

# Hiscox Pension Scheme – Implementation Report to 31 December 2022

## Background and Implementation Statement

### Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

### Statement of Investment Principles (SIP)

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address:

[www.hiscoxgroup.com/sites/group/files/documents/2022-05/SIP\\_August\\_2021.pdf](http://www.hiscoxgroup.com/sites/group/files/documents/2022-05/SIP_August_2021.pdf)

There were no changes to the SIP or target investment strategy over the year to 31 December 2022. Post year end, the Trustees have reviewed the Scheme's investment strategy in light of the Scheme's improved funding position, and the details regarding the new SIP will be covered in the Implementation Report for the year to 31 December 2023.

### Implementation Report

The Implementation 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 in the investment mandate
- voting behaviour covering the reporting year up to 31 December 2022 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

- Over 2022, the Scheme disinvested from a number of assets to maintain liquidity during the significant rise in interest rates in September and October of 2022. The proceeds of these disinvestments were invested in the Liability Driven Investment ("LDI") strategy and Buy & Maintain Corporate Bond mandate to maintain sufficient collateral. Both of these mandates are managed by Legal and General Investment Management ("LGIM").
- The Scheme made the following disinvestments:
  - Partial disinvestments from the LGIM Buy and Maintain ('B&M') Credit Fund as the primary source of collateral to meet LDI rebalancing requirements.
  - Partial disinvestment from one equity fund (Findlay Park) and one diversified growth mandate (Ruffer). The proceeds were invested in both the LDI portfolio and B&M Fund to

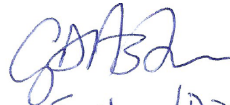
maintain sufficient collateral and liquidity as the funds from the B&M Fund were drawn down to meet rebalancing requirements.

- A full disinvestment from an equity fund (Majedie) into the LDI portfolio.
- These disinvestments enabled the Scheme to maintain its target hedge ratio over the turbulent markets of the third and fourth quarter of 2022. Post this and in light of an improved funding position, the Trustees (working with the Company) have reviewed the Scheme's investment strategy in early 2023.
- The Scheme also completed a number of capital calls into the BlackRock Diversified Private Debt ('DPD') mandate over the year. The total agreed capital commitment is £20m with c.£13m being drawn down to date. The capital yet to be drawn by the fund is invested in the BlackRock ETF portfolio.
- In relation to ESG, the Investment sub-committee consider an ESG dashboard at their quarterly meetings. The content of this has been designed around the ESG metrics suggested by the Investment Consultants Sustainability Working Group. This dashboard currently covers around 50% of the Scheme's assets with the intention of expanding this over time.

### 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 consideration including ESG factors and climate change.

Signed



Trustee/Director

Position

Date

19/4/23

## Managing risks and policy actions

The table below details the specific risks detailed in the Statement of Investment Principles, the policies in place and any actions over the course of the year.

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 60% of these risks (% of total liabilities).	There was no change to the liability hedging target during the year. During the LDI crisis, the Scheme was able to maintain its target hedge.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values).	No actions or changes to the policy. Over the LDI crisis, the Trustee was able to source sufficient liquidity at short notice to maintain the Scheme's hedge.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Scheme continues to look to for opportunities to de-risk where funding level increases allow it to.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.	No actions or changes to policy.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:  1. Responsible Investment ('RI') Policy / Framework  2. Implemented via Investment Process  3. A track record of using engagement and any voting rights to manage ESG factors  4. ESG specific reporting  The Trustee has appointed an investment consultant to monitor their investment managers on an ongoing basis.	Further detail provided later in this report

Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Trustee actively take into account currency exposure at the individual manager and total Scheme level in their decision making.	No actions or changes to the policy.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No actions or changes to the policy.

## Changes to the SIP

There have been no changes to the SIP over the reporting year.

## 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 policies. This page details the Scheme's ESG policy.

Risk Management	<ol style="list-style-type: none"> <li>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.</li> <li>2. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.</li> </ol>
Approach / Framework	<ol style="list-style-type: none"> <li>3. The Trustee wants to understand how asset managers integrate ESG within their investment process and in their stewardship activities.</li> <li>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.</li> <li>5. The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.</li> <li>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.</li> </ol>

<b>Voting &amp; Engagement</b>	<p>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.</p> <p>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.</p> <p>9. The Trustee wants to understand the impact of voting &amp; engagement activity within their investment mandates.</p> <p>10. ESG discussions will form part of the overall agenda at the Trustee’s annual meetings with respective asset managers.</p>
<b>Reporting &amp; Monitoring</b>	<p>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’).</p> <p>12. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge.</p> <p>13. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.</p>
<b>Collaboration</b>	<p>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.</p>

## 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-month period to 31 December 2022. 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
<b>BlackRock Diversified Private Debt ('DPD') Fund</b>	<p>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.</p>	<p>The Fund's ESG related engagement is primarily led by the respective specialist investment teams, who monitor ESG credentials over time.</p> <p>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.</p>
<p><b>BlackRock Liquidity Sleeve ETF Basket</b></p> <p>(iShares Global High Yield Corporate Bond UCITS ETF &amp; iShares GBP Ultrashort Bond UCITS ETF)</p>	<p>Total engagements: 223</p> <p>Underlying split of 193 &amp; 30 company engagements for the iShares Global High Yield Corporate Bond UCITS ETF &amp; iShares GBP Ultrashort Bond UCITS ETF respectively.</p> <p>Broad-based ESG: 223</p>	<p>At firm-level, BlackRock engages with many companies and informs clients about its engagement and voting policies through various forms of communication.</p> <p>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.</p>

**CQS Global Sustainable Convertible Bonds Fund**

Total engagements: 32  
 Environmental: 20  
 Social: 4  
 Governance: 3  
 Strategy, Financial and Reporting: 5

CQS engage in open dialogue with their holdings to share best practice and encourage responsible behaviours.

Examples of significant engagements over the year include:

**Social engagement**

**Lufthansa** – Following the pandemic Lufthansa had confirmed that they planned to reduce their staff by 100,000 by the end of 2022. CQS engaged with the company to understand future staffing plans and any initiatives undertaken to improve staff morale and engagement. Lufthansa responded that their employee engagement initiatives are best practice with annual all-employee surveys that are analysed by senior management by team and location.

**Environmental engagement**

**Veolia** – CQS engaged with Veolia, a global waste management company, to understand their plans to further reduce their emissions to align with the UN's goal to reduce world temperature growth to 1.5 degrees. They explained that they are looking into various initiatives such as moving away from coal in China and carbon capture projects in LATAM. They have a waste treatment plan and a capex plan to accelerate biogas recovery. Whilst their exit from coal is not planned out, they did make clear that they believe in a Just Transition and will seek to repurpose the plant.

**CQS Multi-Asset Credit Fund**

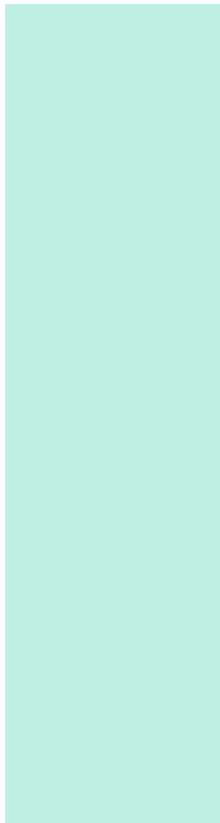
Total engagements: 216  
 Environmental: 108  
 Social: 27  
 Governance: 16  
 Strategy, Financial and Reporting: 65

CQS engage in open dialogue with their holdings to share best practice and encourage responsible behaviours.

Examples of significant engagements over the year include:

**Governance engagement**

**Jaguar Land Rover** – In their review of Jaguar Land Rover, CQS noticed MSCI had limited data available on the company and were instead rating them based on their parent company, Tata Motors, who were rated B, representing that they are a laggard. CQS have engaged with Jaguar



Land Rover and found that they have good governance, a clear decarbonisation pathway and have developed an electrification target of 100% EV sales by 2025. As a result, CQS assigned gave them an A ESG rating. The company has recently announced that Jaguar Land Rover has been assigned a Sustainalytics score of 17.1, which is equivalent to an A MSCI rating.

**Social engagement**

**Douglas** – CQS identified concerns around social targets and initiatives, as well as staff turnover. Due to limited disclosure on the topic, CQS engaged with the company, asking them to explain what IT and Data security mechanisms they have in place. Since engaging with Douglas, CQS are pleased that their recently published ESG report has more in-depth information, including initiatives and targets across all ESG factors, but particularly across social and employee initiatives.

**Findlay Park American Fund**

Total engagements: 165  
 Environmental: 70  
 Social: 40  
 Governance: 20  
 Strategy, Financial and Reporting: 15  
 Innovation & Sustainable Opportunities: 20

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.

Examples of significant engagements include:

**Environmental engagement**

**Marsh & McLennan** –The company announced a 15% emissions reduction target by 2025. Findlay Park engaged as they felt this could potentially be augmented with a validated SBT on a supporting 2030 timeframe. At the end of Q1 2022 the company unveiled its new ESG Report for 2021, in which it announced its commitment to the SBTi and a new net zero by 2050 goal.

**Social/ Governance engagement**

**Union Pacific** – Findlay Park recognised that company reporting on certain aspects of Human Capital and D&I was below that of its peers. They engaged with Union Pacific's Investor Relations team where



		<p>they felt some of the company's responses to queries fell short. At the company's AGM, Findlay Park accordingly voted in favour of the shareholder resolution on broader diversity and inclusion reporting. Following the engagement and voting action, the company published its first Human Capital Report in 2022 in which it outlines the company's commitments and progress towards diversity and inclusion.</p>
<p><b>Kiltearn Global Equity Fund</b></p>	<p>Total engagements: 45  Environmental: 4  Social: 4  Governance: 22  Environmental &amp; Governance: 15</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>Examples of significant engagements over the year include:</p> <p><b><u>Governance engagement</u></b></p> <p><b>Secom</b> - Kiltearn sent a formal letter to the company's chair. The letter requested that the company set out a plan to improve their capital-discipline practices including increase its dividend pay-out ratio, setting a return on equity target and implementing a repurchase programme target.</p> <p><b><u>Environmental/ Governance engagement</u></b></p> <p><b>Shell</b> - Kiltearn are continually engaging with Shell on various ESG matters. At its May AGM, Kiltearn supported an item relating to the energy-transition progress proposed by the British multinational oil and gas company:</p> <p>Every three years until 2050, the company will publish its updated strategy and submit it to a shareholder vote. The company's target is to become a net-zero emissions company by 2050. The company's executive remuneration targets include consideration of energy transition. and since then the company has made some progress in its approach to energy transition.</p>
<p><b>LGIM Buy &amp; Maintain Fund</b></p>	<p>LGIM were unable to provide details of engagement during this period.</p>	<p>N/A</p>

	Isio are working with LGIM to find ways of improving their engagement reporting.	
<b>LGIM LDI Fund</b>	N/A	N/A
<b>Lindsell Train UK Equity Fund</b>	<p>Total engagements: 11</p> <p>Environmental: 1</p> <p>Social: 2</p> <p>Governance: 7</p> <p>Broad-based ESG: 1</p>	<p>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.</p> <p>Examples of significant engagement include:</p> <p><b><u>Social engagement</u></b></p> <p><b>Burberry</b> – In 2022 Lindsell Train became a member of Find It, Fix It, Prevent It – an initiative convened to set targets and monitor the progress of its objective to eradicate modern slavery. Accordingly, they engaged with Burberry. Burberry already has formal Modern Slavery policies in place, but acknowledged that modern slavery has been found in its supply chain. However, they expect this would be the case for any company should it delve deep enough. The company reassured Lindsell Train that its policies are robust and always supported by NGO input, and that it is indeed incumbent on Burberry to report that slavery was found and describe how it was fixed. Lindsell Train were reassured with the company’s response and the resources they continue to devote to this.</p> <p><b><u>Governance engagement</u></b></p> <p><b>Mondelez</b> – Lindsell Train do not believe that Mondelez’s compensation policy is aligned with the long-term best interests of the shareholders and have been engaging with the company on this matter over a number of years. Prior to 2020 Lindsell Train had voted against Mondelez compensation resolutions; however, over the past three years Mondelez management have made a significant effort to explain to the investment team the rationale for their policies during various</p>

		engagements. Due to this Lindsell Train have changed to 'Abstain' votes on executive remuneration at AGMs.
<b>Ruffer Absolute Return Fund</b>	<p>Total engagements: 36</p> <p>Environmental: 11</p> <p>Social: 4</p> <p>Governance: 14</p> <p>Strategy, Financial and Reporting: 1</p> <p>ESG Rating: 6</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><b><u>Environmental engagement</u></b></p> <p><b>Equinor</b> –Ruffer engaged with Equinor to refresh a dialogue on the company's energy transition plan and its various components. They came away encouraged by their progress towards the Climate Action 100+ NetZero Benchmark. They were pleased by Equinor's deal with Yara, a European agrichemicals company, to transport and store part of Yara's operational emissions off the coast of Norway highlights a milestone for the company's carbon capture and storage ambitions.</p> <p><b><u>Governance engagement</u></b></p> <p>Hennes &amp; Mauritz (H&amp;M) – Ruffer met with members of H&amp;M's management last quarter to discuss the independence of two Board Directors and their position on the Audit Committee. Ruffer did not feel their concerns were adequately addressed and, as a result, escalated the engagement by writing to the Board of Directors. They requested a meeting with the Board to discuss their concerns and made clear that they would consider alternative measures (including divestment) if they could not reach a conclusion. Ruffer divested from the position in Q3 2022.</p>


## Voting (for equity/multi asset funds only)

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2022. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Findlay Park American Fund	<p>Voteable Proposals: 599</p> <p>Proposals Voted On: 580</p> <p>Votes 'for' management: 551</p> <p>Votes 'against' management: 39</p> <p>Abstain Votes: 0</p> <p>Non-proxy agent votes: 37</p> <p>Proxy agent votes: 543</p>	<p><b>Amazon</b></p> <p>Date of vote: 25<sup>th</sup> May</p> <p>Percentage of fund's holding: 4.31%</p> <p>Summary: Findlay Park voted for a shareholder resolution, against management, that the Amazon Board issue a report describing how the company could reduce its plastics use. They voted against a similar proposal in 2021 given the firm's argument that the pandemic hindered their ability to supply sustainable packaging. However, after one year they felt the company had had enough time. The vote narrowly failed to pass.</p>	<p>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. Findlay Park aims to vote on all proposals it is eligible for. They noted that the 19 votes on which they did not vote were a result of an operation error at the Berkshire Hathaway meeting.</p>
		<p><b>Fortive</b></p> <p>Date of vote: 7<sup>th</sup> June</p> <p>Percentage of fund's holding: 0.64%</p> <p>Summary: Findlay Park voted against executive pay at Fortive, due to the around three-fold increase in total CEO pay from 2020 to 2021, which they felt was not justified by superior performance. In addition, the firm's returns targets linked to CEO pay seemed somewhat unambitious to them.</p>	
Kiltearn Global Equity Fund	<p>Voteable Proposals: 1315</p> <p>Proposals Voted On: 1315</p> <p>Votes 'for' management: 1078</p> <p>Votes 'against' management: 237</p> <p>Abstain Votes: 0</p> <p>Non-proxy agent votes: 1039</p> <p>Proxy agent votes: 276</p>	<p><b>Exxon</b></p> <p>Date of vote: 25<sup>th</sup> May</p> <p>Percentage of fund's holding: 2.85%</p> <p>Summary: A shareholder proposal requested that the company set and publish medium and long-term targets to reduced GHG from the company's operations and energy, in a manner consistent with the Paris Agreement. Kiltearn voted in favour of the proposal without prior informing management. They believed it was reasonable for the company to set aspirational targets. The resolution failed with 28% of the vote.</p> <p><b>CVS Health</b></p> <p>Date of vote: 11<sup>th</sup> May</p>	<p>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.</p> <p>Kiltearn utilise data provided by Institutional Shareholder Services but not as a determiner of voting outcomes.</p>

		<p>Percentage of fund's holding: 2.49%</p> <p>Summary: A shareholder brought a proposal requesting that the company adopt a policy to offer paid sick leave to employees. They voted for the resolution without informing management. Kiltearn supported the proposal on the basis that it seemed like a reasonable stance that could, in turn, have improved workforce morale/reduce turnover rates, etc. The proposal failed, gaining c.26% of the vote.</p>	
<b>Lindsell Train UK Equity Fund</b>	<p>Voteable Proposals: 368</p> <p>Proposals Voted On: 368</p> <p>Votes 'for' management: 366</p> <p>Votes 'against' management: 0</p> <p>Abstain Votes: 2</p> <p>Non-proxy agent votes: N/A</p> <p>Proxy agent votes: N/A</p>	<p><b>Unilever</b></p> <p>Date of vote: 5<sup>th</sup> April</p> <p>Percentage of fund's holding: 7.79%</p> <p>Summary: Nelton Peltz of Trian Fund Management, an activist investor, had recently been appointed by the firm as a non-executive director. Given Trian's objectives are in line with Lindsell train's they had no issue with his appointment and informed the company of this. Following engagements with the company to ensure that management focussed on long-term objective they voted in favour of his appointment, which passed.</p>	<p>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.</p>
<b>Ruffer Absolute Return Fund</b>	<p>Voteable Proposals: 1456</p> <p>Proposals Voted On: 1456</p> <p>Votes 'for' management: 1373</p> <p>Votes 'against' management: 82</p> <p>Abstain Votes: 1</p> <p>Non-proxy agent votes: 95</p> <p>Proxy agent votes: 1361</p>	<p><b>Aena</b></p> <p>Date of vote: 18<sup>th</sup> March</p> <p>Why the vote was deemed significant: Vote against election of directors in a material holding</p> <p>Percentage of fund's holding: 0.83%</p> <p>Summary: Ruffer voted against the re-election of the incumbent Director as Aena has not split the CEO and Chairman roles and does not have a plan to do so. There is pressure from minority shareholders to split these roles; however, the majority shareholder (the Spanish government) has not shown in interest in supporting the change. Therefore, the resolution still passed with 82.5% of votes in favour. They informed the company of their intention to do so beforehand.</p> <p><b>BP</b></p> <p>Date of vote: 12<sup>th</sup> May</p> <p>Percentage of fund's holding: 3.10%</p>	<p>Ruffer proxy voting advisor is the Institutional Shareholder Services which assists analysts in their assessment of resolutions and the identification of contentious issues. Ruffer do not delegate or 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.</p>



Summary: Ruffer voted with management against a shareholder resolution to implement climate change targets. Ruffer feel that BP are industry leading in the climate transition and the shareholder resolution was unnecessary. They engaged with BP ahead of the vote. The shareholder resolution failed with 85.1% of votes against.

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