

Appendix 1 – Implementation statement



Marshalls plc Pension Scheme Implementation Report

September 2021

isio.

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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 online at the web address <https://www.isio.com/scheme-documents/marshalls-plc-pension-scheme/>. Changes to the SIP are detailed on the following page.

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 5 April 2021 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

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Summary of key actions undertaken over the Scheme reporting year

- The Trustees finalised the implementation of the Scheme's new investment strategy over the reporting period.
- The Scheme's Long Lease Property mandate had a commitment of £35m made in Q2 2019 with LGIM's LPI Income Property Fund. The allocation began drawing down capital following the end of Q2 2020 with LGIM calling a total of c.£27.5m for investment. The remaining capital was drawn down in Q4 2020 where c.£7.5m of capital was called, which brought the Scheme into line with the agreed investment strategy.

Implementation Statement

This report demonstrates that Marshalls plc Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed 
Position Trustee
Date 1/11/2021

Managing risks and policy actions

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 assets and present value of liabilities from changes in interest rates and inflation expectations.	To aim to hedge 100% of these risks as measured on the ongoing funding basis used for Scheme.	Reviewed consequences of RPI/CPIH reforms and impact on the Scheme's liabilities and assets. Trustee agreed to take no action at this time.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investments.	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.	Collateral held with the Scheme's LDI manager reviewed on an ongoing basis.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge any unrewarded risks, where practicable to do so.	No change to policy.
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.	No change to policy.
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.	ESG is taken into account as part of Isio's standard due diligence and ongoing research and as such is a consideration in the selection and retention of the Scheme's investment managers. The Trustee monitors the managers' adherence to their own ESG policies and	ESG Actions undertaken: <ul style="list-style-type: none"> Ongoing review of the investment managers policies as they relate to the Trustee's own policy. Transitioned into a ESG aware Liquidity Fund held as part of

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		their alignment with the Trustee's own ESG policy. Significant deviation from either of these measures would result in the Trustee considering termination of the mandate.	the LDI mandate in May 2020. The ESG Policy was agreed and implemented by the Trustee in September 2019.
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 where cost effective and practical to do so.	The Scheme is exposed to currency risk through their Equity allocation and this has been reflected in the policy as in September 2020's amendments.

Changes to the SIP

Policies added to the SIP

Date updated: September 2020

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

- As the Scheme is invested in a number of pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, where the Trustee does invest in pooled funds, they do so in ones that are aligned to the strategic objective.
- The Trustee has segregated arrangements with one investment manager, thereby allowing the investment manager to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis.

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 monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.
- The Trustee does 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 Trustee's policies.

- On a quarterly basis the Trustee reviews 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.
- Investment manager fees are reviewed annually 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 Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

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- 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 ensures 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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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 Isio'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 Trustee 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	<ul style="list-style-type: none"> Through the manager selection process ESG considerations will form part of the evaluation criteria The Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis When attending Trustee meetings, investment managers will be asked to present to the Trustee on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity. Isio produce ESG Scorecards for each of the Scheme's investment managers – comparing the manager to a set of questions set with the Scheme's ESG Policy in mind. 	<ul style="list-style-type: none"> The manager has not acted in accordance with their policies and frameworks.

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Areas of assessment

Risk Management	<ol style="list-style-type: none"> 1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustee. 2. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	<ol style="list-style-type: none"> 3. The Trustee wants to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustee believes 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 Trustee will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Voting & Engagement	<ol style="list-style-type: none"> 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 Trustee believes 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 Trustee wants to understand the impact of voting & engagement activity within their investment mandates.
Reporting & Monitoring	<ol style="list-style-type: none"> 9. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge. 10. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	<ol style="list-style-type: none"> 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 Trustee should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

Marshalls plc Pension Scheme ESG Policy

The following statements summarise the ESG beliefs held by the Trustee:

- Incorporating ESG factors represents an opportunity to increase the effectiveness of the overall risk management of the Scheme;
- ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee;
- ESG factors are dynamic and continually evolving; therefore the Trustee will receive training directly from the investment managers in order to develop their knowledge.
- ESG factors are relevant to investment decisions in all asset classes (some asset classes more than others);

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- Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors;
- 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;
- The Trustee should understand how asset manager make ESG decisions and will seek to understand how ESG is integrated by each asset manager. These managers will be assessed using an ESG scorecard;
- The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.

The full Scheme ESG Policy is available upon request.

ESG summary and engagement with the investment managers

Isio engaged with the Scheme's investment managers on the Trustee's behalf to review their ESG policies and set actions and priorities. The Trustee were presented reports on each of the Scheme's investment managers' ESG capabilities against a Scheme specific ESG Scorecard. The table below sets out the key points from these reports:

Manager and Fund	ESG Summary	Actions identified	Engagement details
Apollo Total Return Fund	Apollo have been actively incorporating ESG into their investment process for a number of years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.	Set-out formal ESG criteria for each potential credit investment and emphasise ESG factors in day-to-day investment decisions. This could include more clarity on how Apollo analyses what constitutes 'material' ESG risks. Implement a score card system so each investment has a formal measurable rating.	Isio engaged with Apollo in Q1 2021 on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio regularly reports back to the Trustee with updates on Apollo's ESG developments, including engagement.
LGIM Long Lease Property Fund	Prior to acquisition all assets undergo a sustainability assessment to identify risks and improvement plans. LGIM have committed to having net zero carbon real estate portfolios by 2050.	LGIM should improve reporting and disclosure at Fund level and better measurement of the effectiveness of their ESG initiatives and engagements with portfolio companies. Additionally, we would welcome the development of their quantitative screening process for ESG.	Isio engaged with LGIM in Q1 2021 on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio regularly reports back to the Trustee with updates on LGIM's ESG developments, including engagement.
BlackRock Aquila Life World Fund	As a passive equity fund, the manager has limited scope to act beyond business level engagement – where BlackRock have significant scale and resources committed.	BlackRock to consider widening their data sources beyond the use of Aladdin (despite being market leading). It was also noted that BlackRock could leverage off their size and stature more in leading this field.	Isio engaged with BlackRock in Q1 2021 on the Trustee's behalf to review their ESG policies and set actions and priorities. Isio regularly reports back to the Trustee with updates on BlackRock's ESG developments, including engagement.
BlackRock LDI and Buy & Maintain Corporate Bonds (bespoke QIF)	BlackRock integrate their own (not the Scheme's) ESG policy in portfolio construction. ESG forms a smaller consideration in the LDI portfolio due to its nature but is demonstrated through offerings such as an environmentally aware liquidity		

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	fund and counterparty screening.
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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 2021.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total Engagements: 32	<p>Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.</p> <p>Examples of significant engagements include:</p> <p>EG Group – In October 2020, as the largest creditor, Apollo encouraged EG Group to quicken the process of appointing new independent non-executive directors (NED) including a new Chairman and Head of Audit Committee. Following this engagement, EG group has appointed one new NED and will recruit two more by Q1 of 2021.</p> <p>Gannett Co. Inc. – Apollo discussed diversity and inclusion at the Board Meeting. Following Apollo's engagement, Gannett has set the goal of achieving a workforce of over 50% from underrepresented groups by 2025 and increasing diversity at director level.</p> <p>Both of these particular engagements highlight a key feature of the Trustee's policy, which is that debt investors are not exempt from engagement on ESG issues.</p>
	Environmental: 7	
	Social: 5	
	Governance: 6	
	Human Capital: 3	
LGIM Long Lease Property Fund	Multi-theme: 11	<p>Due to the nature of most of the leases within the LPI Fund, LGIM can only engage with the tenants of the assets which are held in the Fund, and their overall influence as a landlord is limited. They maintain dialogue with all occupiers, and as part of this ESG-related behaviours are encouraged.</p>
	Total engagements: 14	
	Environmental: 5	
	Social: 2	
BlackRock Aquila Life World Fund	Governance: 7	<p>BlackRock claim to use a range of approaches when engaging companies, dependent on the nature of the issue, and the company and market. This again is reflective of BlackRock's resources and demonstrates</p>
	Total Engagements: 2,896*	
	Environmental: 1,799	

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	Social: 1,183	a clear advantage over smaller competitors. Within index-investment mandates such as the BlackRock Aquila Life World Fund, BlackRock directly engage with companies, in order to integrate and advance ESG related issues – despite their investment being constrained by index constituents rather than investment thesis/ESG.
	Governance: 2,612	
BlackRock LDI and Buy & Maintain Corporate Bonds Segregated Mandate (bespoke QIF)	Data shown over the period April 2020 to March 2021 due to availability. *Engagements include multiple company meetings during the year with the same company, so do not sum to the total.	
	BlackRock currently do not provide details of their engagement activities at QIF level, however, this is something they are looking to implement going forwards. Isio remains in contact with BlackRock surrounding the firm's engagement reporting.	BlackRock leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments, and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.

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 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Aquila Life World Fund	Votable Proposals : 41,138 Proposals Voted : 39,065 For votes : 35,630 Against votes : 2,934 Abstain votes : 406 Withhold votes: 95	Exxon Mobil Corporation - BlackRock voted in support of a proposal to produce a report on the risks of petrochemical operations in flood prone areas, due to the lack of adequate corporate disclosure. In their annual Investment Stewardship Report, BlackRock list Exxon Mobil as an example of a company where they continue to use their vote to encourage progress on ESG issues, particularly around climate risk management.	BlackRock use Institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holding directors accountable and supporting shareholder proposals. Where BlackRock have concerns around the lack of effective governance on an issue, they usually vote against the re-election of the directors responsible to express this concern.

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