

BCA Automotive Group Pension Scheme

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Statement of Investment Principles - Implementation Statement

BCA Automotive Pension Scheme

The Trustees of the BCA Automotive Pension Scheme DC Section (the Scheme) present their annual Statement of Investment Principles implementation statement setting out how the Trustees have followed the policies outlined in the Statement of Investment Principle (the SIP) that came into force from 1 October 2019. This report meets the requirements set out in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations. The Report covers the annual period up to 5 April 2020.

The Statement of Investment Principles

During the Scheme Year ending 5 April 2020, the Trustees undertook a review of the Statement of Investment Principles (SIP). The review resulted in an update to the existing SIP covering:

- The format of the SIP to ensure it clearly sets out the Principles the Trustees wish to follow. The Trustees undertook an exercise to produce a separate, standalone, SIP for the DC Section separate to that of the DB Section which has its own set of Investment Principles.
- The addition of a section on Responsible Investment, Stewardship and Corporate Governance as required by new regulation. The Trustees believe that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries. The Trustees policy is to delegate the considerations of the long-term financial impact of Environment, Social and Governance (ESG) considerations and good stewardship to the Investment Manager of the selected funds. The Trustees will monitor the investment managers' adherence to these consideration on an annual basis.
- A process for the Trustees to monitor how the Investment Manager applies these policies.
- There were no changes to the investment strategy, objectives or fund range as part of this review. The next formal review of the investment strategy is due in November 2020.

The new SIP was formally adopted, with agreement from the Trustees and the Company, in June 2019. The Trustees are in the process of further reviewing the SIP for the 2020/21 Scheme Year.

Monitoring investments against the SIP

As part of the Trustees governance of the Scheme the Trustees have established a process to review the investments within the Scheme to ensure that they continue to perform in line with the SIP. In this section, we set out the actions taken during the Scheme Year:

- Trustees governance process: The SIP sets out that the Trustees monitor the investment funds at least quarterly. The Trustees meet each quarter during the year to monitor and review the performance of the Scheme's investments against their objectives. The level of monitoring is in accordance with the policy established in the SIP.
- Trustees governance knowledge and understanding: There has been a change to the Trustee Board during the Scheme Year with one Trustee resigning and being replaced by a new Trustee. The new Trustee is deemed to have a good working knowledge of the Scheme and DC / DB pensions in general. As a result, the level of understanding of the Scheme's investments and the SIP has remained sufficiently high to enable the Trustee board to monitor the Scheme effectively. The Trustees completed 1 hour and 55 minutes of investment focused training during meetings in the Scheme Year. In addition, each meeting includes a 30 to 45 minute investment monitoring section. The Trustees believe that they have sufficient skills and investment knowledge to give appropriate focus to investment issues.

The Trustees dedicated investment adviser, Punter Southall Aspire, support the Trustees with maintaining their knowledge and understanding whilst providing a wider insight.

- Trustee governance investment advice: During the Scheme Year, the Trustees received investment advice from Punter Southall Aspire as part of its annual value for members assessment, which assessed the value for members provided by the Scheme's investment funds. The advice provided by Punter Southall Aspire met and exceeded in part the monitoring

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processes set out within the SIP. The Trustees are satisfied that they had appropriate support to undertake the monitoring of the investments included in the Scheme.

- Scheme Investment objective: The Scheme’s default investment strategy is the Aviva My Future Focus Investment strategy. The objectives of the default investment strategy are:
 - When further from retirement the fund aims to grow the value of members’ pension savings ahead of inflation over the long-term.
 - During the 10 year period leading up to the members’ Selected Retirement Date, the pension fund within the default investment strategy is moved from investments with a greater exposure to the stock market into more cautious investments. This aims to reduce the members’ exposure to risk from stock market fluctuations. This programme is designed to reflect the new pension freedoms, by no longer targeting the purchase of an annuity, whilst also achieving long term growth for members at acceptable levels of risk and charges.

Through the governance and monitoring process the Trustees conclude that these funds continue to meet these objectives in line with the SIP.

- Strategic asset allocation: The Default investment strategy saw wide ranging changes over the Scheme Year, implemented in October 2019. The changes included:
 - Strategic asset allocation provided by Aviva Investors’ multi-asset team. The asset allocation was updated as follows, however Dynamical (tactical) asset allocation overlays this and is updated on a quarterly basis:

Asset Class	Asset allocations of existing funds as at 31/3/2019 MyFuture Plus Growth	My Future Focus Growth indicative asset allocation
UK Equities	33.8%	14.0%
Europe ex UK Equities	5.7%	6.0%
US Equities	20.8%	24.0%
Japan Equities	3.3%	3.0%
Asia Pacific ex-Japan Equities	2.3%	2.0%
Other regions (Canada and Israel)	1.1%	0.0%
Emerging Markets Equities	5.0%	7.0%
All Stocks Sterling Corporate Bonds	2.1%	13.0%
All Stocks Gilts	7.1%	0.0%
Over 5 Year Index Linked Gilts	2.4%	0.0%
High Yield Debt	5.0%	6.0%
Emerging Market Debt	5.0%	9.0%
Commodities	6.4%	0.0%
Property	0.0%	10.0%
Cash	0.0%	6.0%
Total	100%	100%

- An implementation team used for portfolio construction to ensure risks are managed and trades are placed in a cost-effective manner.
- The Trustees received regular updates on the proposed changes from Aviva and comment from Punter Southall Aspire.
- Following regular monitoring of the changes and input on suitability from Punter Southall Aspire the Trustees are satisfied that the new My Future Focus objectives remain consistent with the aims and objectives outlined in the SIP.

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However, the default investment strategy deviated from the SIP as a result of these changes. The Trustees are comfortable that the strategy continues to align with the purpose of the default investment strategy. The SIP was updated subsequently following the year end.

- **Manager monitoring – default investment strategy:** The monitoring that took place during the Scheme year concluded that the default investment strategy was not performing as expected against its benchmarks. Having reviewed the performance at the 31 March 2020 the Trustees conclude that before taking any action the Trustees will closely monitor the situation over the next 12 months. The reasons for this are as follows:
 - Despite failing to perform in line with the strategy’s allocated benchmarks both constituent funds of the Default investment strategy (the My Future Focus Growth and Consolidation) performed well against other default investment strategies in the market.
 - The Trustees have an ongoing concern over the accuracy of the Aviva benchmarks meaning that the fund may show as underperforming the benchmark but still meeting its long-term objective of provider returns at a relative risk level.
 - Trustees are cognisant of the unprecedented impact of the COVID-19 pandemic on stock markets meaning care should be taken before acting on poor performance during this period. The Trustees prefer to take a longer-term view before taking any action.
 - Additionally, the Trustees have monitored the changes Aviva has made to the Default investment strategy to ensure that it continues to meet the Trustees’ aims and objectives.

Therefore, although the Default investment fund has diverged from its stated benchmark, the Trustees believe it continues to perform in line with the broader policies and objectives set out within the SIP.

- **Manager monitoring – wider fund range:** The Trustees reviewed the funds members invest in on a self-select basis. The Trustees do not assess the appropriateness of the funds selected by members on a self-select basis. However, during the year the Trustees consider whether the funds have performed in line with their stated objective. During the year, the Trustees consider each fund to have performed in line with the policies set out within the SIP.
- **Non-financial matters:** The Trustees’ policy as detailed in the SIP is to delegate consideration for non-financial matters to the underlying investment managers. During the Scheme Year, the Default investment strategy’s stewardship activity was undertaken by Aviva Investors. Therefore, the Default investment strategy has performed in line with the policies set out in the SIP.

The Trustees have received updates from Aviva on their approach to Stewardship and ESG considerations. The Trustees will be monitoring voting behaviour of the underlying Investment Manager from the next Scheme Year.


Later in this report we consider further some of the activity undertaken within the Default investment strategy. The Trustees note that Aviva has a strong ESG team with clear policies on major matters. Key features of this include being a signatory to the UN Principles of Responsible Investing and having in place a climate change policy committed to tackling climate change.

- **Engagement with underlying Companies invested in:** The Trustees are aware that Aviva undertake a high level of engagement with companies and organisation that they are invested in through the policyholder assets.
- **Divergences from the SIP:** The Trustees have identified that the Default investment strategy diverged from the SIP following the changes made by Aviva in October 2019. At the time of the deviation the Trustees, with support from their adviser, concluded that the changes meant the strategy would continue to align with the broad investment principles within the SIP. Therefore, the Trustees conclude the deviation was not material and the details of the strategy were subsequently updated in the SIP following the year end.

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Trustee Conclusion

- The Trustees acknowledge that it is their responsibility, with guidance from their Investment Adviser, to ensure the assets of the DC sections under the Scheme are invested in accordance with the policies and objectives set out in the Statement of Investment Principles.
- The Trustees confirm that a review of the SIP has occurred during this scheme year and have included an explanation of changes to the SIP.
- The Trustees confirm that they have considered this Implementation Statement and agree that, in their opinion, the policies and objectives set out in the Scheme’s Statement of Investment Principles have been followed without material deviation during this Scheme Year.

Assessing voting rights of the Scheme

During the Scheme Year the Trustees investments were managed by Aviva, LGIM and Schroders. BlackRock also managed a number of underlying funds, but stewardship was retained by Aviva Investors. In the below table we summarise their engagement:

Fund manager	Aviva Investors	Schroders	LGIM
Number of meetings voted at:	5,382	5,876	12,000
Number of resolutions voted:	61,876	61,156	115,000
Voted against proposal	24%	18%	71%

The Trustees delegate voting to the fund manager. Therefore, no one vote is more significant in the context of the Trustees policies or the policies set out within the SIP. However, Aviva Investors undertake the stewardship activity for the Scheme’s default which the Trustees believe has the most material impact on the Scheme’s membership. The key directives within the voting behaviour of Aviva during the Scheme Year focused on the following commitments:

- Material ESG factors are integrated into the investment approach for all asset classes and regions Aviva Investors operate in.
- Shareholder rights and obligations are exercised and voting power is utilised, so companies are being run for those that own them.
- Aviva Investors are responsible stewards of assets and engage with multiple parties to encourage the adoption of progressive ESG practices over time.
- Client ESG preferences are identified and suitable investment solutions are provided to meet their ethical and sustainability needs.
- Seek to positively influence market reforms to help shape a more sustainable capital market that can deliver better long-term financial and social outcomes for clients.
- Aviva Investors endeavour to hold themselves to the same governance and ethical standards expected of others.

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Aviva Investors' approach is made up of:

- Integration across all asset classes and fund strategies;
- Stewardship through voting and engagement;
- Avoidance of companies and sectors (both complying with regulation and in house risk tolerance); and
- Market reform utilising Aviva Investors' influence as a large institutional investor.

Aviva Investors subscribe to proxy advisory services to prepare research and recommendations in line with the custom policy and refer certain issues for further consideration. In making voting decisions, Aviva Investors use governance and other research from a number of sources. These include the IVIS service and ISS-Ethix, Vigeo EIRIS and MSCI. Research is used for data analysis only as Aviva Investors have their own robust voting policy, which is applied to all holdings. Voting recommendations are not automatically followed, Aviva Investors vote based on their in-house policy, taking into consideration the views of the fund manager and the conversations with the company through voting specific engagement.

Below, we set out voting and engagement activity that may be of significant interest to our membership.

Company	Details
BP	<p>The resolution, which Aviva Investors co-sponsored with Hermes and L&G, requires the company to evaluate whether each new fossil fuel project is consistent with the Paris Agreement. It aims to keep the rise in global temperatures this century well below two degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.</p> <p>This vote was passed with an unprecedented show of shareholder support.</p>
BHP Group	<p>At the BHP AGMs in October (for UK shares) and November (Australian shares), they supported a shareholder resolution asking the company to consider terminating its membership of industry associations whose record of climate change and energy-related advocacy are inconsistent with the Paris Agreement's goals. Although the resolution did not pass, the 27 per cent of votes that were cast in favour of the resolution have sent the BHP Board a very clear message. As a result of the level of support for the proposals, BHP made public commitments to strengthen the governance and oversight of the associations it belongs to in the future.</p>
Ryanair	<p>In order to improve the relations with employees and continue to deliver strong returns from the Ryanair business model, at the 2019 AGM, Aviva Investors voted against the re-election of both the long-serving chairman and the senior independent director, and in fact all the other non-executive directors. During the year, share option awards were made to the non-executives meaning they no longer classed any of them as independent. In addition, they voted against the remuneration report because the CEO received an award of around €111 million.</p> <p>In February 2019 the company announced that both the long-serving chairman and the senior independent director will step down by, or at the September 2020 AGM. These changes represent a significant milestone for the company and should help improve the company's relationship with all its stakeholders.</p>

The above is based on the information provided by the Scheme's administrator, Aviva, as at 29th July 2020.

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Trustee Conclusion

- The Trustees have reviewed the voting behaviour of all underlying investment managers and confirm that the managers views on Stewardship continue to align with that of the Trustees.
- Further detail can be provided on stewardship upon member or stakeholder request from the Trustees.

Declaration

I confirm that the above report has been produced by the Trustees to the best of our knowledge.

Signed:

John Light

John Light - Chair of Trustees, BCA Automotive Pension Scheme

Date: 28/09/2020