Macmillan Cancer Support Pension Scheme 2020 Implementation Statement

1. Background

This Implementation Statement provides evidence that throughout 2020 our Scheme continued to follow and act on our investment strategy as outlined in our Statement of Investment Principles (SIP). The SIP can be found at https://www.macmillan.org.uk/about-us/working-with-us/pension-scheme. This statement focusses on implementation of our strategic investment objectives, pursuing stewardship activities and Environmental, Social and Governance (ESG) policies, and demonstrating good governance.

As set out in our SIP, ultimate power and responsibility for investment decision-making lies solely with the Trustees, but we delegate many of our investment responsibilities to our fiduciary manager, Kempen Capital Management UK Limited (Kempen), which has the skill and expertise necessary to manage the Scheme's investments in accordance with our investment strategy and achieve our strategic investment objectives.

2. Implementation of our strategic investment objectives

In 2020, our strategic investment objectives remained:

- To maintain a level of self-sufficiency in our funding, our preliminary objective for the Scheme's investments was to achieve a return (increase in assets) that is 0.5% higher than the return on UK government bonds, after deduction of fees, each year.
- To cover the cost of an insurance company taking on the risks and providing all the promised benefits of the Scheme in the future, our secondary objective for the Scheme's investments was to achieve a return that is 0.8% higher than the annual return on UK government bonds, after deduction of fees, averaged over a three-year period.

These strategic investment objectives guided every decision we took. In a year of unprecedented volatility, our investments outperformed both our strategic investment objectives, although averaged over a three-year period, our investments slightly underperformed the secondary objective.

In addition, we complied with the principles set out in the SIP for choosing investments and for achieving the right balance between risk and reward, so as to ensure the security, quality, liquidity and profitability of all the Scheme's assets and reduce the possibility of the Scheme's assets failing to meet our strategic investment objectives. In particular, we continued to invest only in the permitted investment types set out in the SIP (being pounds sterling investments in cash and cash equivalent instruments, UK government fixed rate and inflation-linked bonds, investment grade credit and buy and maintain credit) within the ranges set out in the SIP.

3. Pursuing stewardship activities and ESG policies

Our SIP sets out the approach we have agreed with Kempen to ethical investing and sustainability, and corporate governance and socially responsible investing (SRI). This approach is necessarily restricted by our limited ability to directly influence the action of companies due to the Scheme investing in pooled funds and not having any direct or indirect equity investments. During 2020 Kempen has implemented and maintained this approach on our behalf. In particular:

- **General engagement with investment managers used by the Scheme (IMs)**
  They have engaged with the IMs, encouraging them to actively engage with the companies in which they invest to protect and enhance the value of assets and exercise voting and/or other rights. Kempen encouraged each IM to discharge its responsibilities in respect of its investments in accordance with that IM's own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code; to improve its practices; and to take ESG factors and their associated risks into account when exercising the rights attaching to its investments and in taking decisions relating to the selection, retention and realisation of investments. Kempen engaged on topics such as remuneration policy, corporate governance, transparency, working conditions and climate change. Kempen used the following methodology to engage with IMs:
  - ESG criteria are assessed based on international conventions and initiatives, such as UN Global Compact and the Principles for Responsible Investment (PRI)
  - All IMs are screened against ESG criteria before inclusion in Kempen's approved IM list. For example:
    - does the IM have a responsible investment policy?
    - is the IM open for a dialogue on ESG criteria?
    - does the IM have exposure to companies that are on Kempen's exclusion & avoidance list?
  - All IMs are reviewed against ESG criteria on an ongoing basis. For example:
    - do responsible investing considerations continue to be integrated into the IM's investment process?
    - is the IM making progress against ESG criteria eg by addressing Kempen's concerns?
    - is the IM well informed and up-to-speed on ESG criteria and initiatives?
    - periodic screening of all the underlying equity and debt securities held by IMs within their investment products to check for companies that are on Kempen's exclusion & avoidance list.
  - Kempen encourages the IMs to improve their practices where appropriate

- **Collaborative engagement initiatives**
  Kempen was an active member and a lead investor in several collaborative engagement initiatives, working collaboratively with peer investors and other stakeholder organisations to amplify their impact and make transformative change happen on a global scale.

- **Kempen's assessment of stewardship and ESG**
  In recent years, Kempen has been developing a new framework for assessing stewardship and ESG, which culminated in the introduction of their Sustainability Spectrum in 2020. It is used to determine a sustainability score for investee companies and a range of different financial products (e.g. externally managed funds). This helps to define whether the product or service is one that aims only to 'avoid harm' (a score of 3 – which is now a requirement for all external products used by Kempen) or whether it is more ambitious in its sustainability goals.

In 2020, Kempen started to use the new Sustainability Spectrum to score IMs. It was decided that the Kempen IM selection and monitoring team would begin by mapping the listed IMs they work with. By the end of 2020, they had completed scoring for 83 listed funds based on the new framework, which represented around 24% of Kempen's assets under management: 2% of the funds scored Basic (score 2); 15% scored Avoid harm (score 3); 7% scored Do better (score 4); <1% scored Do good (score 5). The distribution of the 83 funds' ESG scores between the five Sustainability levels were: 26% Basic; 52% Avoid harm; 18% Do better; and 4% Do good. Currently, the funds used by the Scheme are in the Avoid harm level.

- **Removing the Scheme's exposure to tobacco investments**
  The Trustees believe most Scheme members would not want the Scheme to be invested in tobacco, and therefore the SIP includes a commitment to working with Kempen to remove exposure to tobacco companies. Tobacco companies are included on Kempen's exclusion and avoidance list, which means Kempen actively encourages IMs it selects to remove tobacco exposure from their products

  During 2020, on behalf of the Trustees, Kempen engaged with M&G Investments (M&G) with respect to the inclusion of tobacco related issuers within the M&G PP Long Dated Corporate Bond Fund, in which a proportion of the Scheme's assets are invested. As a result of this engagement, M&G agreed to remove all tobacco related exposure from the fund, which was done during Q4 2020. The Trustees and Kempen consider this to be one of their major achievements in implementation of the SIP in 2020.

- **Kempen's report on M&G Investments (M&G)**
  M&G is a corporate bond IM used by the Scheme. Kempen has reported to the Trustees that, although bond holders normally have less influence than equity holders when engaging with investee companies, M&G considers it important to engage with issuers of debt regarding material ESG issues, so as to gain a better understanding of the investment risks, and to encourage improved ESG practices.

Over the course of 2020, M&G's Fixed Income team carried out 464 interactions with companies where ESG matters were discussed. In addition, M&G's Stewardship & Sustainability team had 256 additional meetings with company chairs and/or directors and/or executives. Some examples of more specific engagements on behalf of their investors in the M&G PP Long Dated Corporate Bond Fund are set out in the Appendix.

M&G is willing to act collectively with other UK and overseas investors where it is in the interest of their clients to do so, and they are therefore supportive of collaborative engagements. As a result, M&G's Stewardship & Sustainability team took part in numerous events related to responsible investment over 2020. They are also aware that it is important to stay engaged with the market, and they are therefore members of several industry working groups and committees[1].

- **Kempen's report on Insight Investment (Insight)**

  Insight is another corporate bond IM used by the Scheme. Kempen has reported to the Trustees that Insight participates in a range of associations and collaborative initiatives, including as a founding signatory to the UN-supported Principles for Responsible Investment (PRI), as well as the UK Stewardship code.[2]

  During 2020, Insight's credit team amended one of their key investment tools, the 'landmine checklist', to include climate risk as a discrete risk alongside ESG and other credit-material factors This addition will ensure all debt investments will now also be assessed based on their exposure to transitional or physical climate risk.

  Insight continued to avoid tobacco companies within their strategic credit portfolios, while they also continued a range of long-term engagements with different companies on behalf of their fixed income investors. Overall, there were[3] 1,210 instances of engagement over 2020, of which 90% included some form of ESG dialogue. This included companies from 64 countries, including 30 from emerging markets. 33% of the meetings where with Insight exclusively and 61% of the meetings included the company's board or senior management.

  In one example, Insight ended up selling debt holdings in the freight transportation company, Burlington Northern Santa Fe Railway Company, within their strategic credit portfolios (which includes the buy and maintain corporate bond strategy which the Scheme is invested in). Relative to its peers and standard market practice, Insight felt that the issuer's governance rating was weak. They sought to engage with the company to better understand its approach and encourage improvement but, given the lack of willingness to engage, coupled with their belief that the bonds were not trading in line with these risks, they decided to exit their position.

  Insight also take a proactive role in ensuring the long-term sustainability and resilience of the markets in which they operate, by engaging on significant and regulatory issues. This included engagement on RPI reform, which Insight believe could have negative implications for millions of UK pensioners. As a result, Insight aimed to draw attention to the potential impact of the proposed change and to ensure everyone had an opportunity to make their voice heard. Despite their efforts, in November

[1] For further information, please see mandg-2020-annual-stewardship-report.pdf, from page 40
[2] Please see Responsible investment | Insight Investment and stewardship-code.pdf (insightinvestment.com) for further details
[3] Data provided by Insight Investment

2020 the UK government announced it would go ahead with planned reforms, with the RPI/ CPIH alignment beginning from 2030.

4. Demonstrating good governance

Our SIP details how we:

- go about investing in the right way by following best practice when it comes to good governance and how we achieve our strategic investment objectives; and
- have the right advisers and systems we need to have in place.

In 2020, the Trustees complied with our principal responsibilities in the SIP. In particular, we:

- carried out a major update and rewrite of the SIP to comply with new regulations and make it more engaging for members when it was made publicly available on Macmillan's website (see https://www.macmillan.org.uk/about-us/working-with-us/pension-scheme);
- held three formal Trustees' meetings where we monitored the performance of our investments and their compliance with the SIP, took investment advice from Kempen and questioned Kempen about investment matters;
- received written monthly and quarterly reports from Kempen detailing investment performance and compliance with the SIP;
- reviewed Kempen's annual stewardship and responsible investment report 2019;
- monitored the performance of Kempen and started a rigorous process (led by the Scheme's investment governance adviser) to tender for fiduciary management services, which concluded in 2021 and resulted in the reappointment of Kempen;
- took advice on matters related to investments from our other advisers as required;
- reviewed our strategic investment objectives in the light of the Scheme's financial position and particularly its triennial actuarial valuation as at 31 December 2019; and
- engaged with the Scheme's Principal Employer, Macmillan Cancer Support, in relation to our investment strategy.

Our intention, as set out in the SIP, remains to review the SIP at least every three years or if there is a need for a significant change in our investment strategy, including our strategic investment objectives. The last update was carried out in January 2020 and the current SIP can be found at https://www.macmillan.org.uk/about-us/working-with-us/pension-scheme

The Trustees are satisfied that their actions taken over the year are consistent with the SIP.

Appendix[4]

Company Name	Associated ESG Pillar	Engagement Objective	Engagement Result
GlaxoSmithKline	Environmental & Social	To discuss its climate change strategy and to enquire into supply chain transparency.	The board now aims to focus more on environmental issues, will decide what environmental positioning it wants to add and build from the ground up. The company does not yet have any climate-related targets linked to incentivisation, but has flagged this to the remuneration committee. The remuneration committee is reviewing how goals are structured and will consider whether changes need to be made. Supply chain disruption has been minimal so far during the Covid-19 pandemic, which demonstrates resilience, transparency and traceability. Supply chains for blockbuster drugs at all nodes are fully mapped for climate risks.
Heathrow Airport	Governance	Discuss our feedback and concerns on the proposed covenant waiver request related to COVID-19 impact. We asked for shareholders to support the business with fresh equity through this period, as we felt that shareholder support would not only protect the business but also send a strong message to employees and to the regulator.	The consent request was approved by bondholders in July and we voted in favour. In our opinion this consent process was primarily an issue of governance. We did not succeed in encouraging shareholders to support the business via injecting fresh equity. Following engagements with management, we were however successful to ensure that bondholders were treated as fairly as possible and the consent fees were work fees rather than being coercive in nature.
EDF	Governance	Find out more information on the Brazilian hydro generation related issues raised in the annual report, to be able to better analyse these.	Improved understanding of recent Brazilan hydro generation issues, as highlighted in 2019 Reference Document. Have also thanked EDF for flagging the issues openly and asked for continued updated/disclosure. We assess that EDF appears to be doing better than ISS implies.
Shell	Social	To determine if M&G agreed with the UN Global Compact red flag, as ascribed by data provider ISS, in relation to oil major Royal Dutch Shell's operations in Nigeria and associated oil spills.	Shell has four businesses in Nigeria, including SPDC, which is a joint venture where Shell has 30% interest and the Nigerian government 55% (the balance is owned by Total, 10%, and Eni, 5%). SPDC owns 4,000km of onshore and shallow water oil and gas pipes in the Niger Delta. In 2019 there were seven operational spills and 156 illegal spills. Shell acts as the operator of the joint-venture, and therefore draws the most scrutiny. Accountability sits with the government, but Shell does not want tthese spills to continue. In response, Shell has put in place a number of actions: CCTV; use of drones; patrolling of the pipelines; and increasing employment prospects for locals in order to discourage oil theft, but the number of illegal spills is increasing. On average 11,000 barrels of oil are stolen or lost per day, the thefts range from a nail in the pipeline and a bucket, up to much more sophisticated theft using pipework and mobile refineries. HYPREP (Hydrocarbon Pollution Restoration Project) was set up in 2016 to remediate the pollution from the oil spills, but the government owns the process and it is far too slow. SPDC has agreed to pay $900m in total, with $360m paid in to HYPREP so far (30% of which has been from Shell), but only $40m has actually been spent. Shell has offered additional help to HYPREP, including resources, engineers etc. Due to the reputational damage of owning SPDC, Shell is considering selling its stake in the pipeline network, although it would still be reliant upon it for transporting hydrocarbons. The dilemma for investors is therefore whether they would prefer Shell to remain the owner and try to sort the issues - and accept the associated reputational damage - or wash their hands of the problem by disposing the assets to what might be a less scrupulous operator, who may allow more damage to the environment. Engagement with Shell has provided us with some comfort that it is the best owner for these assets.
AB InBev	Environmental	We engaged with multi-national drinks company AB InBev, urging it to set medium-term scope 1-3 emissions reduction targets, post 2025, as well as a net zero target for 2050 or sooner	The company is clearly aware of its challenges and is working on the solutions, which could include the increased use of returnable glass bottles and recycling plastic on the packaging side. We are now giving the company time to work through these solutions, and we await its next ESG report, to be published in February 2021, to see if any new targets are published. We will then decide if further near-term engagement is necessary.

[4] Data provided by M&G Investment