E.H. Booth & Co. Limited Pension & Assurance Scheme Implementation Report

October 2020

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 www.booths.co.uk/wp-content/uploads/EH-Booth-SIP-2020-with-date.pdf. 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 their 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 its 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 5 April 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

- Over the second half of 2019, the Scheme's LDI Funds distributed c.£4.1m following a sustained period of low gilt yields. The proceeds from the distribution were invested in a cash fund with Insight.

- The Trustees agreed to invest some of the Insight Cash Fund balance, including the LDI distribution proceeds mentioned above, back into the LDI funds to target higher interest rate and inflation hedge levels on a Self-Sufficiency basis.

Implementation Statement

This report demonstrates that the E.H. Booth & Co. Limited Pension & Assurance Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed:

Position:

Date:

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
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 above 90% of these risks on a Self-Sufficiency basis.	**The Trustees agreed to invest some of the balance in the Insight Cash Fund, including the LDI distribution proceeds mentioned above, back into the LDI funds to target higher interest rate and inflation hedge levels on the Self-Sufficiency basis.**
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.	No actions to report – the Scheme maintains a sufficient allocation to daily traded assets to meet cashflow needs.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable.	Post year end (in Q2 2020) the Trustees investigated investment opportunities that developed as a result of the volatile market environment in March and April. The Trustees agreed to allocate to one of these opportunities, contingent capital". **The changes to the Scheme's asset allocation were reflected in the SIP which was updated in September 2020.**
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt	No actions to report – the Scheme's credit mandates are diversified by sector, location and sub asset class.

		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.	No actions to report – As part of the change in strategy post year end, ESG factors were considered alongside other criteria in the Trustee's decision to invest in the Direct Lending, Contingent Capital and Liquid ABS mandates.
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.	No actions to report – all mandates are GDP denominated. All currency exposure is therefore hedged by the managers.
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.	No actions to report.

Changes to the SIP

Policies added to the SIP	
Date updated: September 2020	
Investment Objective:	• The Scheme's present investment return objective to achieve a return sufficient to be 100% funded on a Self-Sufficiency basis by 2023-2028 (Self-Sufficiency is defined as the value of the liabilities discounted using a yield of gilts + 0.3% p.a.).
Timescale	• By 2023-2028
Investment Mandates	• All decisions about the day-to-day management of the assets are delegated to the fund manager via a written agreement. This delegation includes decisions about: Undertaking engagement activities with investee companies and other stakeholders, where appropriate.
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. • The Scheme's mandates with Apollo and Partners Group (Private Markets) are subject to a performance related fee.
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 a periodic 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 periodically 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.

Manager	Fund Name	Mandate	Benchmark	Target Outperformance (p.a.)	Fee (p.a.)
Insight	Insight Global ABS Fund	Asset Backed Securities	3 Month LIBOR	+ 1.5%	0.45%
Apollo Global Management	Apollo Accord Fund	Contingent Capital	3 Month LIBOR	+ 4%	0.75% management fee. Performance fee of 15.0% over a 5.0% hurdle.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regarding to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines the Trustee's investment adviser's assessment criteria as well as the ESG beliefs used in 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 stewardship 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.

Implementing the Current ESG 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 and engagement activity	• The Trustees' investment managers provide 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 and ESG beliefs

Risk Management	1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees. 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 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.
Voting & Engagement	6. 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. 7. 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. 8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
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.

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 5 April 2020.

Fund name	Engagement summary	Commentary
Insight Enhanced Selection LDI	Total Engagements: 13 Social: 1 Governance: 11 Environmental, Social and Governance: 1	Examples of significant engagements include: **Clearing houses and various cash investors** – Insight worked with a range of possible partners to explore how to increase the diversity of sources of funding, in the form of gilt repurchase transactions and developed approaches for pension funds to access these sources for the first time. **HMT (UK government), Bank of England, The Pensions Regulator, Financial Conduct Authority** – Since Brexit, the UK has left the EU stakeholder group discussions. Insight is currently engaging with the UK government and key stakeholders to set up a new group in the UK to drive forward discussions on creating a long-term solution for UK pension funds for the issue of EMIR central clearing. As a result of the engagement, HMT have agreed privately to set up a stakeholder group formally after the Brexit transition period and are having informal discussions with Insight on this.
Schroder Life Diversified Growth Fund*	Total Engagements: 1,150 discussing 2,124 topics Environmental: 404 Social: 326 Governance: 1,394	Examples of significant engagements include: **Tesco PLC –** Schroder's sustainability analysts hosted a call with Tesco's Head of Food Waste and IR. The discussion offered an opportunity to better understand food waste, where it arises in the food chain, how much of a problem it is, and what technological and regulatory solutions could arise to solve it. Tesco found that while food waste initiatives have reduced fresh product sales volumes, this has been more than off-set in customer trading up in non-perishable items. Reputational benefits were also cited as a positive upside as customers are starting to take food waste credentials into greater account when choosing where to buy groceries. **Johnson & Johnson –** Schroders contacted the company regarding their vote against management on

		executive compensation at their 2019 AGM. They fed back suggestions including: 1) Avoid paying supplemental severance, but do not make a commitment to never do so in the future, 2) Provide more detailed clawback disclosure, 3) Add more structure to its STI program, 4) Discontinue the use of one-year sales measures and use only three-year measures for PSUs. As a result of the engagement, Johnson & Johnson's compensation committee introduced several positive changes to the pay program for 2020.
M&G: Alpha Opportunities Fund and European Loan Fund	Total Engagements: 17 Environmental: 4 Governance: 12 Environmental, Social and Governance: 1	Examples of significant engagements include: Italmatch – M&G reached out to Italmatch management in July 2019 to better understand the ecological impacts the manufacturing process had and what solutions they had developed. M&G obtained better understanding of the ecological footprint of the business and followed up to better understand their Climate Change exposure. CPI Property Group – M&G liaised with the CFO following the announcement of a lawsuit to ensure best practices of corporate governance were followed and to improve communication with bondholders. The company appointed a second independent director on the board, changed group auditor and created a role of head of capital markets to improve communication with bondholders. It has also continued to regularly update bondholders in relation to the lawsuit.
Partners Group Partners Fund	Total engagements; 9 Governance: 3 Environmental, Social and Governance: 6	Examples of significant engagements include: **Techem –** Partners Group engaged with Techem's board regarding waste management and GDPR. As a result of the engagement, Techem completed a review of the waste generated in its headquarters and main regions, designating a dedicated waste commissioner, responsible for its group level waste and recycling management concept. The company also started working on GDPR compliance and significant effort was put into achieving compliance and protecting customer data. **USIC –** Partners Group engaged with USIC's board in relation to health and safety issues. The discussions contributed to, USIC's progress on the driver safety and leadership development programs launched in 2018. With support from an external engineering firm, the company also underwent an assessment to identify opportunities to improve health and safety more broadly across the firm.
Partners Group Multi Asset Credit Fund 2016	Total engagements; 5 Governance: 5	Examples of significant engagements include: **Caffé Nero –** Partners Group engaged with Caffé Nero regarding the impact of Covid 19 and liquidity

		management. They negotiated an agreement that meets Nero's near-term liquidity need and provides room for the business to recover. The agreement included triggers to protect lenders in the event of underperformance and enhanced information rights. **Zentiva –** Partners Group engaged regarding providing incremental acquisition financing to support the buy and build strategy contemplated by Zentiva's management and sponsors (Advent). Partners Group received due diligence and had various call with the sponsors and management however eventually decided not to increase their financing after discussion in the investment committee.
PIMCO Absolute Return Strategy III	Total engagements; 8	Examples of significant engagements include: **Enel Finance International NV –** Enel has demonstrated a clear focus on renewables and support of the 2030 C02 emission targets. PIMCO engaged with the company through the UN Global Compact (UNGC) for several years on their commitment to renewables and more recently through their participation in issuing SDG-linked bonds. These bonds pay an additional coupon to investors should the company fail to hit their climate change targets.

Note: *Schroders data covers 18 months to 30 June 2020.

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 5 April 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Schroder Life Diversified Growth Fund*	Number of proposals: 17,841 Votes 'for' management: 16,180 Votes 'against' management: 1,422 Other votes: 239	**Sports Direct International Plc** Proposal: Election to the board of directors. Schroders voted against the election of 3 of 6 directors due to serious audit failures. **Ocado Group Plc** Proposal: Approve Remuneration Report Schroders voted against the proposal due to the framework being highly dependent on short-term targets. **Vodafone Group Plc** Proposal: Election to the board of directors. Schroders voted against the election of 12 of 12 directors due to poor strategic decisions and on-going decline in the share price.	At Schroders, voting and engagement activity is managed centrally by a 'Sustainable Investment Team'. Schroders were able to evidence a number of voting and engagement examples within underlying funds that are consistent with their overarching ESG policy. Outcomes for portfolio companies of underlying funds are set at the beginning of each engagement and are measured and monitored over time.
Partners Group Partners Fund	Proposals voted: 9 Votes against: 2 Votes to 'control the board': 7	**Zentiva** Proposal: Remuneration report, intending to provide shareholders information and a voice on the implementation of the remuneration policy. Partners Group voted against this proposal due to;	Partners Group aim to have a seat on the advisory boards of the funds which they invest in, and no less than one seat on the Board of Directors for direct lead investments. These representatives work alongside the ESG and Sustainability team to

		1) Inadequate disclosure of performance targets linked to remuneration, 2) No deferral of annual bonus to management, 3) Sizeable equity rewards to controlling shareholder/executive chair. **Wendel** Proposal: Independence of the board of directors, the compensation policy of management as well as the board of directors. Partners Group voted against this proposal because they believed that; 1) The board should be independent in order to oversee management objectively, 2) The compensation should incentivize management to generate high performance and in this case, management would have been eligible for bonus even if the performance is below the median of the peer group.	create and implement ESG initiatives. Additionally, Partners Group aim to have a seat on the advisory board and formulate a dialogue with portfolio companies in order to monitor investment decisions. Partners Group held 350 advisory board seats as at the end of 2019 across private market investments. It is noted that in asset classes such as private credit, Partners Group have less scope to influence than when they are equity holders in a company.

Note: *Schroders data covers 18 months to 30 June 2020.