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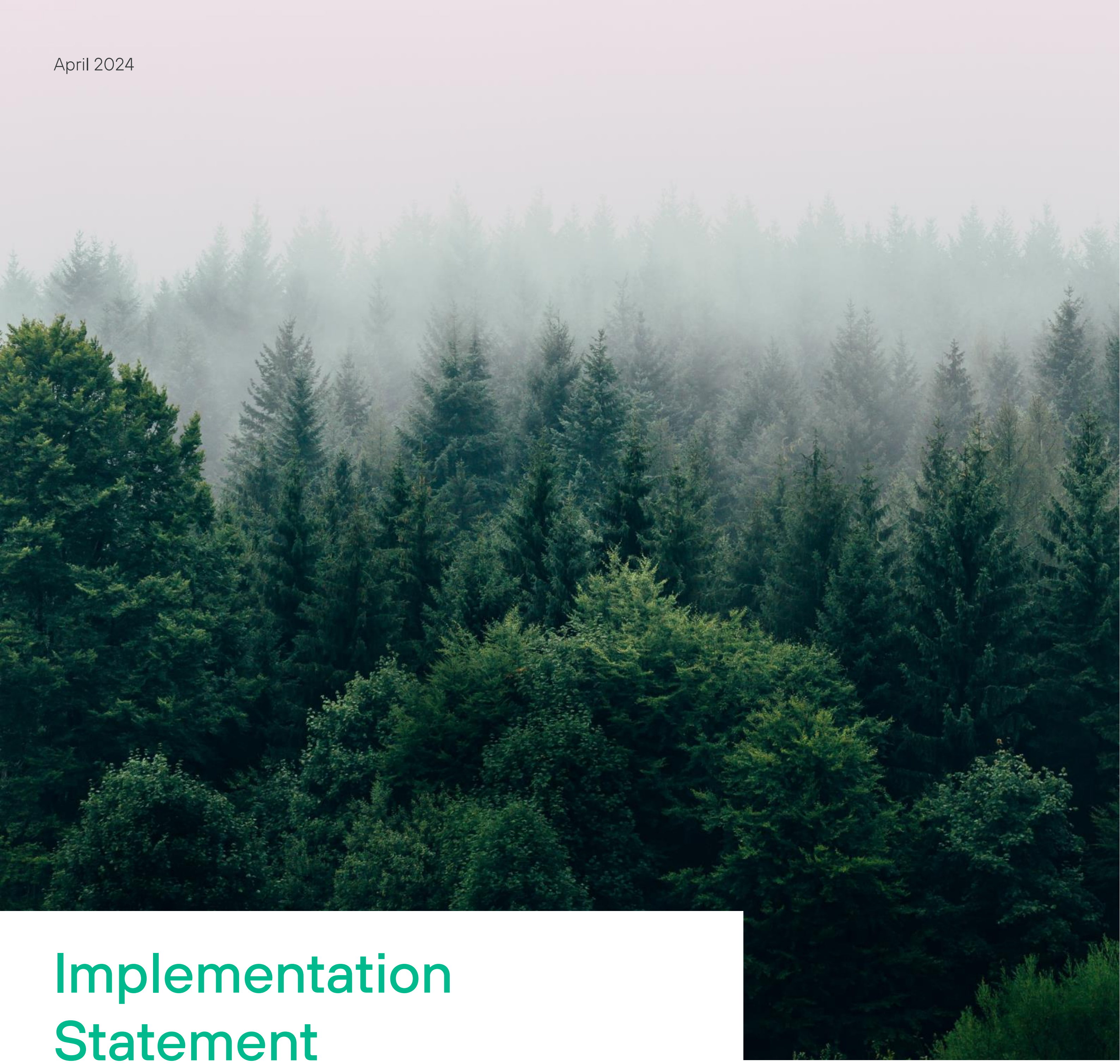

Implementation Statement

Charles Wells Directors' Pension Scheme – Year to 30 November 2023

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Background to the Implementation Statement

Background

The Department for Work and Pensions ('DWP') has increased regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ('ESG') factors as financially material and requires schemes to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require schemes to detail their policies in their Statement of Investment Principles ('SIP') and demonstrate adherence to these policies in an implementation statement.

Statement of Investment Principles ('SIP')

The Scheme has updated its SIP in response to the DWP regulations to cover:

- Policies for managing financially material considerations including ESG factors and climate change.
- The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflict of interest, risks, social and environmental impact and corporate governance.
- Policies on the stewardship of the investments.

The SIP can be found online at the web address https://www.wellsandco.com/customer-service/pensions and recent changes to the SIP are detailed in this statement.

Implementation Statement

This implementation statement provides evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- Actions the Trustee has taken to manage financially material risks and implement the key policies in the Scheme's SIP.
- The current policy and approach with regard to ESG and the actions taken to manage ESG risks.
- The extent to which the Trustee has followed the Scheme's 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 mandates.
- It is noted that one of the requirements for the implementation statement is to cover the Trustee's and the investment managers' approach to voting rights attached to investments (where applicable). During the year to 30 November 2023 there were no voting rights attached to the investments, which were either credit based or through derivatives. This statement is therefore focused on the Trustee's and the investment managers' approach to engagement and stewardship.

The previous implementation statements are available upon request.

Summary of the key actions undertaken over the Scheme reporting year

The Trustee monitors the Scheme's investments on an ongoing basis, including receiving regular reporting from the Scheme's investment adviser and the investment managers.

Reporting includes monitoring the Scheme's asset allocation versus the strategic allocation detailed in the SIP, reviewing the performance of the investment managers versus relevant benchmarks and their stated objectives, and monitoring investment risks.

During the year to 30 November 2023, the Trustee made changes to the investment strategy to align the asset allocation with the Scheme's long-term objectives, reduce risk and increase the portfolio's liquidity as the Scheme's estimated funding position remains strong.

Towards the end of the previous reporting year, in October 2022, the Trustee placed a partial redemption request for holdings in the Apollo fund to significantly increase liquidity within the portfolio and de-risk the Scheme, whilst retaining sufficient expected return within the portfolio to achieve the long-term objectives. The proceeds of this disinvestment were invested in the M&G Total Return Credit Investment fund (a liquid multi-asset credit fund) during the year to 30 November 2023.

The Trustee also agreed to increase the hedge levels for interest rate and inflation risk from 90% to 100% of Technical Provisions liabilities, in order to further reduce funding level risk. The SIP was updated during the reporting period to reflect the changes in the investment strategy outlined above. The Trustee keeps the Scheme's SIP under ongoing review.

Alongside traditional investment considerations, the Trustee receives reporting on ESG considerations, for example from the investment managers at Trustee meetings. The Trustee has reviewed the managers from an ESG perspective and the Scheme's investment adviser regularly meets with the investment managers to review their ESG policies and practices.

Implementation Statement

This report demonstrates that the Trustee of the Charles Wells Directors' Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Risk management policies and implementation

As outlined in the SIP, the Trustee adopts an integrated risk management approach. The three key risks associated with this framework and how they are managed is stated below.

Further, a summary of the actions the Trustee has taken to implement this framework over the 12-month period to 30 November 2023 is included.

Risk	Definition	Policy	Actions taken in implementing the policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.	• The Trustee monitors the performance of the Scheme's assets versus the investment objective on an ongoing basis. • The Trustee de-risked the investment strategy over the reporting year in order to increase the level of certainty around the target investment return and boost the liquidity within the portfolio.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	• The Trustee receives regular funding updates. • As part of the 30/11/2022 Actuarial Valuation process the Trustee received funding advice from the Scheme Actuary. An appropriate funding basis was agreed based on, amongst other considerations, the investment strategy.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.	• The Trustee receives regular updates on the financial performance of the sponsoring company. • As part of the 30/11/2022 Actuarial Valuation process the Trustee received covenant advice from its advisers.

Risk management policies and implementation: continued

As outlined in the SIP, the Scheme is exposed to a number of underlying risks and financially material considerations relating to the Scheme's investment strategy.

The Trustee's policies in respect of these issues, including how financially material considerations are taken into account in the selection, retention and realisation of investments are summarised below. A summary of the actions the Trustee has taken to implement the policies over the 12-month period to 30 November 2023 is also included.

Risk	Definition	Policy	Actions taken in implementing the policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge broadly 100% of these risks on the Technical Provisions basis through the LDI portfolio.	During the reporting year the target hedge levels were increased from 90% to 100% to further protect the funding level from interest rate and inflation risk.
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 manager.	The Trustee monitors the level of liquid assets available to the LDI manager on an ongoing basis. Sufficient liquidity was maintained over the period to ensure all cashflow requirements were met in a timely and cost-efficient manner. During the period, liquidity was increased in the Scheme's assets by selling a significant proportion of the allocation to the quarterly-traded credit fund with Apollo. The proceeds were invested in a daily traded credit portfolio with M&G.
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 Trustee maintained a diversified portfolio over the year to 30 November 2023.

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.	The Trustee maintained a diversified portfolio of credit assets over the year to 30 November 2023. The Scheme's allocation to the BlackRock Diversified Debt Fund manages credit risk through significant diversification across private credit strategies, alongside diversification of sectors and geographies. The liquid and semi-liquid credit strategies with Aegon, Apollo and M&G generally focus on higher credit quality issuers and further manage risk through their active management and underwriting process. The Scheme's investment adviser meets with the Scheme's investment managers on a regular basis to monitor portfolio risk.
Environmental, Social and Governance ("ESG")	Exposure to ESG factors, including but not limited to climate change, which can affect 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 criterion: 1. Responsible Investment Policy / Framework 2. Consideration of ESG factors integrated into investment process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustee monitors the managers on an ongoing basis.	The Trustee has carried out an in-depth review of the investment managers' ESG policies and practices. The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies. ESG was considered as part of the due diligence on the new M&G mandate and ESG would be a key part of the investment criteria for any new mandates for the Scheme.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To invest in funds that hedge all or the majority of currency risk.	The vast majority of Scheme assets were held in sterling denominated assets over the period.

Changes to the SIP

During the Scheme's reporting year, changes were made to the Trustee's SIP to reflect changes in the investment strategy and regulatory updates, focussed on engagement, voting (where applicable), and stewardship.

The updates to the investment strategy noted the reduction in the allocation to the Apollo Total Return Fund and the investment in the M&G Total Return Credit Investment Fund, which is a daily-dealt liquid credit fund invested in during 2023.

The SIP was also updated to reflect the Trustee increasing the target level of interest rate and inflation hedging from 90% to 100% of Technical Provisions liabilities. The increase in the target hedge rate was implemented in May 2023.

The SIP was also updated to reflect the Trustee's decision to remove the target equity exposure. This was completed towards the end of the previous reporting period and represented a significant de-risking of the Scheme's allocation.

Current approach and implementation of ESG and Stewardship policies

The "Stewardship of investments" section of the SIP outlines the Trustee's policies in relation to stewardship of the investments, including ESG.

Stewardship

All decisions about the day-to-day management of the assets have been delegated to the investment managers. This includes decisions about:

- Selection, retention, and realisation of investments including taking into account all financially material considerations in making these decisions.
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes the investment managers' policies in the above respects into account when selecting and monitoring the investment managers.

In order to ensure the investment managers' stewardship of the Scheme's assets is in line with the Trustee's policies, the Trustee meets with the investment managers and receives regular reports from the Scheme's investment adviser.

Environmental, Social, Governance ('ESG') factors and the exercising of rights

The framework for monitoring the managers from an ESG perspective is set out in the SIP as outlined below.

Method for monitoring and engagement:

- The Trustee's investment managers provide periodic reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.
- The Trustee receives information from its investment adviser on the investment managers' approaches to engagement.

The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflict of interest, risks, social and environmental impact and corporate governance. Circumstances for additional monitoring and engagement:

- The manager has not acted in accordance with their policies and frameworks.
- The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

As outlined on the following page, the Trustee has undertaken a detailed review of the investment managers from an ESG perspective and has met with the investment managers to discuss their ESG policies and practices. The Trustee is comfortable that the investment managers' ESG policies and practices satisfy its requirements. Further, the Trustee is comfortable with the new investment mandate with M&G from an ESG perspective.

The Scheme's investment adviser engages with the investment managers on a regular basis including regarding ESG factors.

The Trustee expects that the Scheme's investment managers will engage with investee companies, including on ESG factors. A summary of the investment managers' engagement activity over the year to 30 November 2023 is outlined later in this report.

ESG summary

The Trustee has carried out a review of the Scheme's investment managers from an ESG perspective with the assistance of the Scheme's investment adviser. The key findings of the review are summarised below, including the new investment with M&G.

The investment managers are integrating ESG factors within their investment decisions. Each of the managers has demonstrated that ESG factors are being given significant attention at a business level, highlighted by in-house ESG teams, ESG policies and engaging with third parties on ESG issues.

The credit managers (Apollo, Aegon, Alcentra, BlackRock and M&G) have outlined that ESG factors are considered within their analysis of companies, broader risk management and the delivery of long-term returns. Where ESG practices are less established within LDI, Schroders have outlined the steps they are taking to integrate ESG factors through their engagement with counterparties.

A summary of the individual investment managers' ESG policies and practices is outlined below.

Manager	ESG Summary
Apollo Semi-liquid Credit Portfolio	Apollo have a specialist ESG officer for ensuring ESG is integrated at the business level. Within the Fund, ESG is considered at the pre-acquisition phase and embedded in the due diligence. Apollo provided evidence of reporting and gave examples of material ESG factors. Apollo's client reporting in relation to ESG factors is less extensive than some of their peers.
Aegon Absolute Return Bond Portfolio	Aegon have demonstrated they have sufficient ESG specialists and a robust process for integrating ESG factors. Aegon has a well-developed Responsible Investment framework and has committed to the Net-Zero Asset Managers' Initiative. Aegon publishes a semi-annual ESG report for the Fund that includes a breakdown of ESG ratings and a summary of engagement information, including case studies and carbon metrics.
Alcentra Direct Lending Portfolio	Alcentra have a specialist team that helps support the business in achieving their ESG related objectives. They have a dedicated team which is responsible for co-ordinating ESG related work. ESG is integrated within its fundamental credit and risk analysis.
Schroders LDI	Schroders have a strong team providing ESG support at a business level. However, the use of this ESG team within the LDI mandate is limited, especially around engaging with potential counterparties on ESG issues. We believe it is a positive sign that Schroders have recognised these are areas for improvement in this mandate.
BlackRock Diversified Private Debt	BlackRock have a firmwide ESG policy, including a net zero commitment, however there are no fund-specific ESG policy or objectives. For the Direct Lending and Opportunistic Credit sleeves, BlackRock use quantitative scorecards, but this is only qualitative for Real Estate Debt.

	BlackRock have started to introduce ratchets in loans whereby coupons fall/rise depending on if the underlying firms meet/fail ESG objectives.
M&G Total Return Credit Investment Fund	M&G have a well integrated sustainable investment policy to ensure ESG considerations are incorporated across all stages of the investment process and regularly update their scorecard, in line with ESG best practice. M&G have identified firm-wide engagement targets for Climate Change, Diversity & Inclusion, and Biodiversity. Engagements are recorded centrally and maintained by the Stewardship & Sustainability team. M&G are a signatory to a number of key organisations, have a UNPRI score of A+ and are a member of various organisations such as Climate Bonds Initiative and Impact Management Project.

Engagement

The Trustee delegates the day-to-day management of the Scheme's assets to investment managers. Details of the investment managers' engagement actions, including a summary of the engagements for the year to 30 November 2023, are included below.

Manager	Engagement summary	Commentary
Apollo Semi-liquid Credit Portfolio	**Total engagements: 42*** *This is based on the 2023 calendar year rather than the year to 30 November 2023.	Apollo utilise an Environmental, Social, and Governance (ESG) credit risk appraisal method to pinpoint any substantial risks that may affect a company's sustained financial performance. This approach also helps to spot companies with robust ESG practices that offer the potential for beneficial results. Examples of significant engagements include: **Adani Ports and Special Economic Zone Limited:** The company currently reports that thermal coal forms less than 25% of their cargo mix, significantly down from 100%. The demand for coking coal in India is likely to increase, since domestic production only meets half of national needs, inducing an elevation in its proportion in the cargo mix. The company expects green hydrogen and green ammonia to be viable fuel alternatives within 5-6 years, forecasting a gradual reduction in thermal coal, followed by a sharp fall. According to Adani, the emissions footprint from importing natural gas equals that of domestic thermal coal due to emissions from gasification and liquefaction. Therefore, they expect renewable sources to offset coal as a base power source over time. The company aims to achieve carbon neutrality by 2025 and net-zero emissions by 2040, with initiatives including vehicle and crane electrification, a fourfold increase in their renewable energy capacity, and mangrove reforestation. For scope 3 emissions, accounting for 60% of their emissions footprint, they are electrifying the cargo handling process and building ports' infrastructure to run ships on renewable electricity, with plans to work closely with the government for this transition.
Aegon Absolute Return Bond Portfolio	**Total engagements: 106***	As bond investors, Aegon do not have voting rights and therefore company engagement is a key part of the ESG process. Engagements are carried out on an ongoing basis as part of the risk analysis and due-diligence process. Aegon identify key issues, including ESG factors, and look to encourage company management to implement best practices from an ESG perspective. Aegon have incorporated a number of sustainable regulatory initiatives which aim to standardise asset manager disclosures around sustainability. An example of a significant engagement is:

	*This is based on the 2023 calendar year rather than the year to 30 November 2023.	**Volkswagen**: An independent audit concerning potential forced labour at Volkswagen's facility in China's Xianping province was conducted without any direct communication with Volkswagen. The audit was led by a human rights specialist. The auditing team was granted access to all necessary documents, employees, sites and neighbouring areas. After conducting interviews with 40 staff members, it was verified that the plant focuses on quality control/distribution, doesn't involve unusually strenuous labour, has a history of long-term employees and pays wages higher than the minimum rate. Given VW company efforts to ensure there is no slave labour in the factory, Aegon recommended VW not to be added to the exclusion list and Aegon continue to monitor the situation closely.
Alcentra Direct Lending Portfolio	Total engagements: 101* *This is based on engagements during the year to 30 September 2023 rather than the year to 30 November 2023.	Alcentra have improved on their Fund-level engagement reporting to provide a number of engagements for specific topics. An example of a significant engagement is: **Energy-based medical solutions**: Alcentra are embarking on incorporating ESG factors into their lending practices as part of their sustainability integration efforts. They plan to motivate their portfolio companies to enhance their sustainability performance using ESG-linked loans. The borrowing cost or margin can be adjusted based on the companies' performance against specific ESG Key Performance Indicators (KPIs), essentially rewarding companies that perform well in sustainability matters. Alcentra had a conversation with the medical solutions portfolio company about an ESG Margin Ratchet whose KPI was set in June 2022. In the second quarter of 2023, the company suggested resetting a metric baseline they missed in the recent report period. Despite the company's valid points, Alcentra decided not to alter the challenging ESG KPI, explaining their decision to the Sponsor. Alcentra are committed to robust ESG engagement, demonstrated by their decision to maintain challenging targets in their ESG-linked facility. Despite requests for adjustments, they explained to the portfolio company their ambition for high standards. They view weak KPIs as a potential risk to their strong ESG principles and a gateway to potential green-washing claims.
Schroders LDI	Over 30 meetings with public bodies/ market participants related to the LDI market.	Over the past year, Schroders' key focus on engagements has been on Climate Change. Schroders believe that banks having financial relations with the fossil fuel industry are at considerable financial, regulatory, and reputational risk due to the shift towards a low-carbon economy. This leads Schroders to put particular emphasis on climate risk, oversight, and alignment when interacting with these banks and other market participants. Schroders also use engagement to discuss how they plan to realign investments or loans towards fast-growing technologies in the transition towards net zero emissions as these technologies will require enhanced financial support, therefore they believe it's crucial that banks move away from activities emitting high levels of carbon dioxide, which will face extreme challenges. Schroders also use active engagements on industry initiatives and regulation within the LDI sphere to represent

		views of clients to key public bodies and effectively deliver better outcomes for clients. An example of a significant engagement is: **Credit Suisse**: Following continued engagement and monitoring of Credit Suisse governance and future stability, Schroders judged Credit Suisse to no longer be a suitable counterparty for swap exposures. In Q3 2022, Schroders reduced all LDI exposure with Credit Suisse and by Q1 2023, Schroders had removed all LDI exposure to Credit Suisse by novating 200+ swaps across clients' portfolios from Credit Suisse at zero cost to the clients.
BlackRock Diversified Private Debt Fund	BlackRock do not share a log of fund engagements for private credit portfolios; however, they have provided qualitative information on their approach.	As with many private market funds, BlackRock do not yet produce regular engagement reporting for the DPD fund. However, they are proactively leading in the market to support middle-market companies with their reporting, permitting BlackRock to better engage on the topic. ESG criteria are integrated within the DPD fund's investment processes. BlackRock send an annual mandatory ESG questionnaire to all borrowers. This monitors key ESG factors and helps to provide triggers for engagement where improvement is required. An example of a significant engagement includes: **Inotiv** is a contract research organization (CRO) specializing in nonclinical and analytical drug discovery and development services and products, and a global provider of research models and services primarily used for preclinical pharmaceutical development. Given the research model element of the business, BlackRock conducted a detailed ESG review. During BlackRock's due diligence, they learned the company had a strong compliance record with years of experience. The company's research sites in the US and Netherlands had been granted full accreditation from the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC) International Council. Prior to introducing a new life saving medicine or breakthrough therapy, regulations require vigorous testing in animal models to identify any potential health or safety risks in addition to the treatment's overall effectiveness. The company expresses a strong commitment to animal welfare.
M&G Total Return Credit Investment Fund	Total engagements: 13 Environmental: 8 Social: 2 Governance: 3	M&G adopt a systematic approach to engagement in which predetermined objectives are established beforehand and evaluated based on the results of engagements. M&G monitor the success of an engagement by assessing whether they have met their objectives and log this into a wider system. M&G analysts are expected to show a more detailed understanding of key ESG risks that impact the issues in which they oversee. If engagements are considered necessary, analysts engage with issues supported by M&G's Sustainability and Stewardship Team enabling them to utilise their understanding and consider sustainable themes effectively using their developed expertise. An example of a significant engagement includes: **AIA GROUP LTD (AIA):** M&G engaged to encourage insurance company AIA to increase board diversity. Since initial

discussions, AIA now has three female directors on its board (23% female representation).

Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 30 November 2023. The majority of the assets are credit based, where there are no voting rights attached.

Some of the information provided in this report is provided by the Scheme's investment managers, and so we are reliant on these third parties for the accuracy of these data sets. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the situation.