



# Central England Co-operative Limited Pension 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 updated its SIP in to 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 at [Pensions | Central England Co-operative](#)

## 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 Scheme has 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 Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- 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

During September the Trustee committed to two new infrastructure equity mandates. The Scheme has committed £20m to the IFM Global Infrastructure Fund and £40m to the J.P. Morgan Infrastructure Investment Fund.

### Implementation Statement

This report demonstrates that The Central England Co-operative Limited Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed	Naomi L'Estrange	Mike Roberts
Position	Director	Director
Date	19 April 2021	19 April 2021

# Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To target a c.65% hedge ratio on interest rates and a c.69% hedge ratio on inflation. These hedge ratios are based on the self sufficiency liabilities.	
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 LDL/synthetic equity manager.	
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.	
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 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	Further detail provided later in this report

		<p>2. Implemented via Investment Process</p> <p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>The Trustees monitor the managers on an ongoing basis.</p>
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on direct lending assets as much as practically possible given their highly contractual nature.
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

## Policies added to the SIP

Date updated: 1 October 2020

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

- The Trustee invests in pooled funds which are aligned to the strategic objective. It is recognised that due to the nature of pooled funds, there is not scope for these funds to be specifically tailored to the policies of the Trustee.
- The Scheme's mandates for direct lending and global real estate secondaries 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 Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustee monitor the investment managers' engagement and voting activity on an annual basis as part of the Implementation Statement for the Trustee Report and Accounts. This will first be conducted for the Scheme Accounts dated 31 December 2020. By doing this, it indirectly incentivises the investment managers to make decisions based on non-financial information.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

- The Trustee 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 Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Quarterly investment performance reports are produced documenting the performance of each of the Scheme's investment managers.
- Investment manager fees are reviewed periodically to ensure 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 investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
- Where relevant, portfolio turnover costs are considered periodically.

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 closed-ended funds or funds with a lock-in period, the Trustee ensure the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements.
  - For open-ended funds, the duration is flexible, and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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# 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 how the Scheme’s ESG policy is implemented, while the following page outlines Isio’s assessment criteria as well as the ESG beliefs used in evaluating the Scheme’s managers’ ESG policies and procedures.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"> <li>The investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li> <li>The Trustee received information from their investment advisers on the investment managers’ approaches to engagement</li> </ul>	<ul style="list-style-type: none"> <li>The manager has not acted in accordance with their policies and frameworks.</li> <li>The manager’s policies are not in line with the policies of the Trustee in this area.</li> </ul>

The below table outlines the areas which the Scheme’s investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intend to review the Scheme’s ESG policies and engagements periodically to ensure they remain fit for purpose.

Risk Management	<ol style="list-style-type: none"> <li>Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme.</li> <li>ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.</li> </ol>
Approach / Framework	<ol style="list-style-type: none"> <li>The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li> <li>ESG factors are relevant to investment decisions in all asset classes.</li> <li>Managers investing in companies’ debt, as well as equity, have a responsibility to engage with management on ESG factors.</li> </ol>



Reporting & Monitoring	<ol style="list-style-type: none"> <li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li> <li>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</li> <li>8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.</li> </ol>
Voting & Engagement	<ol style="list-style-type: none"> <li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li> <li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li> </ol>
Collaboration	<ol style="list-style-type: none"> <li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li> <li>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.</li> </ol>

# 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 month period to the end of 2020.

Fund name	Engagement summary	Commentary
Alcentra European Direct Lending Funds I, II & III	Alcentra were unable to provide any engagement statistics for the EDL Funds.	Alcentra continue to engage with portfolio companies with the aim of improving ESG practices. In their position as a debt provider they do not have the same influence as owners in terms of ability to drive initiatives and strategies, however they can use their relationships with management teams and shareholders to ask questions, make recommendations and share ESG experiences. Alcentra are formalising their engagement efforts with the development of an ESG Engagement Tracker where they will record each interaction with a borrower.
M&G Alpha Opportunities Fund	Total engagements: 6 Environmental: 2 Governance: 4	M&G's activities are consistent with their ESG policies and they have a systematic approach around engagements in which specific objectives are outlined in advance and measured based on the outcomes from the engagements.  Examples of significant engagements include:  BP: Following the announcement of the company's net zero strategy, M&G engaged with BP as part of an ongoing Climate Action 100+ engagement. M&G are supportive of the company's ambitious plans, although they are not without difficulties from both a climate and financial perspective. M&G intend to continue to engage actively in pushing for further clarity and progress around the company's long-term decarbonisation strategy.  EDF: M&G engaged with the company to gain a better understanding of the Brazilian hydro-generation related issues raised in the annual report to be able to better analyse these. M&G were comfortable that EDF flagged these issues openly and have asked for continued and updated disclosures.
M&G Inflation Opportunities Fund	Total engagements: 10 Environmental: 1 Social: 6 Strategy and financial performance: 2 Other: 1	Examples of significant engagements include:  National Grid: M&G engaged with the firm's USA VP of Business Planning Development & Process via a conference call to better understand its contracted fossil fuel generation plant emissions and the strategy to reduce/remove these. M&G intend to continue this engagement as events progress.

		<p>PnC: Following the Grenfell Tower incident in 2017, cladding on buildings needs to be reviewed to ensure leaseholder safety, and M&amp;G engaged with the firm to identify and rectify any cladding related issues with buildings held within the ground rent vehicles. In 2017, M&amp;G asked the property manager to evaluate every building for compliance with the latest building standards. Following the engagement in 2020 it was confirmed that all affected buildings are in the process of having their cladding rectified.</p>
Aberdeen Standard Investments Global Absolute Return Strategies Fund	<p>ASI were unable to provide any engagement statistics over the reporting period.</p>	<p>ASI include informed and constructive engagement as one of their ESG core beliefs. They outline the four stages of their engagement process as follows:</p> <ul style="list-style-type: none"> <li>- Monitor: Ongoing due diligence in areas including business performance, company financials, corporate governance and the company's key risks and opportunities.</li> <li>- Contact: Frequent dialogue with senior executives, board members, heads of departments and specialists, and site visits.</li> <li>- Engage: Maximising influence as asset owners to drive positive outcomes and where possible leveraging equity holdings to vote on issues.</li> <li>- Consider all options: Increase or decrease holdings, collaborate with other investors, take legal action if necessary.</li> </ul>
Apollo Total Return Fund	<p>Total engagements: 28 Engagements with corporate entities: 28</p>	<p>Apollo continually engage with portfolio companies via discussions with management. This has been a key driver for the production of formal company ESG reports and KPIs.</p> <p>Examples of significant engagements include:</p> <p><b>EG Group:</b> Apollo, as the largest creditor, encouraged the company to hasten the appointments of independent non-executive directors including chairman and head of the audit committee. Apollo also emphasised the need to disclose as much information as possible to the public regarding the change of the auditor to KPMG. Since the engagement the company has appointed one independent non-executive director and will appoint two more in Q1 2021, including chair and head of audit committee.</p> <p><b>Gannett Co:</b> At the board meeting, Apollo discussed the firm's transition to digital subscribers to reduce newsprint usage. Following the engagement, Gannett has set a one million digital subscriber target by the end of 2020. The firm's response to COVID-19 and the protection of employees through the provision of PPE was also discussed as part of the engagement.</p>
BlackRock Fixed Income Global Opportunities Fund	<p>BlackRock were unable to provide any engagement statistics over the reporting period, as these are only available for equity holdings.</p>	<p>ESG engagement for BlackRock is led by BlackRock's Investment Stewardship team. The Global Fixed Income Responsible Investing team will partner with the firm level stewardship team to engage with companies when a holding in the Fund is flagged due to ESG concerns.</p>

Insight Enhanced Selection LDI Funds	<p>Total engagements: 13</p> <p>Environmental, Social and Governance: 1</p> <p>Governance: 12</p>	<p>Examples of significant engagements include:</p> <p><b>Derivative counterparty banks:</b> Insight engage with all counterparties on ESG integration and the integration of ESG factors into assessment of credit risk. There is a focus on engagements with those with low ESG scores to improve the position if possible, and these engagements could lead to a pause in trading with that bank or the decision not to add further exposure.</p> <p><b>Clearing houses and cash investors:</b> 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.</p>
Insight Synthetic Equity Fund	<p>Total engagements: 14</p> <p>Environmental, Social and Governance: 3</p> <p>Social and Governance: 1</p> <p>Governance: 10</p>	<p>Insight provided a list of engagements with the Fund's counterparties and listed the topics covered but did not provide any additional commentary on the underlying engagements.</p>
Baillie Gifford Diversified Growth Fund	<p>Total engagements: 34</p> <p>Environmental and Social: 4</p> <p>Governance: 13</p> <p>AGM or EGM Proposals: 17</p>	<p>Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team. The team prefer to encourage changes through engagement and dialogue rather than exclusion or divestment.</p> <p>Examples of significant engagements include:</p> <p><b>US Solar Fund:</b> This is a renewable energy fund managed by solar specialist, New Energy Solar Manager. Baillie Gifford held a call with the chairwoman, Gill Nott, and independent non-executive director, Jamie Richards, following up on an engagement earlier in the year regarding the detection of payment fraud in the business and were encouraged that the independent review into the investment manager's processes had identified only non-material improvement recommendations. The environmental and social management of each project site in 2021 was discussed, as well as the resourcing and experience of the investment manager and the Fund's dynamic 50% female board. Baillie Gifford will continue to engage with the company going forwards.</p> <p><b>Hammerson plc:</b> Baillie Gifford engaged with the firm to discuss its governance and sustainability strategy. This involved a review of the firm's approach to board succession and the recruitment of three new non-executive directors during 2019. Baillie Gifford also provided feedback on the company's reporting and governance structure, and intend to continue engaging with the company on this issue.</p>
Morgan Stanley AIP Phoenix Global Real Estate Secondaries Fund	<p>Morgan Stanley were unable to provide any engagement statistics, noting that all underlying real estate investments in the Fund have now been exited and the Fund is in the liquidation process.</p>	<p>Morgan Stanley engage with the companies in which they are invested and also exercise their proxy voting rights in order to guide the companies in which they invest towards better governance practices which they believe produce long-term sustainable returns.</p>

# 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
Aberdeen Standard Investments Global Absolute Return Strategies Fund	<p>Votable Proposals: 3,354</p> <p>Proposals Voted: 3,293</p> <p>For votes: 2,875</p> <p>Against votes: 367</p> <p>Abstain votes: 4</p> <p>Withhold votes: 45</p> <p>Other: 2</p>	<p>The manager did not provide examples of significant votes over the reporting period.</p>	<p>Where the GARS Fund does invest in individual securities, these are typically held via sleeves managed by the in-house equity and fixed income teams. Whilst engagement within these sleeves is consistent with the firm-wide policy, in reality this is immaterial to the Fund as a whole, which typically invests via derivatives such as futures and options, which provide no voting rights or engagement ability.</p>
Baillie Gifford Diversified Growth Fund	<p>Votable Proposals: 877</p> <p>Proposals Voted: 829</p> <p>Votes with management: 770</p> <p>Votes against management: 47</p> <p>Abstain votes: 12</p>	<p>Examples of significant votes include:</p> <p><b>Covivo REIT:</b> Baillie Gifford opposed five resolutions regarding the firm's proposed long term incentive scheme because it could lead to rewarding underperformance. Following the 2020 AGM, Baillie Gifford informed the company of their voting decision and advised that they expect more stretching performance criteria to apply to long term incentives going forwards.</p> <p><b>EDP Renovaveis:</b> Baillie Gifford opposed the election of a director due to the lack of independence and diversity on the board. Baillie Gifford have raised this issue a number of times regarding these concerns and intend to continue to raise the issue and take action where possible. As the company has an 82% controlling shareholder, Baillie Gifford's ability to influence is limited, however they</p>	<p>All voting decisions are made by Baillie Gifford's Governance &amp; Sustainability team in conjunction with investment managers. Baillie Gifford do not outsource the responsibility for voting to third party suppliers and will utilise research from proxy advisers for information only.</p>



believe it is important to hold the board accountable for these concerns.

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