



Erskine Hospital Limited Retirement Benefits Scheme Implementation Report

August 2024

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Statement of Investment Principles (SIP)

The SIP can be found online at the following [link](#).

There were changes to the SIP over the 2023/24 reporting year, to reflect strategic changes completed during the period as well as changes in the DWP stewardship regulations (see below for further details).

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 the Trustees have taken to manage financially material risks and implement the key policies in the 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 the fund managers and in turn the engagement activity of the fund managers with the companies in which they invest

Summary of key actions undertaken over the Scheme reporting year

- The Scheme's target investment strategy was maintained over the year. The strategy was revised by the Trustees in the previous reporting year, with implementation taking place in both the 2022/23 and 2023/24 reporting years.

Implementation Statement

This report demonstrates that the Trustees of the Erskine Hospital Limited Retirement Benefits Scheme have adhered to their investment principles and their policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
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 hedge 100% of the impact of interest rate and inflation risk on the value of the Scheme's uninsured liabilities (on a gilts basis).	The Trustees formally review the hedge via detailed LDI reviews on an ad hoc basis; however, the Trustees also informally monitored the Scheme's hedge through semi-annual performance reporting over the period.
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 Trustees have agreed a cashflow policy and monitor the Scheme's liquidity position as part of semi-annual reporting.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable.	
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. 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.	Following completion of the liquidity top-up and de-risking transitions, the Trustees agreed, to invest the residual assets in the LGIM Absolute Return Bond Fund, in order to provide liquidity to support the LDI mandate held with LGIM, and to provide returns above those available on cash.
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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:	The ESG policy was reviewed by the Trustees as part of the SIP updates in June 2023. The Trustees deem this policy to be appropriate.

		<ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via 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 (or equivalent) <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>The Trustees received the investment consultant's ratings of the ESG integration within each investment mandate as part of semi-annual reporting.</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>	
Non-financial	<p>Any factor that is not expected to have a financial impact on the Scheme's investments.</p>	<p>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</p>	

Changes to the SIP

Policies added to the SIP

The SIP was changed during the reporting year to reflect changes to the strategic asset allocation and ESG policies, within the reporting period.

Date last updated: June 2023

- **Governance**

The Scheme has purchased two bulk annuity policies to reduce risk. The policies are held as assets of the Scheme by the Trustees. After taking specialist advice, receiving a number of competitive insurance quotations, considering the credit worthiness of all bidders, and consulting with the Sponsor, the Trustees agreed to purchase the bulk purchase annuity policies from Legal & General.

- **Investment Objective**

The investment strategy aims to achieve a return on Scheme assets which, taken in conjunction with contributions, is sufficient, over time, to match growth in the Scheme's pension liabilities. The Scheme's present investment objective is to achieve a return of around 0.9% p.a. (based on Isio's central assumptions as at 31 March 2023) above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities). Further detail on the expected return on investments is provided in Appendix A.

- **Investment Strategy**

The Trustees take a holistic approach to considering and managing risks when formulating the Scheme's investment strategy. The remainder of this Statement refers solely to the investments held outside the buy-in policies, unless explicitly stated otherwise.

The Trustees agreed to hedge 100% of the impact of interest rate and inflation risk on the value of the Scheme's liabilities (on a gilts basis).

- **Appendix A – Manager split by asset class**

Investment Manager	Asset Class	Strategic Benchmark (%)	Manager Benchmark	Manager Objective	Expected Return ¹ (%)
LGIM	Absolute Return Bonds	53	ICE BofA SONIA 3-month Constant Maturity Total Return Index	Benchmark + 1.5% p.a. gross of fees	1.5
	Corporate Bonds	8	Markit iBoxx GBP Non-Gilts 10 Year +	To outperform by 0.75% p.a.	1.2

	Liability Driven Investment	39	Match a liability benchmark based on the underlying funds which have been selected to track a proportion of the movement of the Scheme's liabilities	-	-
	Total	100	-		0.9

¹ Expected return assumptions quoted relative to Gilts and based on Isio's central assumptions as at 31 March 2023.

- **Appendix C: Voting & Engagement Policies**

Voting Policy - How the Trustees expect investment managers to vote on their behalf	<ul style="list-style-type: none"> • The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'	<ul style="list-style-type: none"> • The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf. • The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually. • Example stewardship activities that the Trustees have considered are listed below. <ul style="list-style-type: none"> ○ Selecting and appointing asset managers – the Trustees will consider potential managers' stewardship policies and activities ○ Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees' investment decision making • Collaborative investor initiatives – the Trustees will consider joining/ supporting collaborative investor initiatives

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regard to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, the rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship 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.

Implementing the Current ESG Policy

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">• The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;• As part of ongoing monitoring, the Trustees will use any ESG ratings information provided by their investment consultant to assess how the Scheme's investment managers take account of ESG issues;• Through their investment consultant, the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.• As part of any manager selection exercise, ESG considerations are included as part of the evaluation criteria.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.• The manager has received a 'red' ESG rating from the Investment Consultant, signifying that ESG considerations are below satisfactory.

ESG summary and actions with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
LGIM Absolute Return Bond and Corporate Bond funds	<p>LGIM is one of the more advanced asset managers in relation to ESG, with a well-defined firm-wide ESG policy and a net zero commitment. LGIM provides ESG scores for all assets within the portfolio and can provide the required TCFD Scope 1 and 2 metrics. LGIM also encourages investee companies to align sustainability reporting with best-practice frameworks. LGIM collaborates with a range of industry participants to monitor and influence a broad range of ESG topics.</p>	<p>Investment approach: LGIM should develop a process for independently assessing the effectiveness of green / sustainability-linked / use-of-proceeds bonds.</p> <p>Reporting: LGIM should implement reporting on nature or bio-diversity related metrics in line with the Taskforce on Nature-related Financial Disclosures ("TNFD") disclosure recommendations.</p>	<p>Isio engaged with the manager on behalf of the Trustees over the period.</p> <p>LGIM has successfully completed the following actions:</p> <p>Investment approach: LGIM has developed fund level ESG and climate objectives quantified with target dates.</p> <p>An ESG objective targeting a 50% reduction in Weighted Average Carbon Intensity ("WACI") by 2030, compared to baseline figures as at Q4 2019, has been introduced.</p> <p>Reporting: LGIM's ESG quarterly reports provide fund level data on carbon, voting and engagement. Some ESG reporting output has been integrated into standard client quarterly reports.</p> <p>Stewardship: LGIM has introduced explicit objectives and milestones for engaging with underlying companies at a fund level.</p>
LGIM Long Lease Property	<p>LGIM has implemented a transparent procedure where ESG factors are a fundamental element of their asset and portfolio selection process. Despite not utilising an ESG scorecard, they implement a stringent ongoing ESG due diligence process by reviewing scores and ratings provided by the Global Real Estate Benchmark ("GRESB")</p>	<p>Risk management: LGIM should implement a clear social policy and social objectives for the Fund.</p> <p>Investment approach: LGIM should enhance its due diligence process by integrating an ESG scorecard into the investment process.</p>	<p>LGIM has successfully completed the following actions:</p> <p>Risk management: LGIM has improved its risk monitoring and oversight system by partnering with Deepki and XDI to provide upgraded reporting and risk analysis at an asset level.</p> <p>Collaboration: LGIM maintains its membership of several regulatory bodies and partnering with outside parties such as Deepki and XDI</p>

	<p>shaping LGIM's actions for improvement.</p> <p>Due to the nature of investing in direct property, fund level stewardship relies on tenant engagement resulting in limited data.</p>	<p>Reporting: LGIM should look to introduce more detailed ESG metrics and information in standard reporting.</p> <p>Stewardship: Fund level engagement priorities should be introduced.</p>	<p>demonstrates a keen collaborative approach.</p>
<p>LGIM LDI</p>	<p>LGIM is actively committed to integrating ESG considerations into its LDI fund ranges. LGIM engages with regulators, government and other public bodies on factors which could influence LDI portfolios..</p>	<p>As the Trustees invest in unlevered gilt and index-linked gilt funds there is limited scope for engagement on ESG matters.</p>	<p>There has been no engagement with LGIM in relation to the Trustees' LDI holdings over the period.</p>

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 months to 31 March 2024.

Fund name	Engagement summary	Commentary
LGIM Absolute Return Bond Fund	<p>Total Engagements: 156 Number of entities engaged: 75</p> <p>Environmental: 76 Of which relating to: Circular Economy: 1 Climate Adaption: 1 Climate Change: 36 Climate Impact Pledge: 26 Climate Mitigation: 2 Deforestation: 2 Energy: 4 Just Transition: 1 Methane Measurement: 2 Plastic Waste: 1</p> <p>Governance: 46 Of which relating to: Activism: 3 Board Composition: 10 Capital Management: 1 Combined Chair & CEO: 3 Director Related: 2 Governance of Technology: 1 LGIM ESG Score: 4 Nominations and Succession: 4 Overboarding: 2 Remuneration: 14 Shareholder Rights: 2</p> <p>Social: 16 Of which relating to: Ethnic Diversity: 1 Gender Diversity: 4 Human Rights: 1 Lobbying and Political Donations: 2 Nutrition: 5 Public Health: 3</p> <p>Other: 18 Of which relating to: Corporate Strategy: 16 Company Disclosure & Transparency: 2</p>	<p>LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.</p> <p>LGIM have not provided examples of Fund-specific significant engagements.</p>

<p>LGIM Active Corporate Bond Fund</p>	<p>Total engagements: 68 Number of entities engaged: 24</p> <p>Environmental: 22 Of which relating to Climate Change:16 Pollution:2 Climate Impact Pledge:1 Deforestation:1 Methane Measurement:1 Energy:1</p> <p>Social: 14 Of which relating to Antimicrobial Resistance:1 Income inequality:5 Nutrition:4 Public health:3 Labour Standards:1</p> <p>Governance: 21 Of which relating to Remuneration: 11 Board composition: 3 Overboarding: 2 Nominations and succession: 2 Risk Management: 1 Combined Chair & CEO: 1 Director Related: 1</p> <p>Other: 11 Of which relating to: Corporate Strategy: 11</p>	
<p>LGIM LPI Income Property Fund</p>	<p>LGIM currently do not provide details of their engagement activities at Fund level for Property Funds. Isio remains in contact with LGIM surrounding the firm's engagement reporting.</p>	<p>Due to the nature of most of the leases within the LPI Fund, LGIM can only engage with the tenants of the assets which are held in the Fund, and their overall influence as a landlord is limited. They maintain dialogue with all occupiers and, as part of this, ESG-related behaviours are encouraged.</p>
<p>LGIM LDI and Gilts</p>	<p>LGIM actively engages with regulators, government, public bodies and other industry participants on long term strategic issues in relation to LDI.</p>	<p>LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>

