Annual Implementation Statement covering 6th January 2021 – 5th January 2022 (the 'Scheme Year')

The London Metal Exchange 1989 Pension Scheme ('The Scheme') - Investment Accounting Disclosures

Dalriada Trustees Limited ('Dalriada' or 'the Trustee') is the sole professional trustee for the Scheme, appointed in 2018.

This Statement has been prepared in accordance with applicable legislation, taking into account guidance from The Pensions Regulator.

The Scheme is a defined contribution ('DC') arrangement only.

In this Statement we seek to:

- detail any review of the Statement of Investment Principles ('SIP') during the Scheme Year
- set out the Trustee policies;
- set out how, and the extent to which the SIP has been followed during the Scheme Year; and
- comment on the voting and engagement behaviour and how the Trustee policy has been followed during the Scheme Year.

<u>Review of the SIP</u>

The Trustee last updated the SIP in September 2020 to include polices required by the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. There were no changes to the SIP over the Scheme Year.

The SIP, which was dated 18th September 2020, can be found here:
https://www.lme.com/en/about/governance/The-London-Metal-Exchange-1989-pension-scheme

<u>Trustee Policies</u>

This section sets out the policies in the SIP in force at the Scheme year end, relating to the following:

- Financially Material considerations
- Non-Financial Material considerations
- Investment Manager Arrangements
- Stewardship

Stewardship including the exercise of voting rights and engagement activities is set out in the 'Voting and Engagement' section.

Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process, to determine the investment strategy over the length of time during which the benefits are provided by the Scheme to the members.

The Trustee believes that financially material considerations (including climate change) are allowed for in the asset liability modelling that is carried out when setting the investment strategy.

To invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the fund managers and investment consultant are expected to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment manager's own philosophy and processes to ESG issues. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations through the following means:

- *Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;*
- *Use ESG ratings information, to assess how the Scheme's investment managers take account of ESG issues; and*
- *Request that all of the Scheme's investment managers share information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.*

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

Non-Financial Material Consideration

The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

Environmental, Social and Governance ('ESG') and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

Investment Manager Arrangements

Incentives to align investment managers investment strategy and decisions with the trustees' policies

The Scheme invests in pooled funds. The Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy, from the funds available on the Standard Life platform, taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether the fund's investment strategy is being followed and monitors this regularly.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the fund managers incentivise them to execute their investment policies consistently, as the longer the units are held the larger income to the investment manager.

If the Trustee feels that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustee reviews the performance of each fund quarterly on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the individual funds over at least a 3-5 year period or over a market cycle, if appropriate, when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is a percentage of the assets held in each fund so the amount each manager receives is based upon the value of assets held with them. The remuneration paid out by the Scheme will depend upon the asset allocation. The charges are considered as part of the *manager selection process. The charges are monitored regularly with the help of its investment consultant to ensure they are in line with the Trustee's policies for each fund. The Trustee believes that its and each fund manager's goals are aligned.*

How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee monitors the portfolio turnover costs on an annual basis.

The Trustee defines target portfolio turnover as the average turnover of the portfolio expected in the type of strategy the manager has been appointed to manager. This is monitored on an annual basis.

The Trustee has delegated the responsibility of monitoring portfolio turnover costs and target portfolio turnover to their investment consultant.

The duration of the arrangement with the asset manager

The Trustee plans to hold each of its investments for the long term but will keep this under review.

Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.

Voting and Engagement Policy

The Trustee's policy on stewardship is set out below in the SIP dated September 2020.

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

How the SIP has been followed over the Scheme Year

The Trustee has used Minerva Analytics ('Minerva') to obtain voting and engagement information ('VEI') on the Scheme's behalf. This section of the Implementation Statement sets out, and the extent to which, the Trustee policy in relation to exercising voting rights had been followed during the Scheme Year.

The Scheme holds all investments with Standard Life, and due to the number of funds invested in, the largest ten were chosen for Minerva to request information from. Minerva therefore focused on the Scheme's investments that hold abrdn and/or Invesco funds.

A summary of the key points is set out below.

abrdn

Minerva confirmed that the manager's voting policies and disclosures approached compliance with the International Corporate Governance Network (ICGN) Voting Guidelines Principles and good corporate governance practices. They were also able to confirm the manager's voting activity has broadly followed the Trustee's policy. There are some areas where there are limited publicly available disclosures which meant that Minerva were unable to conclude if the manager's voting policy was aligned with these policy pillars of Good Practice. Minerva will aim to engage with the investment manager on the lack of disclosures.

Invesco

In contrast, Minerva confirmed that very little reporting information was available from Invesco. Invesco did not provide any significant votes or engagement regarding their funds and there were limited disclosures available for Audit & Reporting, and Remuneration. Therefore, it was difficult for Minerva to confirm if Invesco followed the Trustees' voting and engagement policies. Minerva will aim to engage with the manager on the lack of information provided.

Included in the ten largest funds were three in a 'Fund of Funds' structure, meaning that each fund is itself invested in seven underlying funds. There were therefore limitations around the information Minerva were able to assess for these funds as no reporting is available for these.

For the remaining funds, base on the information available, Minerva were able to conclude that their overall approach is broadly in step with the Scheme's requirements.

Minerva will seek any outstanding information and will agree a way forward on any actions identified with the Trustee once this information is available.

Significant Votes

A 'Significant Vote' relates to any resolution at a company that meets one of the following criteria:

- identified by the manager themselves as being of significance;
- Contradicts local market best practice (e.g., the UK Corporate Governance Code in the UK);
- Is one proposed by shareholders that attracts at least 20% support from investors; and
- Attracts over 10% dissenting votes from shareholders.

The voting activity for each of the investment managers, where available, together with the details of any 'Significant Votes' identified by each manager are set out, can be found here: https://www.lme.com/en/about/governance/The-London-Metal-Exchange-1989-pension-scheme

Work undertaken by the Trustee

This section highlights the work undertaken by the Trustee during the Scheme Year, and longer term where relevant:

- During the year the Trustee received training and reviewed their policies on ESG, Stewardship and Investment Manager Arrangements.
- The Trustee's investment policy is to offer a range of strategies appropriate for members to meet their investment objectives. The Trustee provides a range of investments that are suitable for meeting the members' long and short-term investment objectives.
- The Scheme continues to provide a suitable DC default strategy which was last reviewed on 26 February 2019. Whilst no changes have been made to the default strategy, the Trustee has been in constant dialogue with Standard Life to evolve the investment offering, particularly in relation to incorporating ESG factors. As a result of this dialogue, changes are planned for the underlying funds within the default lifestyle during the 2022/23 Scheme year.
- The Trustee monitors the performance of the default arrangement against its aims and objectives on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance is reviewed against target benchmarks that have been agreed with the investment managers.
- Appropriate Trustee training has been undertaken, particularly in respect of ESG aspects. This has benefitted the Scheme and the members by enabling the Trustee to monitor the development of the ESG investment options intended to be launched by Standard Life.
- The Trustee has reviewed and evaluated the quarterly governance reports provided by Standard Life during the Scheme year, including the Scheme investment.
- During the Scheme Year the Trustee has been involved in discussions with Standard Life and the London Metal Exchange on the potential to improve the charges for the members. These discussions are expected to conclude in the 2022/23 Scheme year.
- During the Scheme Year Standard Life's own investment governance has implemented the following changes to the investment funds available on the Scheme's platform:

Owing to the market turbulence experienced during the COVID pandemic, the Scheme's property funds were gated by Standard Life, meaning the property fund managers were unable to obtain an appropriate valuation of the underlying assets and new investments were unable to be accepted into the funds. Five members were invested in property funds and were affected by the gating. For members' regular contributions due to be invested in the property funds, the Trustee obtained investment advice and temporarily re-directed these contributions to the Standard Life Money Market Fund. The relevant members were informed and reminded of their option to self-select their investments.

Over the year, as markets stabilised, the gating was lifted on all of the property funds, except one. When the gating was lifted on each property fund, any funds temporarily held in the Standard Life Money Market Fund was re-directed to the property fund the members had originally selected. The relevant members were informed.

On April 12th 2021, the fund manager for the remaining gated property fund, the Aviva Investors Pensions Limited Property Fund, announced that the fund would be closing. This affected one member. Owing to the nature of the underlying investments, the assets were to be sold over a period of time, when deemed appropriate by the fund manager. Standard Life confirmed that when the funds were released from the property fund, the cash value would be re-invested in the Scheme's default fund. Each member would be informed by Standard Life when this occurred. The Trustees informed the member of the fund managers decision to close the fund and the default process set out by Standard Life, with the option to self-select, should they wish to make a change.

On 5th February 2021, Standard Life contacted the Trustee to confirm that the SL Ninety One Enhanced Natural Resources Pension Fund was closing. Standard Life confirmed that the assets held in this fund were to be re-invested in the JP Morgan Natural Resources Pension Fund. The Total Annual Fund Charge (TAFC) for the SL Ninety One Enhanced Natural Resources Pension Fund was 1.83% p.a. and the TAFC for the JP Morgan Natural Resources Pension Fund was 1.73% p.a. This affected two active members and the employer notified the members of the change, reminding them of their option to self-select, should they wish to make a change.

On 30th March 2022, Standard Life contacted the Trustee to confirm that its was making changes to the SL ASI Global Real Estate Pension Fund. The fund manager, abrdn, changed the investment policy of the fund and the changes were effective from 16th February 2022. This affected one active member. The employer notified the member, reminding them of their option to self-select, should they wish to make a change.