

Richards Hogg implementation statement

The primary focus of this implementation statement is to describe how the investment managers, Charles Taylor Investment Management Company Limited (CTIM), have actioned the various policies as outlined in the Statement of Investment Principles (SIP) over the past year.

As Trustees of the Plan's assets, we are responsible for the selection and retention of CTIM. Reviewing the voting and engagement activities, for which we include details below, is an important exercise to help us ensure they remain appropriate and are consistent with the policies in our SIP.

We are satisfied with the voting and engagement activities of CTIM and the 3rd party fund managers, and in particular, that they are using their position as stakeholder to engage constructively with investee companies; however, we will engage with them should we have any concerns about the voting and/or engagement activities carried out on our behalf.

Changes to the SIP in the last 12 months

In September 2021, some changes were introduced to the SIP:

- 1) The definition of expected investment return was clarified with an explicit mention of the required rates of return to reach the two targets of Technical Provisions and Long-Term Solvency, and their respective time horizons.
- 2) The target interest rate and inflation hedge ratios were increased from 20% to 80% +/- 5%, as the Trustees decided to accelerate the process of de-risking the assets relative to the liabilities.

Implementation of the investment strategy principles

- Required rates of returns

The overall expected investment return should exceed the required rates of return under both Technical Provisions and Long-Term Solvency. This principle is implemented by calculating the required rates of returns on a quarterly basis and then, at each new investment, an assessment is made that its expected return exceeds the required rates of return. This test has become easier over time, as the required rates of return have fallen thanks to some good progress on funding, and at the same time the expected return on investments has gone up thanks to bond yields having moved higher. As an example, one of the largest investments made during the year is the Muzinich Long/Short fund, with a yield of approximately 8%, well over both required rates of return under Technical Provisions (around 0%) and Long-Term Solvency (around 2%).

- Interest rate and inflation hedge ratios

The Richards Hogg Pension & Life Assurance Scheme

The biggest change to the SIP in the last year was the increase of the interest rate and inflation hedge ratios from 20% to 80% +/- 5%. This was actioned by increasing the allocation to LDI investments.

- **Diversification of the assets**

The assets remain well diversified within the limits of the investment guidelines. The decision of the Trustees to de-risk the portfolio resulted in a lower allocation to risk-assets and a higher allocation to matching assets (from 60/40 to 50/50) as per the updated investment guidelines. Geographical diversification within equities was increased during the year as the investment guidelines were amended to increase exposure to global equities relative to UK equities. Diversification by industry sector is in line with that of the broader market, while company diversification is obtained by having strict limits on individual company exposure.

- **Cashflow matching**

The scheme has a requirement to produce sufficient cashflows to match pension payments for the next 7 years (+/- 1 year). The scheme is currently cashflow matched for the first 8 years, as per the most recent cashflow analysis, which is done annually. Cashflows are generated by both equities and bonds: in equities, we focus on funds offering income share classes, while on bonds we have an allocation to short-dated bonds and bond funds.

Voting & engagement activity

The Scheme's investments are managed in part directly and in part by third party managers.

The process to select, appoint, and monitor external managers includes the following aspects:

- Overall firm culture and philosophy, including governance structure and management oversight, diversity, and investment team competences
- Assessment that the stewardship policy prioritises ESG factors beyond corporate governance, in addition to systemic issues
- Incorporation of material ESG factors in investment analysis, decisions, and portfolio construction
- Incorporation of the managers' sustainable investment policy into their asset allocation decisions
- Confirmation that the managers have adequate resources and processes to analyse ESG factors
- Engagement with underlying portfolio assets to address ESG risks and opportunities
- Also, for equity funds there is an assessment of voting policies and practices to make sure stewardship is prioritised over other factors (like maintaining access to the company)

Voting statistics for the managers with the largest equity allocations and the CTIM managed assets are shown below:

The Richards Hogg Pension & Life Assurance Scheme

Manager/fund	Number of voting opportunities	Number of votes cast	Number of votes FOR	Number of votes AGAINST	Number of abstentions
Artemis Income fund	916	916	913	3	0
Fidelity European fund	883	870	775	95	0
BNY Mellon Global Income Fund	860	860	750	110	0
Fundsmith Equity Fund	500	500	457	42	1
Walter Scott (firm wide)	731	731	667	64	0
CTIM	809	809	758	50	1

The Trustees have reviewed CTIMs voting activity and have selected the following as their most significant vote.

As in previous years, an area where CTIM voted against management is remuneration. This year, CTIM voted against increasing remuneration at GSK, since on balance the existing remuneration was viewed as already attractive enough to fully incentivize management. The Performance Share Plan award of 600% was viewed as ample and, with the big changes that the company has been embarking on, it seemed sensible to keep a significant portion of reward in the longer-term element of remuneration. It is worth noting that the resolution on remuneration at GSK included some positives, the standout being the fact that the CEO must build a stake commensurate to 650% of salary, which CTIM view as aligning outcomes directly with shareholders.

In addition to voting, CTIM engage also via collective action. In 2022, CTIM joined the UNPRI and other investors in an initiative to encourage new UK primary legislation to mandate companies to carry out human rights and environmental due diligence across their own operations and value chains. This is currently high on the agenda at G7 and EU level (EU is currently developing a new law) and the objective of the initiative is to encourage the UK to play a leading role in this respect.