

Hiscox Pension Scheme Implementation Report

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme updated its SIP in August 2020 to 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://www.hiscoxgroup.com/sites/group/files/documents/2020-08/Statement of Investment Principles Aug 2020.pdf>

Changes to the SIP are detailed on page 2.

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 Trustees have 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 Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 31 December 2020 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

- During 2020 the Scheme's strategic asset allocation was updated to reflect reduced exposure to equities and increased exposure to DGFs.
- Since year end the Trustees have revisited the investment strategy, taking into account the funding level gains made during 2020. As a result, the Scheme is transitioning towards a lower risk strategy in 2021 which will also be reflected by an updated Statement of Investment Principles.

Implementation Statement

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

Signed



Jeremy D. Finch

Position Chair, Hiscox Pension Trustees Ltd.

Date 17 June 2021

Changes to the SIP

The Trustees updated the Scheme's SIP in August 2020. The most significant updates were:

De-risking

- A de-risking journey plan was added to the SIP based on five funding level triggers with different asset allocations and interest rate and inflation hedging associated with each trigger.

Currency hedging

- The policy on currency hedging was updated from no overseas currency hedging to the policy to permitting the Scheme to hedge a proportion of currency exposure arising from its investments in US equities.

Investment Manager Appointment, Engagement and Monitoring

- An Investment Manager Appointment, Engagement and Monitoring section has been added to the SIP, including the following sections:
- A section on how manager appointments are aligned with the investment strategy. This explains; that managers are appointed based on their capabilities and perceived likelihood of achieving the expected return and desired risk characteristics, how the Trustee will review fund appointments if investments objectives change, that managers of actively managed mandates are incentivised through performance targets, that the majority of the Scheme's investments are through pooled investment vehicles and that investment managers are aware that their continued appointment is based on their success.
- A section on evaluating manager performance using quarterly investment manager performance reports which review absolute performance and relative performance against a suitable index used as a benchmark, where relevant, against the manager's stated performance target. This section also details what the Trustee will do if the manager is not meeting performance targets.
- A section on portfolio turnover costs, stating that MiFID II reporting is received from investment managers and that the Trustee does not monitor portfolio turnover costs directly as this is considered by the investment adviser.
- A section on manager turnover stating that the Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. It also details the reasons for which the Trustee will terminate a manager.

Responsible Investment and Corporate Governance

- Trustees now require investment managers to report on their voting. Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. The Scheme's policy is that the management of ESG-related risks is delegated to the investment managers.

Responsible Investment and Corporate Governance Policy

The Trustee's primary concern in setting investment policy is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return which is consistent with taking a prudent and appropriate level of risk.

The Trustee believes that good stewardship, ethical and environmental social governance ("ESG") issues may have a material impact on investment returns, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration. The Trustee will take into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustee has given the Investment Manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights attached to the Scheme's investments.

Similarly, the Scheme's voting policy is exercised by its Investment Managers in accordance with its own corporate governance policies taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee keeps the topic of corporate governance and responsible investment under periodic review. The Trustee has not set any investment restrictions on the current investment managers in relation to particular products or activities but may consider this in the future.

The Trustee requires the investment manager to report on their voting on shares held in respect of the Scheme.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Members' views on 'non-financial matters' (where "non-financial matters" includes members' ethical views, separate from financial considerations such as financially materials ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments.

Implementing the Current ESG Policy

This page details how the Scheme's ESG policy is implemented. The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. Going forward, the Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose – during 2021 the Trustee will set ESG beliefs.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none">• The Trustee requires the investment manager to report on their voting on shares held in respect of the Scheme.• Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis.• From 2021, the Scheme's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

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 18 month period to 31 December 2020.

Fund name	Engagement summary	Commentary
L&G LDI Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	<p>L&G have engaged with several industry participants on long term strategic issues in relation to LDI, including:</p> <ul style="list-style-type: none"> - The introduction of central clearing - The LIBOR transitions - Recognising the pricing issues with bilateral RPI swaps <p>L&G's Investment Stewardship team are responsible for engagement activities across all funds. L&G share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.</p>
CQS Global Convertible Bonds Fund	<p>Total Engagements: 16</p> <p>Environmental: 6</p> <p>Social: 10</p> <p>Governance: 10</p>	<p>CQS engage with firms through open dialogues with management, raising any concerns with the firm, engaging with firm's advisors and proxy voting (where applicable).</p> <p>An example of significant engagements includes:</p> <p>Delivery Hero</p> <p>Whilst completing a credit review on Delivery Hero, CQS developed some concerns over driver pay, with some of the firm's national subsidiaries classifying drivers as independent contractors rather than employees. This posed risks of legal action against the firm in Canada and Australia and led to CQS having further discussions with the firm about their concerns and getting clarification on the issues.</p>
CQS Multi Asset Credit Fund	<p>Total Engagements: 304</p> <p>Environmental: 92</p> <p>Social: 198</p> <p>Governance: 200</p>	<p>CQS engage with firms through open dialogues with management, raising any concerns with the firm, engaging with firm's advisors and proxy voting (where applicable).</p> <p>Examples of significant engagements include:</p> <p>Tosca</p> <p>CQS inquired with the firm on the recyclability of their old containers. Tosca responded with evidence showing that their old containers are recyclable and 20-25% of the material can be used for producing new containers.</p> <p>Cereila</p>

		<p>CQS had a call with the firm to ascertain the sustainability of the process the firm uses. For example, the firm said it was committed to acquiring wheat and vegetable fat from sustainable agricultural practices, however admitted it will take years to achieve.</p>
Aviva Investors Multi-Strategy Target Return Fund	<p>Total Engagements: 376 Environmental: 29 Social: 103 Governance: 122 Climate Change: 122</p>	<p>Aviva utilise their voting rights to hold management and corporate boards to account to protect long-term shareholders and ensure sustainable and responsible growth.</p> <p>Furthermore, Aviva engage in open dialogue with their credit and equity holdings to share best practice and encourage responsible behaviours.</p>
Ruffer Absolute Return Fund	<p>Total Engagements: 44 Environmental: 20 Social: 15 Governance: 20</p>	<p>Ruffer has internal voting guidelines in place and access to proxy voting research to help assess resolutions or identify contentious issues.</p> <p>Examples of significant engagements include:</p> <p>Walt Disney</p> <p>Ruffer had a call with the Head of Investor Relations at Walt Disney and talked about various ESG issues, including the issues around how the COVID-19 pandemic has affected staff. This included discussions about actions Disney undertook e.g. paying employees before furlough started, working with the government to ensure employees receive furlough benefits and cutting dividend payments. Ruffer had previously stated that it was important the management share the burden along with the firm's employees.</p> <p>ArcelorMittal</p> <p>Ruffer held a group meeting with the Executive Vice President, where the lead investors from the Climate Action Working 100+ Group provided feedback to the firm. Ruffer were impressed with the feedback for the firm and discussed targets to reduce greenhouse gas emissions and be carbon-neutral by 2050. Ruffer also stated it would prefer a more scientific method placed on the creation of the target for 2030.</p>
Standard Life Global Absolute Return Strategies Fund	<p>Standard Life only provide engagement data at a firm-wide level, no fund specific data is available.</p>	<p>Standard Life aim to engage with portfolio companies through ongoing due diligence, frequent dialogue, maximising influence and considering all options available.</p>
Findlay Park American Fund	<p>We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.</p>	<p>N/A</p>

Genesis Emerging Markets Equity Fund	<p>Genesis were unable to provide data on all engagements due to complexity surrounding reporting.</p>	<p>Genesis have their own ESG policy which is reviewed annually. They aim to engage with Boards on an ongoing basis, with a track record of creating constructive relationships to influence positive change in its investments.</p> <p>Examples of a significant engagement include:</p> <p>Magnit</p> <p>Genesis engaged with the company in June to nominate and elect two independent directors to the Board. Genesis was able to use cumulative voting to concentrate its voting power to help elect the nominees. Their efforts were aided by the Association of Institutional Investors who helped Genesis have a roundtable discussion with Magnit about governance issues.</p>
Invesco Perpetual High Income Fund	<p>Total Engagements: 16 Environmental: 11 Social: 2 Governance: 12</p>	<p>Invesco applies ESG throughout their investment process, collaborating both with portfolio companies as well as clients to create successful ESG solutions. Invesco factors ESG issues into investment decisions and ensures that asset classes are differentiated, through decentralised local investment centres.</p> <p>Examples of significant engagement include:</p> <p>Total</p> <p>Invesco had several conversations with Total's head of investor relations around Total's climate change transition. They also wrote a letter to the CEO and had follow-up discussions with him about their concerns. The outcome was that Invesco gained confidence that climate change was being integrated into the firm's business strategy.</p> <p>Plus500</p> <p>Invesco's Global Head of ESG led a response to Plus500's remuneration consultation request in early 2020, with Invesco highlighting concerns around lack of transparency in the remuneration structure and questioning whether a formal clawback policy could be included. Invesco is currently monitoring progress on this issue, particularly on the responsiveness of the remuneration committee to their feedback.</p>
Kiltearn Global Equity Fund	<p>Total Engagements: 15 Environmental: 1 Social: 0 Governance: 14</p>	<p>Kiltearn engage with companies to support governance practices which will ultimately lead to shareholder value for Kiltearn's clients. Kiltearn has established principles which help guide proxy voting decisions and engagement priorities.</p> <p>An example of significant engagement includes:</p>

Exxon Mobil

The firm has been subject to an ongoing campaign from shareholders who believe the firm is not acting on climate change issues strongly enough. Kiltearn supported several of the shareholders' proposals at the 2020 AGM, including a policy stating that the Chairman of the Board should be an independent director to counteract issues around governance. Whilst the proposals failed, Exxon Mobil subsequently announced new environmental targets.

Total Engagements: 17
Environmental: 3
Social: 2
Governance: 14

Lindsell Train aims to build relationships whilst seeking open and constructive dialogue with management. In the event of any concerns, the manager will meet with the Board, ensuring privacy and confidentiality is maintained as Lindsell Train believe this ensures a more effective relationship with boards and management.

Examples of significant engagement include:

Burberry

Lindsell Train spoke to the Chairman about the supply chain issues surrounding other clothing firms and queried Burberry's policies and controls. Burberry assured the manager that they have a robust supplier vetting programme, and noted that concerns around clothing supply chains tend to relate to "fast-fashion", an area in which Burberry does not operate.

Unilever

Lindsell Train had concerns over the proposal to move Unilever's headquarters to Rotterdam. Due to significant positive shareholder engagement, including the manager's input, Unilever's management abandoned the plans 3 weeks before the shareholder vote.

Lindsell Train UK Equity Fund

Total Engagements: 32
Environmental: 8
Social: 5
Governance: 28

Majedie regular engage with their portfolio companies on issues they have identified and prioritised through their own analysis. The investment team, which houses the Responsible Capitalism team, engage with underlying holdings as part of their day-to-day work, with all engagements recorded on their propriety IT system.

Examples of significant engagement include:

BP

In February 2020, Majedie met with the new CEO and incoming CFO of BP to discuss BP's target to achieve net zero carbon emissions by 2050. Majedie asked BP to provide further details on the target, as they wanted to understand the full impact of the

Majedie UK Equity Fund

transformation of the company on the business.

Ryanair

While meeting with the Board, Majedie engaged with Ryanair on its carbon emissions, its long-term group strategy and the safety of its incoming Boeing 737 Max aircraft. Majedie specifically asked Ryanair to continue to effectively manage carbon emissions, to consider adding non-executive directors with complete independence and to ensure that the new aircraft is safe.

Ruane, Cunniff and Goldfarb
US Equity Fund

We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions, including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Aviva Investors Multi-Strategy Target Return Fund	<p>Voteable Proposals: 6,754</p> <p>Proposals Voted On: 6,611</p> <p>Votes With Management: 4,038</p> <p>Votes Against Management: 2,416</p> <p>Abstain Votes: 157</p>	<p>Carnival plc -</p> <p>Aviva voted against the re-election of a non-executive director (and Chair of the Nomination Committee). Aviva had concerns over the tenure of the person given that they had been a member of the Board for over 30 years, with several other non-executives also having significant tenure. Aviva believe this is resulting in a lack of oversight. Additionally, there is a lack of diversity on the Board, which is ultimately the Chair's responsibility, therefore Aviva voted against the proposal to re-elect the person.</p> <p>Bangkok Bank Public Company Limited -</p> <p>The firm was looking to complete an all-share acquisition of PT Bank Perrmata Tbk, however Aviva voted against the proposal as there were concerns about the value this would bring to the shareholders. With the firm wanting to issue equity to raise capital, the firm's return on equity would be significantly reduced, negatively affecting shareholder value. Additionally, there were concerns over the independent oversight of the Board and therefore the due diligence completed on the acquisition.</p>	<p>Aviva base any voting decisions on their voting policy, which is reviewed annually and subject to Board approval. The final decision on any vote is made by Aviva's Stewardship Function, made up of ESG analysts, in conjunction with the relevant portfolio managers.</p>
Ruffer Absolute Return Fund	<p>Voteable Proposals: 570</p> <p>Proposals Voted On: 537</p> <p>Votes With Management: 504</p> <p>Votes Against Management: 33</p> <p>Abstain Votes: 0</p>	<p>Exxon Mobil -</p> <p>Ruffer voted against the re-election of non-executive directors in May 2020. This was due to the lack of progress on climate change issues since the AGM in 2019, with Ruffer not believing that the firm was behaving in the shareholders' best interests. This has led to Ruffer selling a considerable stake of its equity in the firm.</p> <p>Lloyds Bank -</p>	<p>Ruffer has an internal voting policy as well as access to proxy voting research. This data is currently provided by Institutional Shareholder Services (ISS), and assists analysts in their assessment of resolutions and the identification of contentious issues. Ruffer does not delegate or outsource its stewardship activities when deciding on how to vote on</p>

		Ruffer voted against the proposed remuneration policy at the firm, as whilst the new policy reduced the maximum pay-out, it decreased the vesting criteria. The manager did not think that the new policy encourages management to deliver shareholder value.	clients' behalf. Where Ruffer decides to vote against management, they will inform the company in advance, detailing the reasons why they are doing so.
Standard Life Global Absolute Return Strategies Fund	<p>Voteable Proposals: 3,354</p> <p>Proposals Voted On: 3,293</p> <p>Votes With Management: 2,896</p> <p>Votes Against Management: 397</p> <p>Abstain Votes: 4</p>	We requested this data from the manager however currently the manager is not able to produce this level of reporting. We are working with them to ensure that this data is available in the future.	Standard Life have produced their own voting principles which guides their voting decisions. They seek to exercise shareholder rights in-line with clients' best interests.
Findlay Park American Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	N/A	
Genesis Emerging Markets Equity Fund	<p>Voteable Proposals: 1281</p> <p>Proposals Voted On: 1281</p> <p>Votes With Management: 1114</p> <p>Votes Against Management: 129</p> <p>Abstain Votes: 38</p>	<p>58.com Inc. –</p> <p>Genesis voted against the merger of 58.com with Quantum Bloom Company Ltd, as there were concerns around the offer price for 58.com's shares which Genesis believed was too low. They also had other concerns surrounding the corporate governance relating to the transaction.</p> <p>Alibaba Group Holdings Limited –</p> <p>Genesis voted against the nomination of two non-independent directors to the Board. There were concerns that the company was failing to establish a Board where the majority of directors were independent.</p>	<p>Genesis engage with companies through proxy voting. All voting decisions are made by the portfolio managers, and Genesis employ proxy service providers to support the voting process.</p> <p>Additionally, Genesis may collaborate with other investors, subject to laws and regulations, to enable effective engagement with a company's management.</p>
Invesco Perpetual High Income Fund	<p>Voteable Proposals: 1176</p> <p>Proposals Voted On: 1176</p> <p>Votes With Management: 1152</p> <p>Votes Against Management: 24</p>	<p>Royal Dutch Shell Plc –</p> <p>Invesco voted with Shell's management to reject a proposal to request the firm to set and publish targets for greenhouse gas emissions. Invesco noted that whilst shareholders may benefit from additional disclosures, Invesco were comfortable with the company's climate strategy at that time.</p>	<p>Invesco views proxy voting as integral to its investment management responsibilities, with its proxy voting process focusing on protecting clients' right and promoting positive governance structures.</p> <p>The voting decisions lie with the portfolio managers and analysts, with input and</p>

	Abstain Votes: 0	<p>Legal & General Group Plc-</p> <p>Legal & General (“L&G”), were looking to issue equity in connection to an issue of contingent convertible securities. Invesco considered that if these securities were subject to a trigger event, non-participating shareholders would suffer due to the significant dilution. However, ultimately Invesco were comfortable with the proposal as such authorities are common at UK insurance companies. Given that the conversion only happens in extreme circumstances, Invesco believes the firm is not at any significant risk.</p>	support from the Global ESG team and Proxy Operations functions. Invesco have their own proprietary voting platform which enables implementation of voting decisions and aligns rationales across their global investment teams.
Kiltearn Global Equity Fund	<p>Voteable Proposals: 1489</p> <p>Proposals Voted On: 1489</p> <p>Votes With Management: 1236</p> <p>Votes Against Management: 253</p> <p>Abstain Votes: 0</p>	<p>Tesco Plc -</p> <p>Kiltearn voted against approving the remuneration report. They had already noted concerns at the annual general meeting (“AGM”) in 2018 that it would look for significant progress in introducing margin-based and returns-based key performance indicators (“KPI”) for executive remuneration. As no progress was made, Kiltearn voted against the proposal in 2020, contributing to the failure of the proposal due to shareholder opposition.</p> <p>Nippon Television –</p> <p>Kiltearn voted against the re-election of the Chairman of the Board as there were concerns about the firm breaking the threshold of 20% of foreign ownership of its shares, which it is not allowed to break. The firm had not been registering foreign-owned shares, and not paying dividends to these shares. Kiltearn believes the firm is suppressing its share price and making the firm less attractive to foreign investors.</p>	<p>Kiltearn views proxy voting responsibilities to be of highest importance and recognises that it needs to ensure it exercises its proxy voting obligations in-line with its clients’ long-term investment values.</p> <p>Kiltearn utilises data provided by Institutional Shareholder Services and Broadridge (both leading proxy voting service providers) to make its voting decisions. Kiltearn does not outsource any part of its proxy voting decision-making process to an external party.</p>
Lindsell Train	<p>Voteable Proposals: 414</p> <p>Proposals Voted On: 389</p> <p>Votes With Management: 388</p> <p>Votes Against Management: 0</p> <p>Abstain Votes: 1</p>	<p>Mondelez -</p> <p>Lindsell Train abstained on a vote to accept the executive remuneration policy, as they believed the policy did not align the executives’ compensations with shareholders’ best interests. The manager did engage with Mondelez’s compensation committee to signal their intention to abstain.</p>	Lindsell Train’s voting policy aims to protect or enhance the value of its investments on behalf of its clients and will vote against any proposal that cause negative effects to these investments. Portfolio managers have discretion on any voting decision and hold responsibility. Lindsell Train use Glass Lewis as an independent proxy agent to assist with proxy voting. The manager has its own proxy

voting guidelines, which is reviewed semi-annually.

			voting guidelines, which is reviewed semi-annually.
Majedie UK Equity Fund	<p>Voteable Proposals: 929</p> <p>Proposals Voted On: 908</p> <p>Votes With Management: 868</p> <p>Votes Against Management: 35</p> <p>Abstain Votes: 5</p>	<p>Greencore –</p> <p>Majedie were unsuccessful in voting against the proposal to approve the company’s remuneration policy as they concluded that the pension contribution levels for the CEO and CFO were excessive, and a plan had not been implemented to bring their contribution levels in-line with the rest of the workforce. Majedie does not own this security now, however, we are unable to ascertain what level of influence the remuneration policy vote held in the sell decision.</p> <p>Kone -</p> <p>Majedie had noted from the proxy voting research that Kone had not disclosed performance criteria, targets and maximum award levels in the company’s remuneration policy. Therefore, Majedie voted against management to reject the policy, although was unsuccessful. Majedie does not own this security now, however we are unable to ascertain what level of influence the remuneration policy vote held in the sell decision.</p>	<p>Majedie believes that voting at shareholder meetings is an expected part of being an active owner. Majedie vote on proxies in a way that reflects best practices in governance.</p> <p>Majedie have a number of principles that govern their proxy voting and engagement, using the services of Institutional Shareholder Services for research and the ProxyExchange proxy voting platform.</p>
Ruane, Cunniff and Goldfarb US Equity Fund	<p>We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.</p>	N/A	