

# Exeter and Devon Airport Limited 1991 Pension Scheme

## Statement of Investment Principles - Implementation Statement

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The purpose of this Statement is to provide information which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustee's Statement of Investment Principles (SIP) dated 11 May 2020 have been implemented.

It also includes the Trustee's voting and engagement policies, as well as details of any review of the SIP during the year, subsequent changes made and the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustee, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 April 2023 to 31 March 2024.

### Investment Objectives of the Scheme

The Trustee's objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objective set out in the Statement of Funding Principles. The Trustee's primary objectives are set out on page 2 of the SIP and are as follows:

- To ensure that the assets are of a nature to enable the Trustee to meet the Scheme's benefits as they fall due.
- To invest the Scheme's assets in an appropriately diverse and liquid range of investments.
- To invest in a way that is consistent with the Scheme's funding objectives, i.e., to invest so that the investment return assumptions used to determine the Trustee's funding plan have a reasonable chance of being achieved in practice.
- Where future opportunities arise, the Trustee will consider further steps to reduce the volatility of the Scheme's funding position and thereby improve the security of members' benefits.

The Trustee appreciates that these objectives are not necessarily mutually exclusive.

The Trustee also recognises that it is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

### Review of the SIP

The SIP was last reviewed in May 2020. The Trustee updated the SIP to reflect changes in the Scheme's investment strategy. The Trustee is currently in the process of reviewing the Scheme's investment strategy, after which an updated SIP will be produced.

Prior to this, the SIP had last been updated in September 2019 to take account of new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustee has a policy on financially material considerations relating to ESG issues, including the risk associated with the impact of climate change. In addition, the Trustee has a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out later in this Statement and are detailed in the Trustee's SIP.

The Trustee's policies on financially and non-financially material considerations, as well as engagement and voting activities, were not updated in the SIP in force during the year.

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### Investment managers and funds in use

At the start of the year, the Trustee's investment strategy was as shown in the table below, which reflects the Trustee's SIP.

Asset Class	Fund	Target Asset Allocation
Global equities	LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged	20.0%
Risk-controlled multi-asset	LGIM Dynamic Diversified Fund	25.0%
Multi-asset income	Aegon Diversified Monthly Income Fund	25.0%
Liability Driven Investment (LDI)	LGIM Matching Core Funds	30.0%
<b>Total</b>		<b>100.0%</b>

During the year the Trustee revised the Scheme's investment strategy. The revised strategy focuses on achieving full funding on the Long Term Funding Objective ('LTFO') by hedging 100% of the interest rate and inflation risks associated with the Scheme's funded liabilities on the LTFO basis. The revised strategy also introduces an allocation to the LGIM Absolute Return Bond Fund to help provide capital to the LDI funds in the event of a capital call.

Asset Class	Fund	Target Asset Allocation
Global equities	LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged	15.0%
Risk-controlled multi-asset	LGIM Dynamic Diversified Fund	20.0%
Multi-asset income	Aegon Diversified Monthly Income Fund	20.0%
Liability Driven Investment (LDI)	LGIM Matching Core Funds	42.0%
Absolute return bonds	LGIM Absolute Return Bond Fund	3.0%
<b>Total</b>		<b>100.0%</b>

### Investment Governance

The Trustee is responsible for making investment decisions and seek advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustee's investment consultant.

The Trustee does not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP, as the Trustee's primary objective is to meet the benefits of the Scheme as they fall due, and the current investment strategy in place is intended to meet this objective. In addition, the Trustee notes that the Scheme is comprised of a diverse membership, which the Trustee expects to hold a broad range of views on ethical, political, social, environmental, and quality of life issues. The Trustee has put in place strategic objectives for Broadstone, as the Trustee's investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were last reviewed by the Trustee on 13 December 2022. These objectives cover demonstration of adding value, delivery of specialist investment consultancy services, proactivity of investment consultancy advice, support with scheme management, compliance and service standards

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### Trustee's Policies

The table below sets out how, and the extent to which, the relevant policies in the Scheme's SIP have been followed:

Requirement	Policy	Implementation of Policy
<b>Selection of Investments</b>	<p>The Trustee may select investments from a wide range of asset classes from time to time, including, but not restricted to, UK equities, overseas equities, government bonds, corporate bonds, commercial property, and alternative asset classes, such as hedge funds, private equity and infrastructure.</p> <p>The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.</p> <p>The Trustee may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.</p> <p>The Trustee may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.</p> <p>The Trustee may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.</p>	No deviation from this policy over the year to 31 March 2024.
<b>Balance of Investments</b>	<p>The Trustee will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.</p> <p>The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustee's view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.</p>	<p>The Scheme's target asset allocation at the end of the year deviated from the SIP in force during the year following the update in investment strategy that took place over the Scheme year.</p> <p>The Scheme's asset allocation as at the year end was broadly in line with the Manager Recommendation &amp; Transfer Advice dated November 2023.</p>
<b>Delegation to Investment Managers</b>	<p>The Trustee will delegate the day-to-day management of the Scheme's assets to professional investment managers and will not be involved in the buying or selling of investments.</p>	No deviation from this policy over the year to 31 March 2024.
<b>Realising Investments</b>	<p>The Trustee make disinvestments from the Investment Managers with the assistance of Mercer, the Scheme's administrators, as necessary, to meet the Scheme's cashflow requirements.</p>	No deviation from this policy over the year to 31 March 2024.



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<p><b>Maintaining the Target Asset Allocation and the Target Hedging Ratios</b></p>	<p>The Trustee has responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and Target Hedging Ratios. The Trustee monitors the asset allocation on a regular basis with the assistance of their adviser, Broadstone, and will consider switching assets between funds should the characteristics of the strategy move significantly away from that intended.</p>	<p>The Scheme's target asset allocation and target hedging levels at the end of the year deviated from the SIP in force during the year following the update in investment strategy that took place over the Scheme year.</p> <p>The Scheme's asset allocation and hedging ratios as at the year end was broadly in line with the Manager Recommendation &amp; Transfer Advice dated November 2023.</p>
<p><b>Performance Benchmarks and Objectives</b></p>	<p>The global equity fund is an index-tracking fund, meaning that its objective is to track the total return on a specified market index within an agreed margin over a specified timescale.</p> <p>The risk-controlled multi-asset fund and multi-asset income fund are actively managed and the investment managers have been set Performance Objectives to achieve returns in line with, or in excess of, a benchmark.</p> <p>The LDI funds have an objective to provide a prescribed level of hedging against changes in the value of the liabilities for a typical defined benefit pension scheme caused by interest rate and inflation risks. The practical method of implementing this level of hedging is delegated to the Investment Manager, with the expectation that the Investment Manager will choose the most cost-effective method.</p> <p>The LGIM Absolute Return Bond Fund aims to outperform the Bank of America Merrill Lynch Sterling Overnight Index Average (SONIA) 3-Month Constant Maturity Total Return Index by 1.5% p.a. (gross of fees) over rolling three-year periods.</p>	<p>The Scheme's performance benchmarks and objectives deviated from the SIP in force during the year following the update in investment strategy that took place during the Scheme year, given the SIP does not include the performance benchmarks and objectives for the new fund introduced to the strategy over the year.</p> <p>The performance benchmarks and objectives were reviewed on a biannual basis over the year to 31 March 2024.</p>
<p><b>Investment Management Charges</b></p>	<p>The investment management charges of the funds used throughout the year are set out on page 6 of the SIP and are:</p> <ul style="list-style-type: none"> <li>• LGIM Global Equity Fixed Weights (50:50) Index Fund GBP Hedged: 0.178% p.a.</li> <li>• Aegon Diversified Monthly Income Fund: 0.450% p.a.</li> <li>• LGIM Dynamic Diversified Fund: 0.380% p.a.</li> <li>• LGIM Matching Core Funds: 0.240% p.a.</li> <li>• LGIM Absolute Return Bond Fund: 0.250% p.a.</li> </ul> <p>In addition, LGIM charge a flat fee of £1,500 per annum for the Scheme.</p>	<p>The Scheme's management charges deviated from the SIP in force during the year following the update in investment strategy that took place over the Scheme year, given the SIP does not include the charges for the new fund introduced to the strategy over the year.</p>

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Requirement	Policy	Implementation of Policy
<b>Financially and Non-Financially Material Considerations</b>	The Trustee's policy on financially and non-financially material considerations is set out on page 9 of the SIP and in full below.	No deviation from this policy over the year to 31 March 2024 (see below).
<b>Engagement and Voting Rights</b>	<p>Responsibility for engagement with the issuers of the Scheme's underlying investment holdings and the use of voting rights is delegated to the Investment Managers. The Trustee can therefore only influence engagement and voting policy indirectly.</p> <p>The Investment Managers provide, on request, information to the Trustee on its actions in relation to engagement and use of voting rights. The Trustee is therefore aware of the policies adopted by the Investment Managers.</p>	No deviation from this policy over the year to 31 March 2024 (see below).
<b>Additional Voluntary Contributions (AVCs)</b>	The Scheme holds AVCs separately from the assets backing defined benefits, using a policy provided by the Scottish Life Assurance Company (part of Royal London Group).	No deviation from this policy over the year to 31 March 2024.

### Financially and non-financially material considerations

The Trustee recognises that Environmental, Social and Governance (ESG) issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets. The Trustee delegates responsibility for day-to-day decisions on the selection of investments to the Investment Managers. The Trustee has an expectation that the Investment Managers will consider ESG issues in selecting investments or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets. The Trustee's views on how ESG issues are taken account of in each asset class used is set out below.

Asset Class	Active/Passive	Trustee's views
<b>Global equities</b>	Passive	The Trustee acknowledges that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if they have concerns relating to ESG. The Trustee does expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
<b>Risk-controlled multi-asset funds / multi-asset income</b>	Active	The Trustee expects the investment managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use its discretion to generate higher risk adjusted returns. The Trustee also expects their investment managers to engage with the underlying investee companies, where possible, although they appreciate that fixed income assets within the portfolio do not typically attract voting rights.



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<b>LDI funds</b>	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.
<b>Absolute return bonds</b>	Active	The Trustee expects the Investment Manager to take financially material ESG factors into account, given the active management style of the funds and the ability of the manager to use its discretion to generate higher risk-adjusted returns. The Trustee also expects its Investment Manager to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.

### Voting rights and engagement activities

The Trustee currently invests in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence the investment managers. In particular, all voting activities have been delegated to the investment managers, as the Trustee is not able to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

However, the Trustee periodically meets with their investment managers, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustee. As part of this, the Trustee will seek to challenge their investment managers on these matters where they think this is in the best interests of members.

Out of the funds held by the Trustee over the year, the global equity, risk-controlled multi-asset and multi-asset income funds contain publicly listed equity holdings. These funds have voting rights attached to the underlying equities held within the funds, and the Trustee has delegated these voting rights to the managers, where each manager sets its own voting policy.

A summary of the votes made by the managers from 1 April 2023 to 31 March 2024 on behalf of the Trustee for each fund used by the Trustee during the year that contains voting rights was requested from the respective managers. It was requested that the managers provide voting data broken down into Environmental, Social and Governance categories. However, the managers advised that the data is not yet available in this format. The breakdown of this data will continue to be requested in future periods. The data in the table below is therefore provided at the total fund level.

Manager	Fund	Resolutions Voted On	Resolutions Voted:		
			For	Against	Abstained
LGIM	LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged	39,232	82%	18%	-
LGIM	LGIM Dynamic Diversified Fund	98,702	77%	23%	-
Aegon	Aegon Diversified Monthly Income Fund	563	96%	3%	1%

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All of the Scheme's assets are invested in pooled funds. Information regarding proxy voting, for managers where the Scheme invests in a fund which has voting rights, is detailed below:

- LGIM do not use a proxy voting service to determine their voting policy, which is formed in-house. LGIM do, however, use Institutional Shareholders' Service's (ISS's) Proxy Exchange voting platform to vote on resolutions electronically.
- Aegon do not use a proxy voting service to determine their voting policy, which is formed in-house. Aegon do, however, use ISS and Institutional Voting Information Service (IVIS) research to help inform their voting decisions, and use the Proxy Exchange voting platform to vote on resolutions electronically.

### Significant Votes

The Trustee has also requested details of the significant votes made on behalf of the Trustee by the managers for each fund in which the Scheme invests in and which has voting rights. In determining significant votes, each manager's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at the manager's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an any manager engagement campaign, for example in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

The Trustee believes the following are the most significant votes undertaken on their behalf over the scheme year:

SIGNIFICANT VOTE 1	
Asset Manager	LGIM
Company	Shell Plc
Date of vote	23 May 2023
Percentage of portfolio invested in Company at date of vote	LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Hedged: 3.51 % LGIM Dynamic Diversified Fund: 0.28%
Resolution	Resolution to Approve Shell Energy Transition Progress

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Why significant	LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C temperature increase scenario. Given the high profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.
Voting decision	Voted Against
Manager comments	<i>"We acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations."</i>
Vote outcome	Resolution Passed

### SIGNIFICANT VOTE 2

Asset Manager	Aegon
Company	Nexity
Date of vote	16 May 2023
Percentage of portfolio invested in Company at date of vote	Aegon Diversified Monthly Income Fund: 0.80%
Resolution	Approve the Remuneration Policy of Chair and CEO, and Vice CEO
Why significant	Aegon deem this vote to be significant because they have chosen to vote against management's recommendation.
Voting decision	Voted Against
Manager comments	<i>"Shareholder approval is being sought for the remuneration policy for the Chairman and CEO (Veronique Bedague) and Vice CEO (Jean-Claude Bassien) for the 2023 calendar year. Our main concern with the proposed policies is centred on salary levels. The Company had provided little explanation for this increase and this followed a significant protest vote at last year's Annual General Meeting."</i>
Vote outcome	Resolution Passed



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### Engagement Activities

The Trustee has also delegated engagement activities to the Investment Managers. The notable engagement activities of the investment managers are provided below:

**LGIM** met with the management team of Heidelberg Cement, a large international cement producer, during the year to discuss the progress and economic viability of the company's planned carbon capture and storage (CCS) projects. LGIM note that cement production is responsible for around 8% of global carbon emissions each year, and therefore believe the cement industry needs to decarbonise significantly for the world to reach net zero carbon emissions. As a result, the sector is designated as 'climate critical' by LGIM.

Heidelberg Cement believes it has an industry leading decarbonisation policy as well as the first-mover advantage in CCS. LGIM raised questions regarding the relative costs and economics of CCS, external factors affecting viability of CCS projects (such as possible regulation or government subsidisation), and expectations of demand for 'carbon-free' cement.

LGIM will continue to engage with Heidelberg Cement as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg Cement, LGIM believe CCS will only become economical when met with either an increase in the price of permits for generating carbon emissions, or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management going forwards.

**Aegon** engaged with Covestro AG, a manufacturer and supplier of polymers, serving sectors such as automotive, furniture and construction. Aegon note that the chemicals sector is responsible for around 6% of Greenhouse Gas ('GHG') emissions, and they expect Covestro to target neutral emissions by 2050, with clear intermediate targets being set and a commitment to transitioning to using 100% renewable energy.

Through their engagement, Aegon learned that Covestro have set a 60% GHG reduction target for scope 1 and 2 emissions by 2035 (relative to their 2020 position) and are committed to a 1.5°C temperature increase scenario. Aegon await confirmation of Covestro's plan for reducing scope 3 emissions. Covestro are also aiming to offer a low carbon alternative for all of their products, where these products will contain at least 25% 'alternative', more environmentally-conscious raw materials.

Aegon gained confidence Covestro are on the right path and will continue to monitor whether Covestro are on track to meet their targets.

The Trustee also considers an investment manager's policies on stewardship and engagement when selecting and reviewing investment managers.

### Monitoring of Investment Arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustee receives performance reports on a quarterly basis from LGIM, valuation statements from Aegon on a monthly basis, together with performance reports from Broadstone on a half-yearly basis to ensure the investment objectives set out in their SIP are being met.

Signed: *Sasha Jain*

Date: *24 September 2024*

On behalf of the Trustee of the Exeter and Devon Airport Limited 1991 Pension Scheme