

Red Funnel Staff Pension Scheme

Statement of Investment Principles - Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated September 2020 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period 1 February 2020 to 31 January 2021.

Investment managers and funds in use (Strategic Asset Allocation at 31 January 2021)

Asset Class	Fund	Target Asset Allocation
Global equities	LGIM World Equity Index Fund	10.0%
	Mobius Life Passive UK Equity Fund*	5.0%
Emerging Market Equities	Aberdeen Emerging Markets Equity Fund	7.0%
Property	Mobius Life Property Fund**	15.0%
Diversified Growth Funds	Baillie Gifford Diversified Growth Fund	4.5%
	BNY Mellon Real Return Fund	4.5%
Multi Asset Credit	Vontobel TwentyFour Strategic Income Fund	15.0%
Corporate bonds	Mobius Life UK Corporate Bond Fund***	15.0%
Government bonds	Mobius Life Passive Over 5 Year Index Linked Gilt Fund****	5.0%
Equity- Linked Liability Driven Investments (LDI)	BMO Equity-Linked Real Dynamic LDI Fund	19.0%
Total		100.0%

*LGIM UK Equity Index Fund

**Aegon UK Beta Property Fund

*** Baillie Gifford Investment Grade Bond Fund (1/3), M&G All Stocks Corporate Bond Fund (1/3) and Insight UK All Maturities Corporate Bond Fund (1/3)

**** LGIM Over 5 Years Index-Linked Gilt Index Fund

Strategy Review

In Q3 2020 the Trustees began to implement the changes recommended to them by Broadstone Corporate Benefits Limited ('Broadstone'), as part of the Investment Strategy Review carried out in 2019. As part of the proposed strategy, the Emerging Market Debt, High Yield Bond and Government Bond allocations were redeemed. In addition, the allocation to corporate bonds was reduced. The proceeds from these moves were used to fund a new allocation to Multi Asset Credit and a new allocation to equity-linked liability driven investments to provide increased protection against interest rate and inflation risk associated with the Scheme's liabilities.

The Trustees also utilise the Mobius Life Platform in order to effect cost and operational efficiencies in the management of the assets. The Trustees utilise the Mobius Life platform to access all current investments.

Scheme Governance

The Trustee board is responsible for making investment decisions, and seeks advice from Broadstone, as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP.

There were no changes to the objectives put in place for Broadstone which were last reviewed in December 2020. The Trustees are due to formally review these objectives by December 2021, or earlier.

Statement of Investment Principles

The Trustees last reviewed the Statement of Investment Principles (SIP) in September 2020. The Statement of Investment Principles was also updated in September 2019, for new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustees have a policy on financially material considerations relating to Environmental, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out below and are detailed in the SIP.

There were no departures from the policies set out in the SIP, including the Trustees' policies on financially and non-financially material considerations, during the year.

Policy on financially material considerations

Trustees' Policy: The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustees expect its Investment Managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees assess the ESG integration capability of the investment managers.

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

The Trustees note that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustees are satisfied that the funds currently invested in by the Scheme are managed in accordance with their views on financially material considerations, as set out below, and in particular with regards to the selection, retention, and realisation of the underlying investments held.

This position is monitored periodically. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the investment managers and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers given they are investing in pooled funds.

A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below.

Asset Class	Actively or Passively Managed?	Comments
Global equities	Passive	The Trustees acknowledge 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 Trustees do 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.
Emerging Market Equities	Active	Where equities are actively managed, the Trustees expect the fund manager to integrate ESG factors into the selection, retention, and realisation of the stocks they hold where this is expected to have a material impact on returns. The Trustees also expect the fund manager to take into account ESG considerations when engaging with companies and by exercising voting rights. However, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.
Property	Active	The Trustees believe 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. However, the Trustees expect the investment manager to have regard to ESG issues when properties are being sold and purchased within the portfolio, together with any opportunities to re-develop existing properties with ESG issues in mind.
Diversified Growth Funds	Active	The Trustees expect the investment manager to take financially material ESG factors into account, given the active management style of the fund 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.
Multi Asset Credit	Active	The Trustees expect 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 their discretion to generate higher risk adjusted returns. The Trustees also expect the investment managers, to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the funds do not typically attract voting rights.
Corporate bonds	Active	The Trustees expect 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 their discretion to generate higher risk adjusted returns. The Trustees also expect the investment managers, to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the funds do not typically attract voting rights.
Government Bonds	Passive	The Trustees believe 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.

**Equity-Linked Liability
Driven Investments
(LDI)**

Active

The underlying assets of the LDI solution consist of government bond funds and derivative contracts, however there is also a growth overlay of passive equities which are invested in line with specific indices. Therefore, the Trustees believe there is less scope for the consideration of ESG issues but do expect the investment manager to take into account ESG considerations by engaging with companies that form the index.

Policy for taking into account non-financially material considerations

Trustees' Policy: *Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expect its Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

Policy on the exercise of voting rights and engagement activities

Trustees' Policy: *The Trustees believe that in order to protect and enhance the value of the investments during the time horizon over which benefits are paid, they must act as a responsible asset owner. The Trustees expect its Investment Managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this timeframe. On an ongoing basis the Trustees assess the stewardship and engagement activity of its Investment Managers.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have the administrative mechanism to cast votes on the underlying holdings, given the pooled nature of the Scheme's investments.

The Trustees currently invests in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager.

The Trustees have employed Broadstone to assist them in monitoring the voting and engagement activity of their investment managers, and a summary of this activity is provided below. The Trustees, with the assistance of Broadstone, concluded that the voting and engagement activity of their investment managers is in line with their policy on voting and engagement.

Within the current investment arrangements, the LGIM equity, Mobius UK equity, Aberdeen equity, Baillie Gifford DGF, BNYM Real Return and BMO equity-linked LDI fund contain equity holdings, and therefore have voting rights attached to these underlying equities.

All investment managers use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third proxy voters used are confirmed in the table below.

The Trustees have delegated engagement activities to their investment managers, and each investment manager reports to the Trustees on how they have voted on behalf of the Trustees for the underlying holdings.

A summary of the votes made by the investment managers is provided in the table below, based on the latest information available from each investment manager.

Manager	Pooled or Segregated?	Third Party Proxy Voter	Manager uses own voting policy	Resolutions Voted On	Resolutions Voted:		
					For	Against	Abstained
Aberdeen	Pooled	ISS	Yes	69,538	86%	12%	2%
Baillie Gifford	Pooled	ISS/Glass Lewis	Yes	13,507	95%	3%	2%
BMO	Pooled	ISS	Yes	117,820	76%	20%	4%
BNY Mellon	Pooled	ISS	Yes	574	56%	41%	4%
LGIM	Pooled	ISS	Yes	77,062	81%	18%	1%
Mobius (LGIM)	Pooled	ISS	Yes	77,062	81%	18%	1%

The votes above are at the company level, rather than being scheme or fund specific. The Trustees will work with their investment managers to obtain this information in future years.

The notable engagement activities of the investment managers over the last 12 months are provided below:

- **Aberdeen** engaged with Procter & Gamble on risks associated with their supply chain, following concerns that one of their Malaysian palm-oil suppliers, FGV, being implicated in forced-labour abuses. Since the engagement, Procter & Gamble have declared that FGV must have their palm-oil certified by the Roundtable for Sustainable Palm Oil by the end of 2022.
- **Baillie Gifford** spoke with Netflix to discuss a range of topics, including the competition for consumer attention, the promotion of Ted Sarandos to co-CEO, as well as data security. Netflix described a deliberate focus on promoting diversity and inclusion to support content creation for a diverse audience, while Sarandos' promotion was described as a formalisation of a long-term working practice, and accordingly, the transition has been seamless. Data security is a standard topic for Netflix's audit committee, and the board takes it very seriously. The Netflix subscription model and absence of advertising places it in an advantageous position as it doesn't collect and sell members' data to generate revenue. This was another positive interaction with the Netflix board, which supports Baillie Gifford's confidence in its unconventional governance and ability to steward the business responsibly, with a focus on long-term value creation
- **BMO** engaged with HSBC over the course of 2020 and early 2021 in relation to climate strategy and its hesitation to stop coal financing. After many collaborative initiatives and shareholder

resolutions the bank committed to phasing out the financing of coal-fired power and thermal coal mining in the EU and OECD countries by 2023 and other regions by 2040.

- **BNY Mellon** met with BHP, an Australian mining company, to discuss how executive remuneration is linked to sustainability issues as well as their climate change strategy. On remuneration, BHP confirmed that climate change was linked to 3-4% of total variable pay whereas safety linked to 10%. BNY Mellon fed back that given deaths linked to air pollution were significantly higher than those from industrial accidents, climate change should rank at least equally with safety. BHP confirmed they would implement measurable climate-change targets within its remuneration structure and provide full disclosure.
- **LGIM** engaged with Amazon after they were made aware Amazon had been interfering with its workforce's efforts to unionise, ahead of a workforce vote on unionisation. LGIM, along with 70 other investors with a total AUM of \$6.4trillion, signed a letter to Amazon emphasising that they should meet the expectations set out in the UN Guiding Principles on Business & Human Rights, and that workers should be free to exercise their freedom of association and right to collective bargaining. This action resulted in Amazon launching its first Global Human Rights Principles and also commissioning a human rights impact assessment by an external consultant. Despite the moves, LGIM still retain concerns on how they will meet these commitments and will continue to engage with the company on the matter.

The Trustees are comfortable with the investment managers' approach for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

The Trustees also consider the investment managers' 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 Trustees receive performance reports on a monthly basis from the platform provider together with performance reports from Broadstone on a quarterly basis to ensure the investment objectives set out in their SIP are being met.

Signed: Katherine Ball

Date: 19 July 2021

On behalf of the Trustees of the Red Funnel Staff Pension Scheme