NHBC Pension Scheme – Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 31 March 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2019 (as amended) and the guidance published by the Pensions Regulator.

Investment Objectives of the Fund

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Scheme included in the SIP are as follows:

- To restore and then maintain the Scheme's funding position, on an ongoing (i.e. Technical Provisions) basis, to at least 100%, taking account of short term fluctuations.
- To ensure that it can meet its obligation to the beneficiaries of the Scheme.
- To ensure that the Scheme's investment and funding strategies are consistent.

Review of the SIP

During the year the Trustee reviewed the Scheme's SIP. The revisions are as set out below.

SIP revision dated July 2020

Changes were made to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies in the SIP.
- How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial 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.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies mentioned in the SIP.
- How the Trustee monitors portfolio turnover costs incurred by the asset manager and how the Trustee defines and monitors targeted portfolio turnover or turnover range.
- The duration of the arrangement with the asset manager.

SIP revision dated March 2021

An additional amendment was made to reflect the Trustee's decision to disinvest from Aberdeen Standard GARS and invest the proceeds into the Scheme's LDI portfolio, managed by Insight.

<u>Assessment of how the policies in the SIP have been followed for the year to 31 March 2021</u>

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP. The SIP sets out in detail the policies summarised below.

	Requirement	**Summary of Policy**	**In the year to 31 March 2021**
1	Securing compliance with the legal requirements about choosing investments	*In considering the appropriate investments for the Scheme the Trustee has obtained and considered the written advice of Mercer Limited, whom the Trustee believes to be suitably qualified to provide such advice.* *The Trustee has also consulted NHBC, the Sponsoring Employer, in relation to its SIP and to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements.*	No new investment mandates were introduced during the year. However, the Trustee did receive suitability advice relating to the restructuring of existing mandates. The Sponsoring Employer was consulted on any changes in investment arrangements during the year.
2	Kinds of investments to be held	*The Trustee has adopted a control framework in structuring the Scheme's investments. This includes the role of active and passive management, 'buy and maintain' approaches to corporate bond investment, diversification, appointment of specialist managers and decisions on segregated vs pooled investments.*	The Trustee maintained an overall investment portfolio over the year which reflected its policy for portfolio construction.
3	The balance between different kinds of investments	*The Trustee has agreed, based on expert advice, an interim investment strategy that is consistent with the Trustee's funding and investment objectives. The strategy will be*	The Trustee received expert advice relating to a de-risking opportunity, following confirmation of the 2020 Actuarial Valuation results and subsequent funding improvements. This involved a change in strategic allocation, transferring assets invested in diversified growth funds to the LDI

		reviewed by the Trustee in conjunction with the 2020 Actuarial Valuation. *The Scheme's investment strategy is implemented using a range of specialist investment managers. As such the Scheme's asset allocation is not automatically rebalanced. The Trustee monitors the allocation of the Scheme's investments relative to strategic targets and control ranges and considers whether to take action if these ranges are breached or if actual allocations deviate significantly from their targets.*	portfolio. A more detailed review of investment strategy in light of the 2020 Actuarial Valuation results is scheduled for later in 2021. The Trustee monitors the asset allocation against targets and control ranges through quarterly investment reports produced by Mercer. During the year, the Trustee did not take any action to rebalance the Scheme's investment portfolio.
4	Risks, including the ways in which risks are to be measured and managed	*There are various risks to which any pension scheme is exposed, which the Trustee believes may be financially material to the Scheme.* *The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. Key strategic investment risks that impact on Scheme funding are equity market risk, interest rate and inflation risk, credit risk, currency risk and liquidity risk. Further detail on how these risks are managed is set out in the SIP.* *The Trustee recognises that whilst increasing risk increases potential returns over the longer term, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has established an investment policy designed to reduce this risk, without damaging the Scheme's long term return prospects using asset-liability modelling conducted*	The Trustee has continued to follow the policies set out in the SIP with respect to risk measurement and management. An example risk management activity taken over the year includes the increase in the interest rate and inflation hedge ratios to 70% and 60% as a proportion of Technical Provisions liabilities, to manage interest rate and inflation risk. The Trustee receives updated reporting on VaR as part of quarterly monitoring.

		by its professional advisors to measure the contribution of different risk factors to overall Value at Risk ("VaR").	
5	Expected return on investments	*The Trustee expects to generate a return, over the long term, at least in line with that of the actuarial assumptions under which the Scheme's funding has been agreed. It is recognised that over the short term performance may deviate significantly from the long term target.*	The Trustee conducted asset liability modelling in the first quarter of 2021. This analysis reaffirmed that the investment strategy continued to support the actuarial assumptions. It also identified an opportunity to reduce investment strategy risk, whilst maintaining sufficient expected return, by disinvesting from Aberdeen Standard GARS.
6	Realisation of investments	*The selection, retention and realisation of assets is carried out in a way consistent with maintaining the Scheme's overall strategic allocation and consistent with the overall principles set out in this Statement.* *The Scheme's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.* *The Trustee decides (with the advice from their investment managers and/or investment consultants) on how investments should be realised for cash to meet Scheme expenses.*	Over the year, the Scheme maintain two pooled cash fund holdings with BlackRock and Mercer. The latter was used as a source of capital to fund private debt commitments as these fell due during the year. The former was used to meet Scheme expenses during the year and to increase the holding in the latter when the balance fell below a set threshold. The Trustee received advice from the investment consultant in relation to the realisation of investments when required during the year.
7	Financially material considerations over the appropriate time horizon of the investments, including how those	*The Trustee believes that financially material factors, including environmental, social, and corporate governance (ESG) factors, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a*	The investment performance report is reviewed by the Trustee on a quarterly basis - this includes ratings (both general and specific ESG) from the investment consultant. The general ratings for all managers continued to be high

	considerations are taken into account in the selection, retention and realisation of investments	*whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration.* *The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.*	during the year and ESG ratings were in line with or above the peer group medians. The Trustee has received training on ESG factors and is aware that ESG factors can influence investment performance over both the short term and long term.
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	*"Non-financial matters" (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues) are not explicitly taken into account in the selection, retention and realisation of investments. The Trustee would review this policy in response to significant member demand.*	This policy was adhered to by the Trustee during the year when considering changes to the Scheme's investment mandates.
9	The exercise of the rights (including voting rights) attaching to the investments And Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances	*The Scheme's assets are invested in pooled vehicles and the day-to-day management of the assets has been delegated to Investment Manager(s), including the selection, retention and realisation of investments within their mandates. In doing so these investment managers are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.*	The Trustee has delegated voting rights to the investment managers. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustee to ensure that they align with the Trustee's policy. Further information on key voting activity carried out by the Scheme's investment managers over the last 12 months is set out in the next section of this statement, as is

	under which, trustees would monitor and engage with relevant persons about relevant matters)	*The Trustee engages with existing investment managers on these issues through (amongst other things) regular meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt investments, as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.* *The Trustee will not consider the ESG policies of Additional Voluntary Contributions providers and associated investment funds as these are a small proportion of total assets.*	confirmation from the investment managers that they continue to adhere to relevant best practice.
10	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees policies mentioned in sub-paragraph (b) of the legislation And	*For each appointment retention is dependent upon the Trustee having ongoing confidence that the investment manager will achieve its investment objective. The Trustee makes this assessment taking into account various factors which includes performance to date as well as an assessment of future prospects.* *Investment managers are incentivised both to achieve the objectives set for them, which are consistent with the Trustee's policies and objectives, and to ensure that they remain capable of doing so on a rolling basis. This encourages investment managers to take a suitably long term view when assessing the performance prospects of, and engaging with, the equity and debt issuers in which they invest or seek to invest.*	During the year the Trustee terminated the Aberdeen Standard GARS mandate. This followed a period of prolonged underperformance and the determination that investment in the mandate was no longer necessary in order for the Scheme to achieve its long term objectives.

	The duration of the arrangement with the asset manager		
11	How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial 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. And 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 mentioned in sub-	*The Trustee receives reporting on asset class and investment manager performance on a regular basis, via a combination of formal independent reports and presentations from the investment managers.* *Investment returns (and volatility) are measured on both an absolute basis and relative to one or more suitable benchmarks and targets. Returns are considered net of fees and ongoing transaction costs.* *The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. For liability hedging a fee is payable calculated as a percentage of the hedged exposure. In each case, the principal incentive is for the investment manager to retain their appointment (in full), by achieving their objectives, in order to continue to receive their fee in full. On some mandates, performance related fees are also in operation. Performance related fees incentivise the manager to outperform their target as they take a share of the outperformance. The Trustee will consider introduction of performance related fees on a case by case basis where not in operation and would also consider requesting fee reductions. Investment managers are not remunerated based on portfolio turnover.*	The Trustee has continued to receive quarterly reporting over the year, including the performance of the investment managers, over the 3 month, 1 year and 3 years periods to the quarter end and since inception of each mandate.

	paragraph (b) of the legislation		
12	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 has not historically monitored investment managers' ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs.*	Assessment of performance in quarterly monitoring was carried out on a net of fees and costs basis over the year.

<u>Assessment of voting, stewardship and engagement activity for the year to 31 March 2021</u>

The following section summarises the information reported by the Scheme's investment managers to the Trustee in respect of their voting, stewardship and engagement activities during the year. Only information for managers to which the Scheme maintains a long-term strategic allocation is shown and, in respect of voting information, for which there is an underlying investment in equities. Engagement activity is provided at a firm-wide level whilst voting activity is for the specific mandates in which the Scheme was invested over the 12 month period to 31 March 2021.

<u>Engagement</u>

The Trustee encourages investment managers to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee received details of relevant engagement activity for the year to 31 March 2021 from the investment managers, covering a wide range of different issues, including ESG factors. Examples of this are given below. Engagement activities for Portfolios of LDI, Cash or Bonds are not applicable.

BlackRock has confirmed it conducts approximately 3,000 engagements a year on a range of ESG issues likely to impact their clients' long-term economic interests. BlackRock meets with executives and board directors, communicates with company advisors and engages with other shareholders where appropriate.

Apollo is not a signatory of the UK Stewardship Code but supports the principles of the Code. It is a signatory to the UNPRI (United Nations Principles for Responsible Investment) and the IFC Operating Principles for Impact Management. Apollo's ESG program is based on three "pillars": diligence, engagement and transparency. It believes the processes underlying these "pillars" helps to better position company management teams and Apollo's investment professionals to improve performance on ESG issues.

Aberdeen Standard has engaged with companies about board structure, climate change, COVID-19 Vaccine development and employee management, amongst other topics. The assessment of ESG factors is integrated into every stage of its multi-asset investment process, from research and implementation, to asset allocation, risk management and stewardship. As a company specific example, it engaged with Verizon about its employee management.

Insight is currently engaged with the issuers of the portfolio positions held during the 12 month period to the end of December 2020. Issues covered on engagement have included ESG issues. In 2020, 90% of its engagements with debt issuers included discussions on ESG topics (up from 82% in 2019) and it has also enhanced its ESG approach to Liability-Driven Investment (LDI), secured finance and multi-asset investment.

Mercer is a current signatory of the UK Stewardship Code. In regards to the Scheme's PIP holdings, as Mercer invests in a portfolio of funds rather than directly in the underlying investments, it does not engage directly with the underlying holdings within the fund. As part of Mercer's selection process, it reviews each manager's approach to ESG and engagement, including assessing the resources that each manager dedicates to this area. Furthermore, in line with its new sustainability policy for private markets, which came into effect last year, it is increasing its focus on its underlying managers' ESG activities within its monitoring processes, including encouraging each manager to comprehensively report on its engagement activities.

Voting Activity

Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The Trustee did not use the direct services of a proxy voter over the year.

The Trustee has delegated its voting rights to the investment managers, BlackRock principally, through being invested in pooled funds.

BlackRock (Equities and DGF)

BlackRock is a Tier 1 rated signatory of The Stewardship Code and has been a signatory of the UN Principles of Responsible Investment (UN PRI) since 2008. BlackRock is also a founding member of the Task Force on Climate-related Financial Disclosures (TCFD).

BlackRock directly engages with companies and does not use a third party to vote on its behalf.

Summarised below is the voting activity, provided by BlackRock, conducted in respect of the Scheme's funds for which the underlying assets carry voting rights.

Fund	Number of meetings in which the manager was eligible to vote	Number of resolutions in which the manager was eligible to vote	% of votes against management	% of abstentions
Aquila Life Currency Hedged European Equity Fund	546	9,326	40.76	1.26
Aquila Life Currency Hedged Japan Equity Fund	517	6,221	100.00	0.00
Aquila Life Currency Hedged Pac Rim Equity Fund	448	3,150	79.17	0.00
Aquila Life Currency Hedged US Equity Fund	611	7,542	93.09	0.00
Aquila Life European Equity Fund	546	9,326	40.76	1.26
Aquila Life Japanese Equity Fund	517	6,221	100.OO	0.00
Aquila Life Pac Rim Equity Fund	448	3,150	79.17	0.00
Aquila Life UK Equity Fund	1,211	15,742	66.67	4.30
Aquila Life US Equity Fund	611	7,542	93.09	0.00
iShares Emerging Markets Index Fund INS AC GBP	2,472	23,180	6.75	1.37
Dynamic Diversified Growth Fund	977	12,398	79.29	2.37

BlackRock has provided the following examples of significant votes carried out on behalf of the Trustee over the year to 31 March 2021:

Company name	Key Resolutions	Board Recommendation	BlackRock vote
Daimler AG	Item 4: Resolution on ratification of Supervisory Board members' actions in the 2019 financial year. Item 7: Resolution on the election of Timotheus Höttges as a member of the Supervisory Board. Item 12b: Resolution on the amendment of Article 16 of the Articles of Incorporation (Annual Meeting - Resolution)	The board recommends shareholders vote FOR all items.	We voted AGAINST all key resolutions given our concerns about progress on climate-related risk reporting, the external mandates held by the proposed Supervisory Board member, and the reduction in shareholder rights from the proposed article amendment.

Santander Consumer USA Holdings, Inc.	Item 3: Report on Risk of Racial Discrimination in Vehicle Lending.	The company recommends shareholders vote AGAINST the shareholder proposal.	We voted FOR the shareholder proposal, as discriminatory lending practices (of all forms) are a material risk to the company's business and shareholders would benefit from increased and improved disclosure on compliance programs, processes and procedures, as well as risk mitigation processes and procedures, to prevent discriminatory lending (including racial discrimination).
Air Liquide SA	Item 5: Re-elect Brian Gilvary as Director. Item 6: Elect Anette Bronder as Director. Item 7: Elect Kim Ann Mink as Director.	Item 5: FOR Item 6: FOR Item 7: FOR	We voted AGAINST the re-election of Brian Gilvary for the company's lack of progress on climate-related reporting in alignment with the TCFD recommendations. We supported the elections of both Anette Bronder and Kim Ann Mink as they are new to the company's board.