



# Huhtamaki UK Limited Pension and Life Assurance Scheme Implementation Report

October 2020

# 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

The SIP can be found online at the web address [www.huhtamaki.com/en-gb/foodservice-uk/about-us/huhtamaki-uk-limited-pension-and-life-assurance-scheme/](http://www.huhtamaki.com/en-gb/foodservice-uk/about-us/huhtamaki-uk-limited-pension-and-life-assurance-scheme/). 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 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 they invest.
- voting behaviour covering the reporting year up to 31 March 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

There have been no key actions taken by the Scheme over the reporting year in respect to investment strategy or asset allocation.

### Implementation Statement

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

Signed *P. Duddington*  
Position *Trustee*  
Date *2nd October 2020*



# Managing risks and policy actions DB

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 broadly hedge the funding level of the Scheme.	There have been no changes to policy over the reporting year.
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), and to provide collateral to the LDI.	There have been no changes to policy over the reporting year.
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.	There have been no changes to policy over the reporting year.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	There have been no changes to policy over the reporting year.
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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> </ol>	<p>ESG actions undertaken:</p> <ul style="list-style-type: none"> <li>• This updated ESG policy was reviewed by the Trustees as part of the SIP and IID update in September 2019.</li> <li>• The managers' ESG policies were reviewed and presented to the Trustees in an ESG Manager Summaries report. The Trustees are due to receive an Impact Assessment report in 2020/2021, and will review the</li> </ul>

	<p>5. UN PRI Signatory</p> <p>The Trustees monitor the managers on an ongoing basis.</p> <p>managers' ESG policies on an annual basis through a Progress report. This report summarises the managers' progress on addressing the actions raised within the Impact Assessment report.</p> <p>More details of the ESG policy and how it was implemented are presented later in this report.</p>		
	Currency	<p>The potential for adverse currency movements to have an impact on the Scheme's investments.</p> <p>Hedge all currency risk on all assets that deliver a return through contractual income.</p> <p>There have been no changes to policy over the reporting year.</p>	

# Changes to the SIP

## Policies added to the SIP

Date updated: \_\_\_\_27 September 2019\_\_\_\_

**How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.**

- As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.

**How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.**

- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustees monitor the investment managers' engagement and voting activity on a periodic basis as part of their ESG monitoring process.
- The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.

**How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.**

- The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive.

**The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.**

- The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.
  - For closed-ended funds or funds with a lock-in period, the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Scheme's liquidity requirements.
  - For open-ended funds, the holding periods are flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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# 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. This page details how the Scheme's ESG policy is implemented, while the following pages outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend 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 rights and engagement activity	<ul style="list-style-type: none"><li>Through the manager selection process ESG considerations will form part of the evaluation criteria</li><li>The Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis</li></ul>	<ul style="list-style-type: none"><li>The manager has not acted in accordance with their policies and frameworks.</li></ul>



## Areas of assessment and ESG beliefs

Risk Management	<ol style="list-style-type: none"> <li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme</li> <li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees</li> </ol>
Approach / Framework	<ol style="list-style-type: none"> <li>3. The Trustees should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li> <li>4. ESG factors are relevant to investment decisions in all asset classes.</li> <li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li> </ol>
Reporting & Monitoring	<ol style="list-style-type: none"> <li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li> <li>7. ESG factors are dynamic and continually evolving; therefore the Trustees will receive training as required to develop their knowledge.</li> <li>8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.</li> </ol>
Voting & Engagement	<ol style="list-style-type: none"> <li>9. The Trustees will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li> <li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li> </ol>
Collaboration	<ol style="list-style-type: none"> <li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li> <li>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.</li> </ol>

# ESG summary and actions with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement Details
<b>BlackRock Investment Management (UK) Limited,</b>  Aquila Life Equity Fund  Aquila Life Currency Hedged World ex-UK Equity Index Fund	<p>We feel BlackRock's approach to ESG is somewhat incoherent and lacks consistency. For example, their risk metrics do not link to their ESG priorities directly. It is also not clear how they incorporate their stewardship priorities into their voting and engagement activity, or how effective their stewardship activities are on delivering on the priorities. BlackRock are working to increase their reporting standards in 2020.</p>	<ul style="list-style-type: none"> <li>BlackRock to evidence how their stewardship activities align with their firm-wide stewardship priorities, particularly in reference to their policies on climate change and board diversity.</li> <li>BlackRock to establish KPIs to drive their engagement priorities e.g. climate change targets.</li> <li>BlackRock to report on engagement effectiveness at a fund level.</li> <li>BlackRock to incorporate a voting and engagement summary in their regular fund reports.</li> <li>BlackRock to incorporate ESG risk metrics in their regular fund reports.</li> </ul>	<p>Isio engaged with BlackRock in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.</p>
<b>Ruffer</b>  Total Return Fund	<p>Ruffer have an integrated and proactive approach to ESG. ESG risks are considered and monitored from the outset of a new investment by a dedicated responsible investment team, supplemented by research from third party sources. Ruffer participate in a number of ESG focused initiatives.</p> <p>Ruffer are looking to develop bespoke ESG</p>	<ul style="list-style-type: none"> <li>Ruffer to issue bespoke ESG Reports next year.</li> <li>Ruffer to establish new diversity and inclusion policy in Autumn 2020.</li> </ul>	<p>Isio engaged with Ruffer in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.</p>



	reports for clients and are also updating their diversity and inclusion policy in the coming months.		
<b>Threadneedle Investment</b>  TPEN Property Fund	<p>Columbia Threadneedle integrate ESG factors into their investment process and have an established dedicated RI team.</p> <p>The Fund has a strong history of active engagement and collaboration on ESG related topics and is looking to improve the extent and depth of its reporting on these issues.</p>	<ul style="list-style-type: none"> <li>• Threadneedle to provide ESG KPI performance as part of regular quarterly monitoring. Such as carbon emissions and energy consumption.</li> <li>• The manager could expand further and in more detail on their tenant engagement to help better align the manager's interests with the tenants. Such initiatives could include providing a tenant a property handbook that is updated regularly and encourage and educates on ESG topics and goals.</li> </ul>	Isio engaged with Threadneedle in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.
<b>Alcentra Limited</b>  Alcentra European Direct Lending Fund II  Alcentra European Direct Lending Fund III	<p>We believe the Funds' ESG policy is "satisfactory" as they have introduced the analysis of ESG risks within the investment process and engage with companies and the wider community where possible. However, we believe Alcentra could benefit from setting ESG priorities, a quantitative scorecard and KPIs.</p> <p>While there are areas for improvement, Alcentra have outlined that they are still developing their approach to ESG and aim to improve their processes over time.</p>	<ul style="list-style-type: none"> <li>• Alcentra to introduce a quantitative scorecard to use as part of their due diligence process.</li> <li>• Alcentra to set fund specific ESG priorities.</li> <li>• A measure of the effectiveness of engagement to be demonstrated through the use of KPIs.</li> <li>• As part of this Fund reporting, we would like to see ESG metrics for portfolio companies.</li> <li>• Alcentra to show more examples of their collaboration within the industry and how this has contributed to ESG best practises.</li> </ul>	Isio engaged with Alcentra in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.
<b>Insight Investment Management</b>  Partially Funded Gilt Fund	<p>Insight have shown they have sufficient resource and capability to assess the extent of ESG risks on counterparty exposure for LDI mandates.</p>	<ul style="list-style-type: none"> <li>• Insight to consider developing internal diversity targets, focused not just on gender but also race.</li> <li>• Insight to consider greater emphasis on</li> </ul>	Isio engaged with Insight in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.



GBP Liquidity  
Plus Fund

Insight recognise that their ESG framework can be developed even further and we believe this is a positive sign that they are continually improving their approach for considering ESG factors.

D&I issues in assessing companies / counterparties.

- Insight to add counterparty ESG scores to client reporting

# 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 the end of 2019.

Fund name	Engagement summary	Commentary
BlackRock Aquila Life Equity Fund	Total engagements: 1,651 Governance: 1,556 Social: 514 Environmental: 642	The BlackRock Investment Stewardship Team carries out all engagement activities. The team engages across all funds at an issuer level thereby leveraging all the capital at their disposal to maximise engagement effectiveness.
BlackRock Aquila Life Currency Hedged World ex-UK Equity Index Fund		Examples of significant engagement include:  <b>Standard Chartered</b> – BlackRock engaged with the company's board and sustainability team to measure the extent to which climate was a strategic priority. As a result of the engagement, Standard Chartered increased its financing target to create \$35 billion in clean technology and renewable power between 2020-2025 from a previous target of \$4 billion (between 2016 – 2020).  <b>Korea Electric Power Corporation</b> – BlackRock raised concerns over the company's plans to build three coal-fired plants in Vietnam and Indonesia and plans to hold direct dialogue to discuss the strategic rationale. BlackRock will also encourage the company to provide enhanced disclosures on these projects and progress in addressing climate risk within the business.
Ruffer Total Return Fund	Total engagements: 49 Governance: 19 Social: 2 Environmental: 11 Combined: 17	Ruffer continually engages with companies on a case by case basis. An example of such an engagement includes the following:  <b>Equinor</b> – Ruffer engaged with this Norwegian energy company to help implement a new climate ambition the company had published, to reduce its net carbon intensity by at least 50% by 2050. Ruffer engaged in dialogue to detail the changes that would be necessary to achieve the target, focusing on how the company could develop its renewables portfolio, the governance of climate-related risks within the company and remuneration for the executive team linked to climate goals.

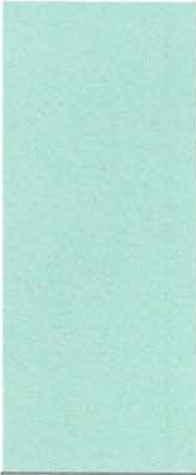
Threadneedle TPEN Property Fund	Total Engagements:3 Environmental: 3	<p>Real estate assets are exposed to a variety of climate and energy related risks. Threadneedle's management team believes that all property owners and managers have an ongoing duty to manage their assets in a responsible manner for the best interests of clients and society. The manager has improved its performance rating on the Global Real Estate Sustainability Benchmark by 5% this year and is ranked 25<sup>th</sup> out of a peer group of 79 funds.</p> <p>Examples of significant engagements include:</p> <p><b>Harold Wood Industrial Estate, Romford</b> – Threadneedle refurbished an industrial warehouse to a lettable state while improving the EPC rating from E to B. Some examples on how this was achieved include using LED lights, electric panels and removal of gas supplies.</p> <p><b>Wellington, Wimbledon</b> – The manager repurposed an old office building while keeping the concrete structure intact. The refurbishment process improved the EPC rating from E to B, and the reduction of parking spaces aimed to reduce the carbon emission associated with car usage in Wimbledon. Threadneedle co-operated closely with the local community to understand their concerns and ensured construction traffic was reduced as much as possible.</p>
Alcentra European Lending Fund II	We are working with the manager to enable them to provide this in the future.	Influence on engagement as a fixed income investor can be limited when compared to equity investors. Alcentra do communicate ESG issues with the companies they invest in, which includes dialogue with the sponsor, ESG scoring is incorporated within the investment and monitoring process and reviewed on a quarterly basis. Alcentra raise ESG issues at manager meetings and, where available, board presentations. Where Alcentra hold a seat on the board, they can influence strategy if needed.
Alcentra European Lending Fund III		
Insight Partially Funded Gilt Fund	We are working with the manager to enable them to provide this in the future.	When identifying material ESG risks, Insight engage with companies and other issuers to understand the issues and exert influence on behalf of clients to encourage change. Some issues are too big to tackle alone, in which case Insight may collaborate with other stakeholders.
Insight Liquidity Plus Fund (GBP)		Insight proactively engage with companies to ensure accurate analysis, and influence improvement in practices. Over 80% of engagements by their credit analysts included ESG issues. Assessment of ESG issues is included in analysts' objectives.



# 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 March 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Aquila Life Equity Fund	Voteable Proposals: 38,777 Proposals Voted: 37,286 Votes For: 34,400	We requested this data from the manager however currently the manager isn't able to produce this level of reporting. We are working with them to ensure that this data is available in the future.	BlackRock's proxy voting process is led by the BlackRock Investment Stewardship Team (BIS) which consists of regional teams. BlackRock use Institutional Shareholder Services (ISS), an electronic platform, to access voting research and to execute their vote instructions.
BlackRock Aquila Life Currency Hedged World ex-UK Equity Index Fund	Votes Against: 2,409 Votes Abstained: 376 Votes Withheld: 92	<b>Fortum</b> – A Finnish electricity company undertook a transaction which significantly increased its exposure to coal-fired power generation. BlackRock voted against the Board as they believed this was not aligned with long-term shareholders' interests.  <b>TransDigm</b> – BlackRock engaged with the US aviation manufacturer on its lack of climate risk reporting for 2019. The company had made no progress by the 2020 annual meeting, which resulted in BlackRock asking for the adoption of quantitative greenhouse gas emission goals and voted against the re-election of the Chair.	BlackRock votes at approximately 16,000 shareholder meetings each year but aims to engage with the company in the first instance to give management time to address the issue. BlackRock is not afraid to vote against companies where they believe the Board or management have not acted in the interests of long-term investors.
Ruffer Total Return Fund	Voteable Proposals: 1870 Proposals Voted: 1836 Votes For: 1667 Votes Against: 130	<b>ExxonMobil</b> – Ruffer voted against the re-election of all the non-executive directors due to the slow progress of the engagement with the	Ruffer has an internal voting policy as well as access to proxy voting research, currently from Institutional Shareholder Services (ISS), to assist analysts in their



Votes Abstained: 24  
Votes Withheld: 14

Climate Action 100+ initiative.

**Ocado-**

Ruffer voted against the re-election of the Chair of the Board as they were not comfortable with the board structure, particularly the low number of independent directors, and believed the company was too slow to try to rectify this.

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 clients' behalf. Where Ruffer decides to vote against management, they will inform the company in advance, detailing the reasons why they are doing so.



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