Heart of England Co-operative Society Pension Scheme

Implementation Statement for the year ended 05/04/2021

Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustee of the Heart of England Co-operative Society Pension Scheme ("the Scheme") has followed its policy in relation to the exercising of rights (including voting rights) attached to the Scheme's investments, and engagement activities during the year ended 5 April 2021 ("the reporting year"). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Background

During the reporting year, the Scheme's Statement of Investment Principles ("SIP") was reviewed and amended from September 2020. This review was initiated by the Trustee aiming to outline their policy in relation to environmental, social and governance ("ESG") and voting practices in compliance with regulations that took effect from 1 October 2020. The Trustee's policy had previously been a broad reflection of the investment managers' own equivalent policies up until the amendments were made in September 2020.

The previous version of the SIP had been in place since May 2020, as such both iterations were relevant during the reporting year.

The Trustee's updated policy

The Trustee believes that there can be financially material risks relating to ESG issues. The Trustee has delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustee requires the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourage them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and climate change risk in relation to those investments.

Manager selection exercises

One of the main ways in which this updated policy is expressed is via manager selection exercises: the Trustee seeks advice from XPS on the extent to which its views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

The Trustee received manager selection advice in October 2020, which was then developed further in May 2021. This advice was implemented in July of the Scheme's next financial year (2021/22). To implement this advice, the Trustee disinvested from the Schroders All Maturities Corporate Bond, Diversified Growth and Index Linked Gilts funds that the Scheme held for the whole of the reporting year, and invested in the following BlackRock funds; Liability Matching Profile Fund range ("LDI"), Buy & Maintain ESG Vintage Pooled Fund range ("B&M"), UK Strategic Alternative Income Fund ("SAIF") and the Sterling

Short Duration Credit Fund. The Scheme also invested into the Legal & General Investment Management Dynamic Diversified Fund.

When providing manager selection advice, XPS assess funds using various criteria. In acknowledgement of the Trustee's updated policy, one of these criteria is the funds' ESG and climate change integration, where XPS will only recommend funds that at least meet a minimum level of ESG integration. Therefore, whilst the LDI, SAIF, Sterling Short Duration Credit and Dynamic Diversified funds do not have a specific ESG focus, it was believed that the funds' ESG credentials were sufficient to meet the Trustee's ESG and climate change policy.

The BlackRock Buy & Maintain ESG Vintage Pooled Fund range does have an ESG and climate change focus, by employing negative screening. When selecting the fund's investments, BlackRock aim to exclude issuers that do not meet the pre-defined ESG criteria. This includes controversial weapons, fossil fuels, Thermal coal/Nuclear energy, civilian firearms, Tar/Oil sands, Tobacco, no involvement in violations of the UN Global Compact, and to not have below average environmental practices. The Buy & Maintain funds also employ positive screening, where BlackRock will tilt the portfolio to include issuers within the top quartile of ESG score based upon the MSCI Index. They will also tilt towards issuers that give science-based ESG targets, such as companies that have set greenhouse emission reduction targets.

By choosing to invest in funds that have a specific ESG focus, the Trustee is satisfied that the overall investment strategy of the Scheme clearly reflects the Trustee's ESG Policy (including climate change).

Ongoing governance

The Trustee, with the assistance of XPS, monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this statement. Further, the Trustee has set XPS the objective of ensuring that any selected managers reflect the Trustee's views on ESG (including climate change) and stewardship.

Beyond the governance work currently undertaken, the Trustee believe that their approach to, and policy on, ESG matters will evolve over time based on developments within the industry and, at least partly, on a review of data relating to the voting and engagement activity conducted annually.

Adherence to the Statement of Investment Principles

During the reporting year the Trustee is satisfied that it followed its policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree.

Voting activity

The voting activity of the Scheme over the reporting year is in relation to the funds the Scheme was invested into throughout the period, and so does not include the voting activity of the BlackRock or LGIM funds that the Scheme invested into post the end of the reporting year.

The main asset class where the investment managers will hold voting rights on behalf of the Scheme is equities, as it represents the equity ownership and shareholder's stake within the underlying business. There are likely to be no voting rights for credit-based assets or funds that invest into them, such as the Schroders All Maturities Corporate Bond Fund or the Schroders Matching Index Linked Gilt funds. Investments in public equities will form part of the strategy of the Schroders Diversified Growth Fund in which the Scheme invested over the reporting year.

Therefore, a summary of the voting behaviour and most significant votes cast by the relevant investment manager is shown below. Based on this summary, the Trustee concluded that the investment manager has exercised their delegated voting rights on behalf of the Trustee in a way that aligns with the Trustee's relevant policies in this regard.

Voting Information
Schroders Diversified Growth Fund
The manager voted on 99.6% of resolutions of which they were eligible out of 20,478 eligible votes.
Investment Manager Client Consultation Policy on Voting
In order to maintain the necessary flexibility to meet client needs, local offices of Schroders may determine a voting policy regarding the securities for which they are responsible, subject to agreement with clients as appropriate, and/or addressing local market issues.
Investment Manager Process to determine how to Vote
Schroders evaluate voting issues arising at their investee companies and, where they have the authority to do so, vote on them in line with their fiduciary responsibilities in what they deem to be the interests of their clients. Schroders utilise company engagement, internal research, investor views and governance expertise to confirm their voting intentions.
How does this manager determine what constitutes a 'Significant' Vote?
Schroders consider "most significant" votes as those against company management.[1] They are not afraid to oppose management if they believe that doing so is in the best interests of shareholders and their clients. For example, if they believe a proposal diminishes shareholder rights or if remuneration incentives are not aligned with the company's long term performance and creation of shareholder value. Such votes against will typically follow an engagement and they will inform the company of their intention to vote against before the meeting, along with their rationale. Where there have been ongoing and significant areas of concerns with a company's performance, Schroders may choose to vote against individuals on the board. However, as active fund managers Schroders usually look to support the management of the companies that they invest in. Where Schroders do not do this they classify the vote as significant and will disclose the reason behind this to the company and the public.
Does the manager utilise a Proxy Voting System?
Schroders receive research from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings, however this is only one component that feeds into their voting decisions. In addition to relying on their policies, Schroders will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts. It is important to stress that their own research is also integral to their final voting decision; this will be conducted by both their financial and ESG analysts. For contentious issues, their Corporate Governance specialists will be in deep dialogue with the relevant analysts and portfolio managers to seek their view and better understand the corporate context. Schroders continue to review their voting practices and policies during their ongoing dialogue with portfolio managers. This has led them to raise the bar on what they consider 'good governance practice'.

[1] Out of a total of 20,478 votes, Schroders voted against management on 1,570 occasions. Schroders would deem all these 1,570 votes as significant. For simplicity, XPS have filtered these votes and only listed below the most significant votes related to sales of shares or the company, transactions, or mergers and acquisitions.

Top Significant Votes during the Period			
Company	Voting Subject	How did Management Vote?	How did the Investment Manager Vote?
Poly Developments & Holdings Group Co., Ltd.	Approve related party transactions	For	Against
Schroders believed the proposed related-party transactions may expose the company to disproportionate risks.			
SKSHU Paint Co., Ltd.	Approve subscription agreement and related transactions AND Approve whitewash waiver and related transactions	For	Against
Schroders believed both these subjects were not in the best interests of minority shareholders.			
STMicroelectronics NV	Grant board authority to issue shares up to 10% of issued capital in case of merger or acquisition and exclude pre-emptive rights	For	Against
Schroders believed the change to the boards authority could be used for anti-takeover measures.			
Egis Technology, Inc.	Amend procedures governing the acquisition or disposal of assets	For	Against
The proposed amendments, once approved, would grant the chairman greater authority in making transaction decisions without any checks and balance from the board and independent directors.			
Transcend Information, Inc.	Amend procedures governing the acquisition or disposal of assets	For	Against
Schroders believed the proposed increase of caps in securities may expose the company to unnecessary risks.			
Polytronics Technology Corp.	Amend procedures governing the acquisition or disposal of assets	For	Against
Schroders believed the proposed increase of caps in securities, investment, endorsement and guarantee provision may expose the company to unnecessary risks.			
Rocket Internet SE	Approve EUR 69.4 million reduction in share capital via redemption of shares to be acquired; authorize acquisition of treasury shares	For	Against
Schroders believed that delisting was not in best interests of shareholders.			

XPS Investment

TP ICAP Plc	Approve matters relating to the acquisition of Liquidnet holdings, inc.	For	Against
Split vote - Investor feels price of deal not in company's best interests.			

Adopted on behalf of the Trustee