Hiscox Pension Scheme (the Scheme)

Implementation Report to 31 December 2021

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 has updated its SIP 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

Changes to the SIP are detailed on the following pages.

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 Trustee has 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 Trustee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- Voting behaviour covering the reporting year up to 31 December 2021 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's reporting year:

- During 2021, the Scheme transitioned towards a lower risk/return strategy, with a number of transitions occurring over the year.

- The Scheme reduced its allocation to growth assets and invested the proceeds into matching assets – Liability Driven Investment (LDI) strategy and Buy & Maintain Corporate Bond mandate – both managed by Legal and General Investment Management.

- Specifically, the Scheme reduced its allocation to equities and absolute return strategies by fully disinvesting from the following managers over the first half of 2021:

    - Ruane and Cunniff & Goldfarb Inc, Genesis, Standard Life and Aviva.

- Furthermore, the Scheme made partial disinvestments within its remaining equity holdings in Q3 2021 (Majedie, Findlay Park and Lindsell Train).

- Within the Scheme's matching portfolio, the Scheme invested £60m of the proceeds from the growth assets into the LDI strategy and £40m of the proceeds into the Buy & Maintain mandate. These changes were implemented over Q2 & Q3 2021.

- The Scheme also completed the onboarding of the BlackRock Diversified Private Debt (DPD) mandate in Q3 2021, with a total agreed capital commitment of £20m. As at 31 December 2021, c.£6.9m has been called into the BlackRock DPD mandate with the remainder being invested in the BlackRock ETF portfolio whilst the remaining capital is fully drawn down.

Implementation Statement

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

Chairman, Hiscox Pension Trustees Ltd

15 March 2022

Changes to the SIP

Whilst there have been no changes to the Scheme's SIP from a regulatory perspective, the following updates were made:

Changes to investment strategy
- The SIP has been updated to reflect the Scheme's lower risk/return investment strategy, which was implemented over the course of 2021. In particular, the Scheme's updated strategic asset allocation was reflected within the SIP and changes to the Scheme's underlying investment managers were also included.

Environment, Social & Governance ('ESG') Policy
- The Scheme's ESG Policy was included within the SIP, which formalises the Trustee's ESG beliefs and its policy on how ESG factors should be integrated in investment decision-making as part of the Scheme's wider approach to managing ESG risks.

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 has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG polices. This page details the Scheme's ESG policy.

Risk Management	1. ESG factors such as climate change are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee. 2. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	3. The Trustee wants to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustee believes that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will seek to allocate to these sectors. 5. The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets. 6. The Trustee will aim to evolve and develop the current investment strategy with the application of negative ESG screening through the adoption of an exclusion list. The Trustee will look to apply this for segregated mandates and for pooled mandates when applicable. The Trustee will share the Scheme's ESG policy and request managers take it into account when possible.
Voting & Engagement	7. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 8. The Trustee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 9. The Trustee wants to understand the impact of voting & engagement activity within their investment mandates. 10. ESG discussions will form part of the overall agenda at the Trustee's annual meetings with respective asset managers.
Reporting & Monitoring	11. The Trustee will request for the Scheme's asset managers to report on broader ESG metrics as reported by the Investment Consultants Sustainability Working Group ('ICSWG'). 12. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge. 13. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	14. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices, as well as sign up and comply with common codes such as UNPRI and TCFD.

Implementing the Scheme’s 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. The Trustee intends to review the Scheme’s ESG policies and engagements periodically to ensure they remain fit for purpose.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of voting rights	• The Trustee requires the investment managers 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. • It was agreed that the Trustee will monitor managers’ ESG policies on an ongoing basis.	• 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 12 months to 31 December 2021. The information in the following table covers the Scheme's asset managers as at year-end and excludes the mandates from which the Scheme fully disinvested from over the year.

Fund name	Engagement summary	Commentary
BlackRock Diversified Private Debt ('DPD') Fund	BlackRock do not currently provide engagement reporting given the private-market nature of the Fund. BlackRock are proactively looking to better report on their engagements within this area.	The Fund's ESG related engagement is primarily led by the respective specialist investment teams, who monitor ESG credentials over time. BlackRock have confirmed that ESG criteria is integrated within the Fund's investment process. BlackRock currently provide an annual mandatory ESG questionnaire to all underlying companies within the Fund. This monitors key ESG factors and helps to provide triggers for engagement where improvement is required.
BlackRock Liquidity Sleeve ETF Basket (iShares Global High Yield Corporate Bond UCITS ETF & iShares GBP Ultrashort Bond UCITS ETF)	Total engagements: 264 Underlying split of 199 & 86 company engagements for the iShares Global High Yield Corporate Bond UCITS ETF & iShares GBP Ultrashort Bond UCITS ETF respectively. Broad-based ESG: 264	At firm-level, BlackRock engages with many companies and informs clients about its engagement and voting policies through various forms of communication. The Investment Stewardship team is responsible for encouraging sound corporate governance practices and encouraging companies to deliver long-term, sustainable growth and returns for clients through engagement and proxy voting.
CQS Global Convertible Bonds Fund	Total engagements: 5 Environmental: 2 Social: 1 Environmental, Social: 1 Environmental, Governance: 1	CQS engage in open dialogue with their holdings to share best practice and encourage responsible behaviours. Examples of significant engagements over the year include: Environmental/Governance engagement Southwest Airlines Co. – Following the company's announcement of transition to a low carbon economy, CQS reached out to the company in order to better understand its governance and structure around climate and its objectives. The company provided a detailed response in which a clear plan was set out. As part of their transitioning, the company is replacing the existing aircrafts with fuel-efficient aircrafts and will invest more than $15bn by 2031 to achieve this.

		<u>Environmental/Social engagement</u> Euronet Worldwide Inc. – CQS engaged with the company following a number of risks that have been flagged by Refinitiv and MSC – including issues related to board composition, professional growth and employee health & safety - amongst others. CQS met with the company's CFO who demonstrated that the company has ESG policies in place, particularly around training and promotional opportunities for employees. The company noted they are taking specific actions relating to the disclosure of existing policies. CQS continues to monitor the company's progress to improve transparency around ESG practices and policies.
CQS Multi-Asset Credit Fund	Total engagements: 61 Environmental: 27 Social: 11 Governance: 3 Environmental, Social: 5 Environmental, Governance: 2 Social, Governance: 4 Broad-based ESG: 9	CQS engage in open dialogue with their holdings to share best practice and encourage responsible behaviours. Examples of significant engagements include: <u>Social engagement</u> TKC Holdings Inc – CQS engaged with TKC after a recent scandal involving a competitor that was providing inmates with "Gate Money" cards (on unfair and undisclosed terms) as they leave prison. TKC confirmed that they do not offer Gate Money services, and that there are no hidden fees for any of their services. The company's program to offer inmates debit cards upon release is outsourced to a third party, and it reviewed both internally and externally for compliance. <u>Environmental engagement</u> Busy Bees Group Ltd – As part of their due diligence process, CQS held a call with the company's CFO to discuss Busy Bees' progress on climate-related policies and practices. The CFO outlined the practices adopted by Busy Bees including setting key KPIs' targets, carbon emissions reduction targets and waste and renewable energy targets. CQS were pleased with the outcome of this engagement and will continue to monitor and engage with the company over the year.
Findlay Park American Fund	Total engagements: 38 Environmental: 33 Environmental, Social: 1 Environmental, Governance: 1	Findlay Park have a clear due diligence and engagement framework where they continually engage with portfolio companies through discussions with management on areas most relevant to each company and make active voting decisions. It is positive to note that the manager is now providing and able to share granular information relating to both

	Social, Governance: 2 Broad-based ESG: 1	their engagement with underlying companies and a breakdown of their voting activity over the year. Examples of significant engagements include: <u>Social/Governance engagement</u> Fiserv – Findlay Park initiated this engagement in light of the company having recently undergone a transformative acquisition, in order to discuss a variety of ESG issues within the firm, and more specifically the lack of communication with employees. As a result of the engagement, the company has improved their communication with employees and have considered updating their UN Global Compact related statement with respect to labour relations. <u>Environmental engagement</u> Agnico Eagle – Findlay Park had concerns around the company's approach to physical climate and water risk, as well as biodiversity. During the discussions, the company evidenced their ability to improve their strategy and reporting on environmental factors.
Kiltearn Global Equity Fund	Total engagements: 8 Governance: 6 Environmental, Governance: 1 Broad-based ESG: 1	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. An example of significant engagement includes: <u>Governance engagement</u> UNFI – Kiltearn have been working closely with UNFI over the years to resolve governance issues. Specifically, Kiltearn and UNFI had a number of engagements relating to the governance structure of the company and the need for separation of roles between the CEO and chair positions. Following successful engagements with the company, UNFI announced its new CEO (an external candidate with a credible track record) and an external chair in July 2021. <u>Environmental/Governance engagement</u> Exxon Mobil – Kiltearn are continually engaging with Exxon Mobil on various ESG matters. In 2021, Kiltearn supported a proposal brought forward by an activist in regard to the board composition of the company. The proposal suggested that external candidates would improve the industry and energy transition experience on the board. As a result of this engagement, Exxon

		Mobil appointed three external (i.e. independent) directors, and since then the company has made some progress in its approach to energy transition.
LGIM Buy & Maintain Fund	LGIM were unable to provide details of engagement during this period. Isio are working with LGIM to find ways of improving their engagement reporting.	N/A
LGIM LDI Fund	N/A	N/A
Lindsell Train UK Equity Fund	Total engagements: 14 Environmental: 3 Social: 7 Governance: 3 Broad-based ESG: 1	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 confidentially is maintained as Lindsell Train believe this ensures a more effective relationship with boards and management. Examples of significant engagement include: **Social engagement** Diego – In 2021, Lindsell Train held a call with the company's CEO to discuss the social practices in relation to Diego's strategy on encouraging their customers to drink less and better. The company demonstrated to Lindsell Train that low or zero alcohol products are in line to be introduced, which will be bring additional business stream to the company and diversify the company's revenue streams. **Governance engagement** DMGT – Lindsell Train held numerous discussions with the company over a 3 month period, in relation to the delisting of the company from the London Stock Exchange. As part of the discussions, Lindsell Train met with one of the company's Non-Executive Directors and CFO to better understand the valuation metrics used by the Directors in determining the offer price in relation to delisting of the company. Lindsell Train were able to provide their support of this transaction following a lengthy engagement process with the Board of DMGT and their advisors.

Majedie UK Equity Focus Fund	Total engagements: 10 Social: 8 Governance: 2	Majedie engage with their underlying 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: **Social engagement** Auto Trader – Majedie met with the company's management to discuss the company's plans to improve consumer buying experience. The company outlined their plans which included an improvement in their platform to enable customers to benefit from an easier and customer-friendly experience. Governance engagement SJP – Majedie met with SJP to discuss how executive compensation was not aligned with the shareholder interests. Although the company's management were against embedded value key performance indicators whilst the market and investors are focused on cash generation, Majedie suggested that a combination of both would bridge the misalignment between executives and shareholders.
Ruffer Absolute Return Fund	Total engagements: 12 Environmental: 1 Governance: 1 Environmental, Social: 1 Environmental, Governance: 4 Social, Governance: 2 Broad-based ESG: 3	Ruffer has internal voting guidelines in place and access to proxy voting research to help assess resolutions or identify contentious issues. Examples of significant engagements include: Environmental engagement Barclays Plc – Ruffer engaged twice with the company over the year regarding Barclays' climate change policies. The first engagement was initiated to discuss the need for more detailed greenhouse gas emissions data and targets whereas the second engagement was a progress discussion. Ruffer were pleased with Barclays' progress, especially in the two highest emitting sectors, energy and power. Governance engagement Carrefour SA – Ruffer met with Carrefour over the year and specifically discussed CEO remuneration in detail. Ruffer believed that the company's policy and structure relating to CEO remuneration should be more robust and transparent. This eventually lead to Ruffer voting against the proposed changes in CEO remuneration at the AGM.

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 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Findlay Park American Fund	Voteable Proposals: 663 Proposals Voted On: 663 Votes 'for' management: 629 Votes 'against' management: 34 Abstain Votes: 0	Mastercard – Findlay Park voted in favour of the adjustments made by the company in relation to bonus compensation due to the impacts of Covid-19 on business. As a result, the resolution passed with a 75% majority. Berkshire Hathaway – Findlay Park supported all climate-related proposals over the year. Therefore, the proposal brought forward from Berkshire Hathaway was supported by Findlay Park as the company outlined its renewed climate target of 50% emissions reduction from 2005 levels by 2030, as well as plans to phase out coal.	As equity investors Findlay Park have relatively strong voting rights. The Institutional Shareholder Services provide Findlay Park with proxy voting research and voting recommendations. However, the manager believes that responsible investment cannot be effectively outsourced to external providers, and therefore Findlay Park also undertake their own voting analysis and decision making.
Kiltearn Global Equity Fund	Voteable Proposals: 1373 Proposals Voted On: 1346 Votes 'for' management: 1104 Votes 'against' management: 242 Abstain Votes: 0	Unilever – In line with the increase in the significance of climate-related risks, and their adverse effects on supply chains, manufacturing, and distribution, Kiltearn voted with the management to accept a climate-change resolution. The proposal outlines a number of targets for the company such as the reduction of emissions by 70% and 100% by 2025 and 2030, respectively. American Express – Unlike their peers, the company lagged in respect of the level of transparency it offered to shareholders – specifically relating to the company's diversity and inclusion efforts. As such, a shareholder proposal was brought forward which required American Express to publish	Kiltearn view proxy voting responsibilities to be of highest importance and recognise that they need to ensure they exercise their proxy voting obligations in-line with their clients' long-term investment values. Kiltearn utilise data provided by Institutional Shareholder Services and – a leading proxy voting service provider, to make their voting decisions. Kiltearn do not outsource any part of their proxy voting decision-making process to an external party.

		annual reports assessing the company's diversity and inclusion efforts. Kiltearn voted with the management, and the proposal passed.	
Lindsell Train UK Equity Fund	Voteable Proposals: 421 Proposals Voted On: 421 Votes 'for' management: 420 Votes 'against' management: 0 Abstain Votes: 1	Mondelez – Lindsell Train have been engaging with the company over the years, as the company's compensation policy is not aligned with the shareholders' best interests. Thereafter, Lindsell Train have abstained from voting in an effort to encourage the company to amend its compensation policy to better align with Lindsell Train's views on compensation and to reward the company's active engagement.	Lindsell Train's voting policy aims to protect or enhance the value of its investments on behalf of their 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.
Majedie UK Equity Focus Fund	Voteable Proposals: 759 Proposals Voted On: 755 Votes 'for' management: 717 Votes 'against' management: 37 Abstain Votes: 1	AVEVA – The Remuneration Committee elections were held in July 2021, where Majedie voted against the re-election of the Committee Director as the person was not considered to be independent as they are a nominee of the controlling share. London Stock Exchange – The company had proposed a significant increase of the CEO's salary and the CFO's base pay, following a recent acquisition for the company. Majedie voted against the approval of the salary increases as they felt were unjustified and lacked substantial rationale.	Majedie believe 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. Majedie have a number of principles that govern their proxy voting and engagement, using the services of Institutional Shareholder Services for research and the Proxy Exchange proxy voting platform.
Ruffer Absolute Return Fund	Voteable Proposals: 562 Proposals Voted On: 532 Votes 'for' management: 492 Votes 'against' management: 31	Royal Dutch Shell – As a result of engagement and the commitment of the company to ESG integration, Ruffer voted with management in relation to the company's climate transition plan. Ambev – Prior to voting, Ruffer met with the company to discuss their voting decision regarding	Ruffer have an internal voting policy as well as access to proxy voting research. This data is currently provided by Institutional Shareholder Services and assists analysts in their assessment of resolutions and the identification of contentious issues. Ruffer do not delegate or

	Abstain Votes: 9	the company's remuneration cap. Ruffer voted against the increase of the remuneration cap due to weak share price and margin performance over the year, as they believe ed that the target would not be met. However, despite their engagement, the resolution passed with 86.5% votes in favours.	outsource their stewardship activities when deciding on how to vote on clients' behalf. Where Ruffer decide to vote against management, they will inform the company in advance, detailing the reasons why they are doing so.

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