Annual Implementation Statement

Scheme year ending 30 September 2023

1. Introduction and purpose of this Statement

This document is the Annual Implementation Statement ("the Statement") prepared by the Trustee covering the Scheme year to 30 September 2023. The purpose of this Statement is to:

- detail any reviews of the Statement of Investment Principles ('SIP'), required under section 35 of the Pensions Act 1995, that the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review
- set out the extent to which, in the opinion of the Trustee, the Scheme's SIP has been followed during the year
- describe the voting behaviour by, or on behalf of, the Trustee over the year
- set out the extent to which, in the opinion of the Trustee, the engagement policy within the SIP has been followed during the year.

A copy of this Statement will be made available on the following website: [www.cityandguildsgroup.com/group-policies]

2. Review of and changes to the SIP

Review of the SIP and changes made during the Scheme year

The SIP in place during the Scheme year was formally adopted by the Trustee in December 2022 after consultation with the Institute. The SIP was not subsequently reviewed and updated during the Scheme year. Since the Scheme year end, an updated SIP has been adopted which is dated December 2023.

3. Adherence to the SIP

As at the Scheme year end, the Scheme's asset allocation was in line with the asset allocation ranges set out in the Statement of Investment Principles in force at the time. However, the Trustee was in discussions about the Scheme's strategy following the investment strategy review in March 2023 and the Strategic Asset Allocation was subsequently updated in the SIP that was adopted in December 2023.

The Trustee believes that all other policies set out in the SIP have been followed during the 2022/2023 Scheme year and the justification for this is set out in the remainder of this section.

Governance

The Trustee is responsible for investment matters. Four Trustee meetings were held over the year. The main investment focus of the Trustee over the course of 2023 was reviewing the Scheme's Investment Strategy. This review was officially conducted in March 2023.

During the March 2023 and September 2023 Trustee Meetings, the Trustee received training on the Scheme's LDI portfolio and hedging arrangements. This training session focused on the mechanics of liability hedging, the recapitalisation process and updated guidance from the regulator following the UK gilt crisis in September/October 2022.

During March 2023, the Trustee reviewed the Scheme’s investment strategy. Following this review, the Trustee updated the Scheme’s Strategic Asset Allocation and increased the target hedge ratio within the LDI mandate to 90% (of assets) for both interest rates and inflation. This was reflected in the Statement of Investment Principles adopted after Scheme year-end in December 2023. Implementation of this strategy was completed in December 2023.

Investment strategy

The Trustee’s investment objectives are set out in the SIP.

The Scheme’s investment objectives as at 30 September 2023 were as follows:

- The acquisition of suitable assets of appropriate liquidity intended to generate income and capital growth appropriate to meet, together with contributions from the Institute, the cost of current and future benefits which the Scheme undertakes to provide as set out in the Trust Deed and Rules.

- Target a return of Gilts+1.6% p.a. consistent with the 2020 actuarial valuation.

- Look to generate this return as efficiently as possible given the governance constraints of the Scheme.

In seeking to achieve these objectives, the Trustee has agreed a Strategic Asset Allocation (SAA). In addition, the Trustee was targeting a 75% (of assets) hedge ratio for interest rates and inflation as at the Scheme year-end and the actual hedge ratios were in line with these targets at year-end. Post year-end (in the SIP adopted in December 2023) the Trustee updated its hedging policy to target a hedge ratio of 90% for both interest rates and inflation (also measured as a % of assets).

The table below sets out the SAA and control ranges that were in place as at the Scheme year-end, together with the actual asset allocation as at 30 September 2023. The Scheme's asset allocation was in-line with the asset allocation ranges set out in the Statement of Investment Principles. As at Scheme year-end, the level of interest rate and inflation hedging was in line with the 65-85% range set out in the Statement of Investment Principles in force at the time.

Asset Class	Actual % of total assets*	Target % of total assets*	Ranges % of total assets	Performance benchmark index
Total Return Seeking	**47.8**	**44.5**	**35.0– 55.0**	
Total equities	**0.0**	**2.0**	**0.0 – 5.0**	
UK equities	0.0	0.1	0.0 – 0.5	FTSE All-Share
Overseas Developed Markets equities	0.0	1.7	0.0 – 4.0	
GBP Hedged	*0.0*	*0.85*	*0.0 – 2.0*	*FTSE All World Developed ex UK 95% GBP Hedged*
Unhedged	*0.0*	*0.85*	*0.0 – 2.0*	*FTSE All World Developed ex UK*
Emerging Markets	0.0	0.2	0.0 – 0.5	MSCI Emerging Markets Index
Property	8.8	7.5	5.0 – 10.0	IPD UK– All Balanced Property Funds Weighted Average
Diversification funds	38.9	35.0	30.0 – 40.0	50% UK CPI + 2%; 50% UK RPI + 3%
Total Liability Hedging	**52.2**	**55.5**	**45.0 – 65.0**	
LDI Portfolio	52.2	55.5	45.0 – 65.0	Blended portfolio
Total	**100.0**	**100.0**		

**Figures may not sum to 100% due to rounding*

Investment manager arrangements

There was no allocation to equities as at the Scheme year-end as the Scheme disinvested from its equity mandates with BlackRock as part of the collateral waterfall during the gilt crisis in September 2022, however the funds remained open for investment (and rebalancing was conducted post Scheme year-end). There were no other changes to the investment managers employed to manage the Scheme's assets during the year. WTW provides regular confirmation that investments are satisfactory.

The Scheme's portfolio is comprised of a portfolio of equities (UK, Overseas developed markets and Emerging Markets), a diversification funds' allocation, a UK property allocation and a portfolio of leveraged and unleveraged LDI funds.

The equities and LDI funds are managed passively by BlackRock. The diversification funds allocation is split between the Towers Watson Partners Fund, which is managed by Towers Watson Investment Management and the Fulcrum Diversified Absolute Return Fund. The UK Property allocations are managed by Hermes and Schroders.

The asset allocation and the investment vehicles through which the strategy is implemented ensures the portfolio has a suitable mix of return-seeking and liability hedging assets, consistent with the Trustee's policy. In addition, through the diversification funds' allocation, the Scheme accesses a very wide range of return-seeking assets, providing exposure to a range of different sources of risk and return. Implementing the Scheme's investment strategy in a manner consistent with the Trustee's policies ensures that the Scheme's portfolio in aggregate is consistent with the policies set out in the Statement of Investment Principles.

Realisation of investments

The Trustee agreed a liquidity policy in October 2018 and liquidity is assessed as part of regular reporting provided to the Trustee. The Scheme currently has two liquidity fund investments. The first is a liquidity fund within the LDI portfolio over which BlackRock have discretion to invest and disinvest as they see fit. The second sits outside of the LDI portfolio and is the main source of cash used for meeting Scheme cashflows, if these cannot be met from contributions paid by the Sponsor. The balance held in this fund is monitored regularly. If it needs to be increased, WTW provides advice on the assets to be sold in order to raise the necessary funds.

The Scheme currently has two UK property mandates with Hermes and Schroders respectively. As at the Scheme year-end, Schroders has informed us that they are continuing to defer redemptions as a result of the ongoing market volatility in the UK property sector. This announcement was unsurprising given the current market pressures faced by institutional investors and serves to maintain the interests of existing investors in the funds whilst also being conscious of those wishing to exit. The Trustee considers all other investments to be readily marketable.

Risk management

The Trustee has identified several risks involved in the management of the Scheme’s assets which are taken into account when reviewing the investment arrangements.

Solvency and mismatching risk were considered through the analysis undertaken by WTW as part of the investment strategy review in 2023. This illustrated the expected progression of the growth in the assets relative to the liabilities as well as quantifying the downside risks under different strategies. This progression is monitored regularly at Trustee meetings.

Manager risk is managed by appointing a passive manager to manage the equity and LDI investments, where the expectation is that the manager will deliver returns which are very close to those of an underlying market index or provide exposures that align with the Scheme’s liabilities. In addition, the diversification fund allocation invested via the Towers Watson Partners Fund and Fulcrum DAR Fund provide, in aggregate, exposure to a very well diversified portfolio of third-party investment managers, which limits the risk of any one manager performing poorly.

Liquidity risk is managed by the Scheme’s administrators assessing the Scheme’s cashflow requirements as well as holding a proportion of the Scheme’s assets in relatively liquid investments (i.e. the equities, LDI and liquidity funds managed by BlackRock).

Currency risk is managed by hedging a proportion of the Scheme’s exposure to non-Sterling currencies.

Political risk is managed by having a well-diversified investment portfolio.

Sponsor risk is managed by assessing the interaction between the Scheme and the Institute’s business, as measured by several factors, including the creditworthiness of the Institute and the size of the pension liability relative to the financial strength of the Institute. A formal assessment of the covenant was conducted alongside the deliberations relating to the 30 September 2020 actuarial valuation. Further covenant advice is obtained on an ad hoc basis where relevant.

Investment performance monitoring

The Trustee receives a six-monthly monitoring report to 31 March and 30 September from WTW as well as receiving quarterly reports from the investment managers.

The Scheme disinvested from its BlackRock equity holdings on 6 October 2022 to raise additional collateral as part of its collateral waterfall and therefore did not have any investments in the BlackRock equity funds for the majority of the Scheme year. The Scheme had not rebalanced back to its strategic targets as at the Scheme year-end and for this reason no performance commentary is provided on these funds. The LDI portfolio, also managed by BlackRock, helped to mitigate the impact of changes to interest rates and inflation expectations, as it is designed to do.

The UK property investments have performed reasonably well over the long-term, delivering positive absolute returns, however, these funds in aggregate have marginally underperformed their benchmarks over a 1-, 3- and 5- year time horizon.

The Towers Watson Partners Fund significantly underperformed its CPI benchmark over 1 year to 30 September 2023. This was primarily due to the high inflation environment over this period. The Fulcrum DAR mandate also underperformed its inflation benchmark (to a larger extent) for similar reasons. Both mandates significantly underperformed their equity benchmarks over the same time period due to strong equity market performance over the 12 months ending 30 September 2023 however the Towers Watson Partners Fund outperformed the Fulcrum DAR mandate by around 7%.

ESG considerations

The Trustee has provided a copy of the Statement of Investment Principles to its investment managers (and does so on an annual basis).

Managers are asked to confirm whether they comply with the UK Stewardship code and, if they do not, are asked to explain their reasons for not doing so. As at 30 September 2023, all managers confirmed compliance with the code.

The Trustee confirms with each manager that they manage the portfolio with a medium to long-term time horizon and utilise investment engagement in order to enhance portfolio value. The Trustee also monitors costs to ensure that managers are incentivised to invest with a long-term time horizon. In addition, the Trustee monitors the turnover of each mandate to ensure that this is consistent with the asset class and time horizon being targeted by each investment manager. This monitoring is covered in the next section.

The Trustee reviewed and updated the DB Risk Register on 22 September 2023 as part of its quarterly review process.

Voting information is collected from each manager and this is summarised in section 5 of this statement.

4. Turnover

The Trustee’s investment consultant monitors the investment managers’ portfolio turnover and confirmed that over the Scheme year portfolio turnover was in line with expectations and therefore there were no particular concerns highlighted around inappropriate costs being incurred.

Information on portfolio turnover as provided by the investment managers is given below:

Note: Turnover is defined as the lesser of the value of purchases or the value of sales divided by average annual market value unless otherwise stated.

Mandate	Manager	Expected long-term level of portfolio turnover pa	Fund Activity*	Manager commentary
DAR	Fulcrum	1400%	1130%**	Turnover was broadly in line with expectations
Property Unit Trust	Hermes	0 – 15%	15.6%	Turnover was marginally higher than expectations due to many pension schemes rebalancing following the volatility in government bond markets in September 2021.
UK Real Estate Fund (SREF)	Schroders	0 – 15%	4.6%	Turnover was in line with expectations
Partners Fund	TWIM	c.10%	4%	Turnover was broadly in line with expectations
LDI	BlackRock	n/a	98.5%	Turnover only occurs when cash is committed or disinvested or when the hedge ratio is adjusted. The hedge ratio was adjusted, and cash was committed during the year.

** % turnover over the trailing 12 month period as at 30 September 2023. Schroders turnover as at 31 March 2023.*

***Fulcrum report a risk-based approach to turnover which is risk adjusted to the equity equivalent exposure traded and therefore the figures are not comparable with the other funds. Fulcrum have stated that their approach results in figures roughly 3-3.5x higher than the approach used by other fund managers.*

5. Voting and engagement

The Trustee delegates responsibility for voting and engagement in respect of the Scheme’s underlying investments to the investment managers. Details of the activity undertaken by the managers is set out below.

The Trustee meets with the Scheme’s investment managers periodically, to explore how the Scheme’s assets are being managed.

Voting

The below table sets out the voting activity of the Scheme's equity and multi-asset investment managers, on behalf of the Trustee, over the year:

Asset class	Number of resolutions eligible to vote on	Proportion eligible votes voted	Of resolutions voted:*		
			For	Against	Abstained
Fulcrum DAR	14,455	100.0%	86.9%	11.2%	1.4%
TWIM Partners	25,856	93.7%	86.8%	12.9%	0.3%

**Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.*

Voting statistics are out of total eligible votes and are sourced from the investment managers TWIM and Fulcrum. Blackrock voting figures are not provided as the Scheme disinvested from its BlackRock equity holdings on 6 October 2022 to raise additional collateral for the LDI portfolio as part of its collateral waterfall and therefore did not have any investments in the BlackRock equity funds for the majority of the Scheme year.

The following table outlines a number of significant votes cast by the Scheme's investment managers on the Trustee's behalf. The commentary set out below is based on detail in the relevant manager's reports on the votes cast:

- Fulcrum reported on the most significant votes cast within the funds managed on behalf of the Scheme over the year to 30 September 2023, including the rationale for the voting decision (in some cases this was based on advice received from independent engagement advisor Glass Lewis) and the outcome of the vote. A number of these key votes are set out below.

- TWIM reported on the most significant votes cast within the funds managed on behalf of the Scheme over the year to 30 September 2023, including the rationale for the voting decision and the outcome of the vote. Voting information and recommendations are provided by Hermes EOS, ISS, Glass Lewis, SES and Broadbridge Proxy Edge to inform the decisions taken by the manager. A number of these key votes are set out below.

Significant votes have been identified by the managers based on a number of factors including the weight of the holding in the portfolio, the topic (votes on climate and the environment are often seen to be significant given the systemic nature of the risk) and votes where the manager voted against the advice of their proxy adviser. The Trustee has then selected a number of votes from those provided by the managers that they believe to be significant (primarily based on size of holding and topic) and these are set out below.

Significant votes cast	Coverage in portfolio
Company: Royal Bank Of Canada **Meeting date: 29 March 2023** **Management resolution:** Shareholder Proposal Regarding Say on Climate **How the manager voted**: For **Rationale**: This proposal requests that the Company establish an annual advisory vote policy regarding its environmental and climate change targets and action plan. Glass Lewis believes that unless there is evidence of egregious or illegal activity, the management of environmental and social issues associated with business operations are generally best left to management and directors who can be held accountable for failure to address relevant risks on these issues when they face re-election and recommend that Fulcrum vote against the proposal. Fulcrum support the shareholder perspective and are concerned with the Company's plans to fulfil their net zero commitment. Therefore Fulcrum voted for the proposal.	Fulcrum DAR
Company: Sun Life Financial, Inc. **Meeting date: 5 May 2023** **Resolution:** Shareholder Proposal Regarding Report on Health Impacts from Investments in Fossil Fuels **How the manager voted**: For **Rationale**: Glass Lewis recommended that Fulcrum vote against the proposal as the shareholders have provided insufficient and speculative evidence that the Company has neglected the health risks from investment in fossil fuels. However, Fulcrum voted for the proposal as they agree with the severity of the risks presented and that investors should be presented with better disclosure regarding their business risks, including information about the potential client base in the emerging markets that the Company is currently targeting for growth and where climate and health impacts are more extreme.	Fulcrum DAR
Company: Toronto Dominion Bank **Meeting date: 30 March 2023** **Resolution:** Shareholder Proposal Regarding Pay Ratio Disclosure **How the manager voted**: For **Rationale**: The proposal requests that the board review executive compensation in relation to the workforce and annually disclose the CEO compensation to median worker pay ratio. Glass Lewis' view is that the requested disclosure would have limited utility and that this utility is likely outweighed by the complexity and expense of calculating the median employee salary. While not mandatory for publicly listed companies in Canada to provide CEO to median worker pay ratio disclosures, it would not be difficult to provide as the Global Reporting Institute reporting standards, which the Company already utilizes, provide a well-recognized framework for computing this ratio. We agree with the proponent's perspective and voted for the resolution.	Fulcrum DAR

Company: Apple Inc. **Meeting date: 10 March 2023** **Management resolution:** Report on Median Gender/Racial Pay Gap **How the manager voted**: For **Rationale**: Shareholder proposal promotes better management of ESG opportunities and risks	TWIM Partners
Company: HCA Healthcare, Inc. **Meeting date: 19 April 2023** **Management resolution:** Report on Political Contributions and Expenditures **How the manager voted**: For **Rationale**: TWIM support the shareholder proposal to appropriately strengthen HCA's transparency and disclosures around political contributions.	TWIM Partners
Company: Berkshire Hathaway **Meeting date: 6 May 2023** **Management resolution:** Climate risk disclosure **How the manager voted**: For **Rationale**: TWIM voted in support of audit committee responsibility for climate risk disclosure believing the significance of leadership on this issue over-rides the minor cost and inconvenience of compliance. Given the company already has disclosure representing 90% of emissions, and given the company's long-earned reputation for ethical stewardship, awaiting SEC guidance seems an inadequate delayed response. TWIM voted against management but in line with ISS recommendations.	TWIM Partners
Company: Amazon **Meeting date: 24 May 2023** **Management resolution:** Commission a Third Party Audit on Working Conditions **How the manager voted**: For **Rationale**: Promotes transparency on warehouse working conditions.	TWIM Partners

Engagement

The BlackRock Investment Stewardship team engages with public companies on behalf of all portfolio strategies at BlackRock. When engaging with a company BlackRock are focused on the long-term governance and business operational matters (including environmental and social considerations) that they believe are consistent with sustained financial performance. Each year BlackRock prioritises its engagement work around themes that they believe will encourage sound governance practices and deliver sustainable long-term financial performance for the Scheme. In 2023, the key focus for BlackRock was on board quality and effectiveness, strategy purpose and financial resilience, incentives aligned with value creation, climate and natural capital and company impacts on people.

Fulcrum is in general a top-down, global macro investor alongside a significant systematic business (in which the Scheme invests through the DAR mandate), investing across all asset classes. As single stock equities play a role in the DAR mandate, Fulcrum carefully monitors and engages with the issuers it invests in to guarantee suitable investment practices. This includes daily following of company announcements; meetings with executive management; or review of external research and company results. Shareholder engagement will usually be limited to the responsible exercise of voting rights. This is due primarily to Fulcrum's stance as a top-down macro investor and the often-insignificant holding of the issuer's outstanding shares or size of holding as it relates to the overall fund.

As a policy, Towers Watson Investment Management monitors the sustainable investment credentials of managers and reviews their policies and actions. Underlying investment managers are expected to undertake ESG integration and stewardship activities to the extent that it is practical. TWIM engages in a two-way dialogue with managers that can make improvements. As part of the ongoing research, areas of concern are highlighted to the manager alongside the rationale for concern. TWIM encourages the manager to resolve these issues with 12 months. Should there be little or no change, TWIM will attempt further engagement to understand the lack of progress and may take steps to review their rating for the strategy. Furthermore, the TWIM Partners Fund achieves the majority of its public equity exposure via the Towers Watson Global Equity Focus Fund (GEFF), where it has appointed EOS at Federated Hermes (EOS) to provide corporate engagement and voting recommendation services to enhance the efforts of the underlying managers. EOS directly engages with the underlying companies of the fund. EOS measures and monitors progress on all engagement, setting clear objectives and specific milestones for the most intensive engagements.