Porsche Cars Great Britain Limited Pension and Assurance Scheme Implementation Report

March 2021

Background and Implementation Statement

Background

The Department for Work and Pensions (DWP) is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address here. Changes to the SIP are detailed on the following pages.

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 its 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 their fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 31 December 2020 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key actions undertaken over the Scheme reporting year

- As part of the Scheme's investment strategy review, the Trustees agreed to make a 20% allocation to Multi Asset Credit to remove some risk from the Scheme and increase the allocation to contractual assets. The Trustees invested in the M&G Total Return Credit Investment Fund in October 2020.

- During the year, the Trustees also reviewed their Diversified Growth Fund (DGF) allocation, agreeing to transition from the Invesco Global Targeted Returns Pension Fund to the BlackRock Dynamic Diversified Growth Fund. The transition will complete in Q1 2021, post reporting year-end.

Implementation Statement

This report demonstrates that the Trustees of The Porsche Cars Great Britain Limited Pension and Assurance Scheme have adhered to their investment principles and their policies for managing financially material considerations including ESG factors and climate change.

Approved by the Trustees of Porsche Cars Great Britain Ltd pension & Assurance Scheme

31 March 2021

Managing risks and policy actions

Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. Investing in a diversified portfolio of assets.	The Trustees reviewed their DGF manager over the year due to disappointing performance. They agreed to appoint a new manager, and the transition will complete in Q1 2021.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustees will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.	
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 c. 90% of these risks (as measured on a Technical Provisions basis), increasing to 100% over time.	
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.	As part of the investment strategy review, the Trustees considered the liquidity profile of potential new funds.

Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.	The Scheme undertook a strategy change over the 12 months to 31 December 2020, which is outlined on the previous page. As mentioned, part of the reason for this was to increase the allocation to contractual assets and reduce risk in the Scheme.
Credit	Default on payments due as part of a financial security contract.	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.	
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: 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 The Trustees monitor the managers on an ongoing basis.	ESG actions undertaken: • This updated ESG policy was reviewed by the Trustees as part of the SIP and Investment Implementation Document (IID) update in September 2019 More details of the ESG policy and how it was implemented are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	

Changes to the SIP

Date updated: September 2019	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustees policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees policies.	• The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. • For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

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 the Scheme's current ESG policy, while the following page outlines the areas Isio have used when evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the engagement 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.

Current 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	• The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustees receive information from their investment advisers on the investment managers' approaches to engagement.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustees' policies in this area.

Areas of assessment

Risk Management	1. ESG factors such as climate change are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will seek to allocate to these sectors. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Reporting & Monitoring	6. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 7. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Voting & Engagement	8. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 9. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 10. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Collaboration	11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD. 12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

ESG summary and actions with the investment managers

Isio conducted due diligence on the ESG processes of the Scheme's investment managers in Q2 2019. The results were reported back to the Trustees in the form of an Impact Assessment. A summary of Isio's view on each of the managers' ESG processes is outlined in the table below.

Due to the ongoing strategy work, an updated ESG assessment of the Scheme's managers was not undertaken during the reporting year. The Trustees have not yet conducted an ESG review of the M&G Total Return Credit Investment Fund as the Scheme invested in the Fund in October 2020. This will be completed in 2021.

Manager and Fund	ESG Summary	Actions identified
Invesco Global Targeted Returns Pension Fund	Invesco have an integrated approach to managing ESG risks at the business level. ESG risks are considered material and monitored by a dedicated team supplemented by research from third party sources. However, there is a lack of information on how Invesco's approach is embedded in the underlying investment process for the fund.	Currently no actions identified.
BMO Liability Driven Investment (LDI) Funds	BMO was an early adopter of ESG risk management and have invested a significant amount of time and research in this area. BMO appear to have gone beyond competitors in the LDI space in terms of action, collaboration, and innovation, and have evidenced that they believe ESG factors are a crucial element of good risk management.	Currently no actions identified.

Engagement details

Isio will be engaging with the managers on the Trustees' behalf, to review their ESG policies and set actions and priorities. Isio will report back to the Trustees on a periodic basis with progress reports which will include updates on Isio's engagements with the managers.

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 December 2020. For the M&G Total Return Credit Fund, the engagement information covers the period 30 October to 31 December 2020 reflective on when the Scheme invested in the fund,

Fund name	Engagement summary	Commentary
Invesco Global Targeted Returns Pension Fund	Invesco currently do not provide details of their engagement activity for the Global Targeted Returns Fund.	Invesco engage with the management and board members of companies to try and positively influence the strategy and encourage improvements, rather than to disinvest. Examples of significant engagements include: Woodside Petroleum – Invesco engaged with Woodside Petroleum in 2020 to achieve greater disclosure on their climate change objectives and performance. The company faced two climate shareholder resolutions in the 2020 Annual General Meeting (AGM), one for the company to disclose scope 1, 2 and 3 emissions reduction targets and the other to create and disclose a report of the company's direct and indirect lobbying activities. Prior to the AGM, Invesco's ESG team met with the company's chairman and head of investor relations who explained what the company was currently disclosing. Invesco didn't see this as sufficient so voted for the resolutions. Since the AGM, Woodside have taken positive steps towards becoming a player in the green hydro market. Invesco will continue to monitor their progress closely. Samsung Electronics Co., Ltd. – Invesco reached out to Samsung Electronics in 2020 following the public statement made by JY Lee, apologising for the company's governance failings and announcing that his children will not inherit his role at Samsung. The team was updated on the recommendations by the committee, which included JY Lee's apology and greater engagement with worker unions. Samsung also discussed their efforts to increase boardroom diversity, identifying a female director and a 'western' director to add to the board. Whilst Samsung has taken action to address previous governance and corruption issues, the company has not yet announced new targets to reduce their carbon emissions intensity. Invesco will continue to monitor and engage with Samsung in 2021.

BMO Real, Nominal and Short Profile Real Dynamic LDI Funds	Total engagements: 74 Climate change: 29 Environmental stewardship: 5 Business ethics: 6 Human rights: 4 Labour standards: 19 Public health: 1 Corporate governance: 10	BMO are committed to the good stewardship of their clients' investments through engagements and public policy activities. Their primary purpose in engagement is to support long-term returns and mitigate risk. BMO's Responsible Investment team engages with trading counterparties and clearing members on ESG topics to assess their ESG credentials and to foster improvement in areas of concern. This engagement work is structured in terms of prioritisation (in terms of companies that have the greatest exposure and companies BMO feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones. Examples of significant engagements include: Citigroup Inc - BMO have engaged with Citigroup on enhancing its climate risk management. In 2020, Citigroup ruled out financing for oil and gas exploration, development, and production projects in the Artic and the bank set a timeline for ending all financing of coal mining companies. BMO saw this as a major development that signals the company's commitment to enhance its contribution to the low-carbon economy transition. Goldman Sachs Group Inc– BMO have been working with the bank over a number of years to encourage improvement in its ESG policies, including climate. Following this, the bank has published its inaugural TCFD report outlining climate risk management procedure. This is an essential step for the bank to better understand its climate risks and for investors to analyse relevant exposure and mitigation strategies.
BMO Sterling Liquidity Fund	Total engagements: 107 Climate change: 41 Environmental stewardship: 4 Business conduct: 10 Human rights: 2 Labour standards: 24 Corporate governance: 26	BMO are committed to the good stewardship of their clients' investments through engagements and public policy activities. Their primary purpose in engagement is to support long-term returns and mitigate risk. Examples of significant engagements include: Barclays PLC – Over 2020, Barclays committed to align the entire financing portfolio to the goals of the Paris Agreements, and to regularly report on progress. BMO have engaged with the company on their environmental and climate risk management practices for their lending portfolio in the past and see this commitment as showing clear climate leadership. Natwest Group PLC – BMO have engaged the bank extensively on its environmental finance footprint and exposure to fossil fuels in the past. In 2020, the bank committed to achieving net-zero emissions across its own operations in 2020, before transitioning to a climate-positive" footprint five years later. BMO believe this is an important step towards decarbonization of finance portfolios, minimizing overall risk of loan defaults and limiting reputational risk.

M&G Total Return Credit Fund	Total engagements: 1 Governance: 1	M&G implement a systematic approach for their engagements in which specific objectives are outlined in advance and measured based on the outcomes from the engagements. Engagements and objectives are logged on a central system. Examples of significant engagements include: EDF – M&G engaged with EDF, via phone calls and emails, to ask for more information on the Brazilian hydrogeneration related issues which were raised in the annual report. EDF provided further information, allowing M&G to better understand and analyse the issues, and will continue providing updates on this. M&G concluded that EDF appear to be doing better than Institutional Shareholder Services (ISS) implied.

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Invesco Global Targeted Returns Pension Fund	Votes cast: 4,934 Votes ‘for’ management: 4,638 Votes ‘against’ management: 247 Votes abstained from: 49	AerCap Holdings NV - Invesco voted for a proposal to authorise the board to exclude pre-emptive rights from share issuances. This vote was in line with the management vote recommendation. Invesco voted for this proposal because it was in line with commonly used safeguards regarding volume and duration. Bayer AG - Invesco voted for a proposal to ratify Deloitte GmbH as auditors for Fiscal 2020. This was warranted as there were no concerns regarding this proposal, ISS were not aware of any issues that would impact the suitability of the proposed auditor. Royal Dutch Shell Plc – Invesco voted against the request for Shell to set and publish targets for Greenhouse Gas (GHG) emissions. Although shareholders may benefit from additional disclosures from Shell to further support and substantiate its stated ambitions, Invesco considered the Company's climate strategy to be sufficient and appropriate in response to the matters raised in the resolution.	Invesco use a proxy voting process designed to ensure that proxy votes are cast in accordance with the best interests of all clients. The matters to be voted upon are reviewed on a case by case basis as each investment team makes independent voting decisions based on criteria that may be important to their investment approach.