NHBC Pension Scheme (the "Scheme") – Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 31 March 2024. 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 Scheme

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

The SIP was reviewed and updated in April 2023 to reflect the adoption of revised liability hedge ratio targets and the introduction of short-dated buy and maintain credit with the Scheme's investment manager, Insight.

Assessment of how the policies in the SIP have been followed for the year to 31 March 2024

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 2024
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.*	During the year the Scheme's LDI portfolio was restructured relative to revised liability hedge ratio targets of 90% (as a proportion of Technical Provisions). The Trustee also invested in Insight's short-dated buy & maintain credit fund as part of the restructuring. The changes made were based on expert advice provided by Mercer Limited. The Sponsoring Employer was also consulted regarding the changes.
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 investment strategy as set out in Section 6 of the SIP. The Scheme's investment strategy is implemented using a range of specialist investment managers. As such the Scheme's asset allocation*	As outlined in Requirement 1 above, the Scheme's LDI mandate was restructured during the year. This followed detailed liability hedging modelling analysis.

		is not automatically rebalanced. The Trustee monitors the allocation of the Scheme's investments relative to strategic targets and will consider whether to take any action if actual allocations deviate significantly from their targets.	A number of collateral calls were made by the Scheme's LDI manager during the Scheme year and these were funded through cash/fully funded gilts. The Trustee monitors the asset allocation against targets through quarterly investment reports produced by Mercer. On 1 January 2024 £3.5m was disinvested from the Apollo MAC mandate to rebalance the Scheme's asset allocation. Upon settlement £2.0m was retained in the Trustee Bank Account to meet ongoing cashflow requirements. The remaining £1.5m was reinvested in the Insight LDI portfolio. In March 2024 a deficit contribution of £8.0m was paid into the Trustee Bank Account. £2.0m was retained in the Trustee Bank Account to meet ongoing cashflow requirements. The remaining £6.0m was invested in the Insight LDI portfolio on 27 March 2024 to move the Scheme's asset allocation towards the strategic benchmark.
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.*	The Trustee has continued to follow the policies set out in the SIP with respect to risk measurement and management. The current investment strategy was implemented following detailed asset-liability modelling. The Trustee also receives updated reporting on the Scheme's funding position and liability hedging analysis as part of quarterly monitoring.

		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 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 current investment strategy was implemented following detailed asset-liability modelling to ensure consistency with the statement outlined opposite.
6	Selection, retention and 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 the SIP.* *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 introduction of short-dated buy & maintain credit and restructuring of the LDI portfolio was carried out in line with the overall principles set out in the SIP and consistent with maintaining the Scheme's agreed investment strategy. Over the year, the Scheme maintained a pooled cash fund holding with Mercer, which was used as a source of capital to fund private debt commitments as these fell due during the year.

		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.*	The Trustee received advice from the investment consultant in relation to the realisation of investments when required during the year. The Scheme has a liquidity waterfall type arrangement with Insight, who will automatically fund an LDI collateral call in the following order of priority: - Cash held in the liquidity fund - Fully funded gilts - Short dated buy and maintain credit fund If these measures are exhausted, Mercer will provide expert advice for funding, taking into account the current Scheme position.
7	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	*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 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*	The Scheme's liquidity profile was a key financially material consideration when the Trustee decided to restructure the matching portfolio. The restructured LDI portfolio and introduction of short dated buy & maintain credit provided additional capital support to the Scheme's LDI mandate. 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 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.

		market level and are considered to implicitly reflect all financially material factors.	
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 under which, trustees would monitor and engage with relevant persons about relevant matters)	*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 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,*	The Trustee has delegated any voting rights to the investment managers. To the extent that any voting rights exist for the Scheme's investment mandates, the investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports will be reviewed by the Trustee to ensure that they align with the Trustee's policy. However, during the Scheme year the Scheme held no investments in funds with voting rights (following full disinvestment from equity and diversified growth ('DGF') investments during the previous Scheme year). The engagement activity of the Scheme's investment managers is outlined in the next section of this Implementation Statement.

		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.*	
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 The duration of the arrangement with the asset manager	*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.*	There were no significant concerns regarding confidence in the investment managers to achieve their objectives during the year.
11	How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-	*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.*	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.

	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-paragraph (b) of the legislation	*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.*	
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. The Trustee monitors turnover costs on an annual basis and the estimated costs over the year to 31 March 2024 are as follows:

Portfolio	Turnover Costs (%)
Apollo MAC	-0.08
Mercer SPD[1]	n/a
M&G	0.03
Insight[2]	0.27

Source: Investment managers.
1 Not applicable as these are private market assets and not publicly traded.
2 Includes LDI, Credit and Liquidity Funds.

<u>Assessment of stewardship and engagement activity for the year to 31 March 2024</u>

The following section summarises the information reported by the Scheme's investment managers to the Trustee in respect of their stewardship and engagement activities during the year. Engagement activity is provided at a firm-wide level.

During the Scheme year to 31 March 2024, no equity investments were held and therefore no voting information is displayed below.

<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 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.

A summary of the investment managers' approach to engagement activity is outlined below:

- **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.
- **Insight** is currently engaged with the issuers of the portfolio positions held during the 12 month period to the end of December 2023. Issues covered on engagement have included ESG issues that are a fundamental part of their engagement activity.
- **Mercer Global Investments** 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 corporate management teams of the underlying holdings within the fund. As part of Mercer's selection process, it reviews each investment 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 over 2021, 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.
- **M&G** is a current signatory to the UK Stewardship code. Over the year, they engaged with companies on a wide range of ESG issues. They believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. They believe that if a company is run well, and sustainably, it is more likely to be successful in the long run.