

# Advice on your annual Implementation Statement

## Lloyd's Superannuation Fund

20 June 2024

*This note has been prepared for the Trustee of the Lloyd's Superannuation Fund (the "Fund") in response to your request that we provide a draft Implementation Statement ("IS") for the Fund.*

### Background and introduction

There is a requirement for most trust-based defined benefit ("DB") and defined contribution ("DC") pension schemes to produce an IS which covers the report and accounts year (which is the 12 months to 31 March for the Fund).

The Department for Work and Pensions ("DWP") issued [Statutory Guidance](#) in June 2022 which applies to any IS that trustees are required to prepare in respect of pension scheme year ends on or after 1 October 2022. The guidance gives an overview of the items which Trustees "must", "should", are "encouraged", "could" or "may" include in their IS.

"Must" items are requirements imposed by legislation. "Should" items are expected to be followed, and if not followed, trustees should describe concisely the reasons for deviating from the guidance approach. For "Could", "May" and "Encouraged" items, it is hoped that trustees will address them where possible but they are not expected to explain reasons if not followed. We have included all "must" and "should" items and covered some additional items where appropriate too.

The guidance states that the Pensions Regulator is the primary audience for the IS, but it should be written in plain English as far as possible so that members could reasonably interpret and understand the disclosures. Trustees are encouraged to consider producing member-facing summary versions of the IS (with signposting to the full IS). Please let us know if you would like us to prepare a "member friendly" summary version of the IS.

The DWP has stated that it is important that trustees understand and consider financially material Environmental, Social and Governance ("ESG") factors and stewardship approaches in their investment decisions.

For DB Schemes without a DC section (such as your Fund), the IS should set out how, and the extent to which, the Trustee has followed the **voting and engagement policies** in the Statement of Investment Principles ("SIP") during the Fund Year. In addition, trustees should seek to demonstrate they have had regard to the Statutory Guidance.

The IS is also required to include a description of the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the Fund Year and state any use of the services of a proxy voter during that year.

The DWP's guidance states "*where Trustees use the voting policy of the asset manager, they should briefly summarise in the IS whether the asset manager's voting behaviour was aligned with the Scheme's stewardship priorities*".

### Key points

We have produced the draft IS in this note based on our understanding of the regulatory requirements and the DWP's stewardship guidance. Ultimately it is the Trustee's responsibility to produce a compliant IS and the Pensions Regulator can impose fines for non-compliance. Therefore, you may wish to obtain legal advice to ensure that all requirements have been met.

There is interest in the IS from the Pensions Regulator, policymakers, and the media; as such please ensure you are comfortable with the content being in the public domain.

The Fund does not invest in any funds that hold listed equities. We have contacted the Fund's investment managers and included commentary on the following funds provided by the Fund's asset managers who don't hold listed equities, but invest in assets that had voting opportunities during the period:

- Arcmont private credit (pooled fund)
- Janus Henderson multi-asset credit (pooled fund)

## Next steps

We propose that you review the IS and include it within your Report & Accounts ending 31 March 2024 to comply with the relevant regulations. The Report & Accounts need to be finalised within seven months of the end of the Fund Year, ie by 31 October 2024.

**You are required to publish your IS on a website for public access as soon as reasonably practicable after the Report & Accounts are signed off.** We expect you will use the same location for the IS as last year. It remains very important that the website is readily and publicly available. A web address for the location of the published materials must be included in members' Annual Benefit Statements.

Please let us know if you have any questions.

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# *Implementation Statement, covering the Fund Year from 1 April 2023 to 31 March 2024*

The Trustee of the Lloyd's Superannuation Fund (the "Fund") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles ("SIP") during the Fund Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Fund Year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

In preparing the Statement, the Trustee has had regard to the [guidance](#) on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions ("DWP's guidance") in June 2022.

## **1. Introduction**

No changes were made to the voting and engagement policies in the SIP during the Fund Year. The last time the SIP was formally reviewed was December 2021 to reflect changes to the investment strategy, notably the increase in the target level of liability hedging to 100% on the self-sufficiency (gilts +0.5% pa) basis.

The Trustee has, in its opinion, followed the Fund's voting and engagement policies during the Fund Year.

## **2. Voting and engagement**

The Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Trustee takes ownership of the Fund's stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Fund's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

Following the introduction of DWP's guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with its investment managers on specific ESG factors. In June 2023, the Trustee discussed and agreed stewardship priorities for the Fund, which were climate change and corporate transparency. These priorities were selected because they are market-wide areas of risk that are financially material for the investments.

The Trustee regularly invites the Fund's investment managers to present at Trustee meetings.

Over the Fund Year, the Trustee made no new manager or fund appointments, however it continues to receive regular updates on ESG and stewardship related issues from its investment advisers.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

## **3. Description of voting behaviour during the Fund Year**

The Fund did not hold any listed equities during the year to 31 March 2024 and therefore there is no voting behaviour to report on in this Statement. The Trustee did not make use of the services of a proxy voter during the period.

### **3.1 Votes in relation to assets other than listed equity**

The following comments were provided by the Fund's asset managers who don't hold listed equities, but invest in assets that had voting opportunities during the period:

## Arcmont

“Given Arcmont is a Private Debt asset manager, there is limited scope to participate in voting activities where we have a blocking / majority vote. Due to this, Arcmont does not have a formal voting policy or track voting activities.

Note that Arcmont may be able to vote in limited instances where (i) investments take on an equity element and we are assigned voting board seats, or (ii) in the rare circumstances that Arcmont becomes a majority shareholder of the business. However, at the levels of co-investment that we participate in, and in the current market conditions, we are typically only granted votes on economic protections and structural changes to the equity, e.g. if a new class of shares is to be issued and we are diluted.

Arcmont is committed to maintaining an open and active dialogue with management, helping to identify any changes in an investment’s ESG risk profile, but more importantly, enabling discussions to influence business practices to mitigate ESG risks. Arcmont tracks and monitors the ESG risk profiles of our investments to assess the severity of the risks, whilst moving to take appropriate action should a risk become too great.”

## Janus Henderson

“In formulating its approach to corporate governance, Janus Henderson is conscious that a ‘one size fits all’ policy is not appropriate. Corporate governance regimes vary significantly as a function of factors such as the relevant legal system, extent of shareholder rights, and level of dispersed ownership. Janus Henderson varies its voting and engagement activities according to the market and pays close attention to local market codes of best practice.

However, Janus Henderson consider certain core principles to be universal:

- Disclosure and transparency
- Board responsibilities
- Shareholder rights
- Audit and internal controls

A key element of Janus Henderson’s approach to proxy voting is to support these principles and to foster the long-term interests of its clients. It also recognises that in some instances, joint action by shareholders has the potential to be more effective than acting alone. This is especially true when shareholders have a clear common interest. Where appropriate, Janus Henderson pro-actively collaborates with other investors on governance and wider environmental and social engagement issues, directly and through industry bodies.

Janus Henderson has a fiduciary duty to ensure that proxies are voted in the best interest of all its clients for which it has voting responsibility. It has adopted proxy voting policies and procedures, along with internal procedures, to fulfil proxy voting responsibilities.

To assist in assessing the corporate governance of investee companies, it subscribes to ISS (an independent proxy voting adviser). ISS provides voting recommendations based upon our policies and procedures. Our in-house specialists scrutinise the ISS research and supplement this with in-house research and engagement.

In addition, Janus Henderson has a Proxy Voting Committee, which is responsible for its positions on major voting issues and creating guidelines overseeing the voting process. The Committee is comprised of representatives of investment portfolio management, corporate governance, accounting, legal and compliance. Additionally, the Proxy Voting Committee is responsible for monitoring and resolving possible conflicts of interest with respect to proxy voting.”

Overall, in the Trustee’s opinion, Arcmont and Janus Henderson’s voting behaviour aligns with the Fund’s stewardship priorities.