirement for a default arrangement, as defined by the Charges and Governance Regulations.</i></p> <p><i>The Trustees retain full discretion over the Scheme's actual asset allocation.</i></p>	<p>The Scheme is closed to new entrants and future accrual. No contributions have been paid to the Scheme since the Regulations came into force and the Scheme is not a qualifying scheme for auto enrolment purposes. The Scheme therefore has no requirement for a default arrangement, as defined by the Charges and Governance Regulations. As such, the requirements in relation to a default investment strategy do not apply to the Scheme.</p> <p>No changes to the type of investments used by the Scheme were implemented in the Scheme year and the strategy remains consistent with the policy in the SIP.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2023
3	The balance between different kinds of investments	<i>The Trustees review the continuing suitability of the Scheme's investments, including the appointed managers, which may be adjusted from time-to-time. However, any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.</i>	<p>Member assets are invested in the Scottish Widows With Profits Fund and the Trustees continue to monitor the fund on a regular basis.</p> <p>The Trustees last undertook a detailed strategy review for the GMP underpin shortfall investments in 2018, following the 2016 actuarial valuation. As part of that review, the Trustees decided to introduce an allocation to the LGIM Over 15 Year Index-Linked Gilts Index Fund. These investments are kept under regular review through quarterly reports and Trustees' meetings.</p>
4	Risks, including the ways in which risks are to be measured and managed	The Trustees recognize risk (both investment and operational) from a number of perspectives in relation to the funds used by the Scheme, as detailed in section 4 of the SIP.	<p>As detailed in the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.</p> <p>The Scheme maintains a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarizes methods to mitigate the risks.</p>
5	Expected return on investments	As highlighted in Section 6 of the SIP, the expected return on investments will be in line with the target investment strategy, which is in Section 5 of the SIP.	<p>The With Profits Fund provides a guaranteed return of 4% p.a. up to each member's normal retirement age. Scottish Widows declares regular bonuses, when possible, and does not risk the financial strength of the fund to exceed the minimum guaranteed amount that policyholders will receive at maturity.</p> <p>The Trustees last undertook a detailed review of the investment strategy in 2018, which considered the expected return on the Scheme's investments. No changes to the strategy have been made since this review.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2023
6	Realisation of investments	<i>As highlighted in section 8 of the SIP, the investment managers have discretion in the timing of the realisation of investments and in considering the liquidity of those investments, within parameters stipulated in the relevant appointment documentation.</i>	<p>All investment transactions are processed by the investment managers. A schedule of transactions and compliance with Service Level Agreements (SLAs) is provided in the Aon administration reports. Aon makes available frequent administration monitoring reports, and any issues are raised as part of the Trustees meetings. Should there be any significant administration issues which require immediate attention, these will be raised directly with the Trustees outside of regular meeting cycle.</p> <p>The cash and gilt funds used by the Scheme are highly liquid pooled investment vehicles, and are therefore easily realisable.</p> <p>The With Profits Fund is also realisable, however a Market Value Reduction may be applied on a disinvestment that does not take place on a contractually agreed date such as selected retirement age or death.</p>
7	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realization of investments	<p>As highlighted in section 10 of the SIP, the Trustees consider financially material considerations in the selection, retention and realization of investments:</p> <p><i>The Trustees have given appointed investment managers full discretion in evaluating environmental, social and corporate governance ("ESG") factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities (where applicable), in accordance with their own</i></p>	<p>The Trustees delegate the day-to-day management of the assets to external investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and are carrying out their work competently.</p> <p>The Trustees periodically review the continuing suitability of the Scheme's investments, including the appointed managers, which may be adjusted from time-to-time.</p> <p>The Trustees acknowledge that fixed income and with-profit funds do not generally score highly on the Investment Adviser's ESG rating scale. This is due to the nature of the underlying investments, where it is harder to engage with the</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2023
		<i>corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.</i>	<p>issuer of debt, or harder to establish ESG measurement for derivative strategies.</p> <p>The Trustees keep their ESG policies under regular review with the SIP subject to review at least every three years.</p>
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realization of investments	<i>Member views are not taken into account in the selection, retention and realisation of investments.</i>	Member views are not explicitly taken into account in the selection, retention and realisation of investments. There were no changes to the policy during the Scheme year.
9	The exercise of the rights (including voting rights) attaching to the investments	<i>As highlighted in section 10 of the SIP, the Trustees have given appointed investment managers full discretion in exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities.</i>	<p>As the Scheme invests solely in pooled funds, the Trustees delegate the exercise of voting rights associated with investments to the investment managers.</p> <p>The Trustees are fully supportive of the UK Stewardship Code published by the Financial Reporting Council in September 2020 and the Scheme's investment managers comply with the Code.</p> <p>The Scottish Widows With-Profits fund contains an allocation to equities.</p> <p>The Trustees note that the asset allocation within the With-profits Fund is at the discretion of Scottish Widows and may include holdings in various asset classes including global equities, government bonds, corporate bonds, property, cash, derivatives and absolute return strategies.</p> <p>The Trustees have requested information on voting records from the relevant investment managers and any information received is summarised at the end of this statement.</p> <p>The Trustees have not actively challenged managers on voting activity.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2023
10	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustees would monitor and engage with relevant persons about relevant matters)	<p><i>Investment managers are expected to exercise stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p> <p><i>Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.</i></p>	<p>As the Scheme invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf.</p> <p>As the Trustees invests in pooled funds, they accept that they have limited ability to influence investment managers to align their decisions with the Trustees' policies set out in the SIP. The Trustees have requested more information on engagement activity from the investment managers and the information received is summarized at the end of this statement.</p>
11	How the arrangements with asset manager s incentivize them to align its investment strategy and decisions with the Trustees' policies	<p><i>The Trustees' policy in relation to investment manager arrangements is set out in section 11 of the SIP.</i></p> <p><i>Managers are chosen based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.</i></p>	<p>The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities.</p> <p>In the year to 31 December 2023, there were no changes made to the managers appointed by the Scheme.</p>
12	How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in	<p><i>The Trustees' policy in relation to investment manager arrangements is set out in section 11 of the SIP.</i></p> <p><i>The Trustees are long-term investors and do not seek to change the investment arrangements on an unduly frequent basis. The Trustees will generally retain an investment manager unless:</i></p> <ul style="list-style-type: none"> <i>- There is a strategic change to the overall strategy such that the Scheme no longer requires exposure to that asset class or manager;</i> 	<p>Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.</p> <p>In the year to 31 December 2023, the Trustees have discussed their continued appointment of managers and are happy that the contractual arrangement in place continues to incentive the managers to make decisions based on medium to long term financial and non-financial performance.</p>

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	Requirement	Policy/section of the SIP where policy can be found	In the year to 31 December 2023
	the medium to long-term	- <i>The manager appointment has been reviewed and the Trustees have decided to terminate the specific mandate.</i>	
13	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 Trustees' policies	The Trustees recognize the Scheme has a long time horizon, as set out in policy 11 of the SIP. As such, managers are assumed to be held for a suitably long time. <i>Managers' performance net of fees is therefore reviewed over both short and long time horizons. Remuneration is agreed upon prior to manager appointment and is reviewed on a regular basis.</i>	The Trustees receive reporting and communications from the appointed investment managers at least annually. Upon receiving such information, the Trustees review the information, considering whether the performance and behaviour of the manager has been in line with expectations. If a manager is not performing in line with the Trustees' expectations, or the manager's investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees or even terminate their appointment by Trustees.
14	How the Trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range	<i>The Trustees monitor portfolio turnover costs, as part of the consideration of transactions costs, on an annual basis as part of its annual governance statement.</i>	Transaction costs are monitored and disclosed in the annual Chair's Statement. At present, the Trustees note a number of challenges in assessing these costs as no industry-wide benchmarks for transaction costs exist; There is little flexibility for the Trustees to impact transaction costs as they invest in pooled funds. The Trustees will continue to monitor transaction costs on an approximately annual basis. The Trustees fully support transparency of costs for members and have requested this information from Scottish Widows for their with-profits fund and from LGIM for their index-linked gilts fund.
15	The duration of the arrangement with the asset manager	As described in Section 11 of the SIP, the Scheme is a long-term investor and all funds are open-ended and therefore there is no set duration for manager appointments.	There have been no changes in managers over the last 12 months.

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Voting Activity during the Scheme year

The Trustees have delegated their voting rights to the investment managers. The Trustees do not use the direct services of a proxy voter.

The SIP states “The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, including undertaking engagement activities (where applicable), in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.”

It is the Trustees’ view that the policy has been followed during the Scheme year.

Investment managers are expected to provide voting summary reporting on a regular basis and at least annually. The reports will be reviewed by the Trustees as necessary to ensure that they align with the Trustees’ policy. At the time of writing, Scottish Widows have been unable to provide any information on the voting undertaken in relevant funds underlying the With-Profits Fund during the Scheme year. The underlying equity funds were managed by Abrdn Investments and Sinclair Research Limited. The Trustees will continue to engage with Scottish Widows to obtain this information.

The Scheme has assets invested in the following daily dealt and daily priced pooled funds:

Investment Manager	Fund name
Scottish Widows	With-profits fund
Legal and General Investment Management	Over 15 Year Index-Linked Gilts Index Fund

Overview of Scottish Widows’ Responsible Investment and Stewardship Framework

Scottish Widows’ founding mission was to help their customers face an uncertain future. This mission remains as important to them today as it was during the 1800s. Scottish Widows looks after the retirement savings of millions of hard-working people. Their goal is to help secure long-term financial prosperity and the best outcome for their customers. To do this, it is important they continue to leverage their scale and influence, along with their asset manager relationships, to challenge the companies they invest in to be the sustainable businesses of the future.

But Scottish Widows recognise they need to go further.

As environmental, social and governance (ESG) risks and opportunities become better researched and understood, it is clear that these factors can have a financial impact on investment portfolios. Scottish Widows customers look to them to exercise their judgement on the most appropriate way of investing over the long term, for example in their pension default investment options. So where Scottish Widows believe ESG factors pose downside risks to their investments, or offer potential upside opportunities, they will incorporate them into our decision-making.

Scottish Widows recognise that they can be more effective through collaboration and they continue to work with their peers through their membership of the UN Principles of Responsible Investment and the Institutional Investors Group on Climate Change.

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Scottish Widows also recognise they have a diverse customer base, with more and more people now looking to align their investments with their beliefs. To support this, Scottish Widows aim to offer their customers a wide array of sustainable fund options to select from.

Lastly, it is important to Scottish Widows that they implement their beliefs, improving their own sustainability practices for the benefit of their customers and shareholders and to continue to build a future worth living in.