



Merchant Investors Staff Pension Scheme Implementation Report

31 July 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased its focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in its Statement of Investment Principles ("SIP").

The SIP can be found online at the web address:

<https://www.isio.com/app/uploads/2023/11/statement-of-investment-principles-04102022.pdf>

The Implementation Report details:

- Actions the Trustee has taken to manage financially material risks and implement the key policies in the Scheme's 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 Trustee 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.

Summary of key actions undertaken over the Scheme reporting year

- The Trustee updated its Statement of Investment Principles in October 2022. This update included adding the Trustee's voting and engagement policies, as well as other minor updates such as refreshing the Scheme's expected return assumption.
- In October 2022 the Trustee transferred £3m from the 2030 – 2034 Buy and Maintain Fund to the LDI portfolio. This transaction was implemented to increase the level of collateral buffer in the LDI portfolio following a period of market volatility. This action resulted in the Scheme's investment strategy temporarily moving from an allocation of 80%/20% Buy and Maintain Credit/LDI to 65%/35% Buy and Maintain Credit/LDI.
- In January 2023 the Trustee invited Legal and General ("LGIM") to a Trustee meeting to provide an update of the Scheme's current investments and on the actions they are taking with regards to ESG. The Trustee took this opportunity to formally engage with LGIM on ESG matters.
- Throughout the year discussions have been ongoing between the Trustee and the Sponsor regarding the most appropriate split between Buy and Maintain Credit and LDI in the Scheme's investment strategy. A final

decision on the investment strategy will be taken once the discussions on the long-term objective for the Scheme have concluded.

Implementation Statement

This report demonstrates that the Merchant Investors Staff Pension 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 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 hedge 100% of the Scheme's interest rate and inflation risk (using a combination of pooled LDI and Buy and Maintain Funds) as measured on the Scheme's Technical Provisions basis.	As part of the Trustee's agreement, Legal and General Investment Management (LGIM) managed the Scheme's interest rate and inflation hedge to a bespoke liability benchmark throughout the reporting year.
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 provide collateral to the LDI mandate.	<p>The Scheme's investment strategy is designed to distribute capital from the Buy and Maintain mandate at a time when member cashflows fall due.</p> <p>An automatic instruction has been set up to meet LDI capital calls as and when required.</p> <p>During 2023, there were a few recapitalisation events that took place, where a portion of funds were transferred from the Buy and Maintain Fund to the LDI portfolio to maintain the Scheme's interest and inflation hedge ratios.</p>
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.	<p>As part of the 31 July 2020 Actuarial Valuation the Trustee sought to align the funding basis with the Scheme's investment strategy by introducing an element of sensitivity to changes in credit spreads into the liability discount rate.</p> <p>The Trustee views interest rate and inflation risks as unrewarded and hence has chosen to fully hedge these</p>

			risks relative to the Technical Provisions basis.
Credit	Default on payments due as part of a financial security contract.	To appoint an investment manager who actively manages this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default. To diversify this risk by investing in a range of Buy and Maintain bucket funds.	The Trustee has appointed LGIM as the Scheme's investment manager. LGIM typically invest in more defensive sectors, ensuring the Buy and Maintain funds remain robust to economic downturns.
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 criterion: 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 Trustee monitors the managers on an ongoing basis.	No changes were made over the year.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Scheme invests solely in pooled funds that are denominated in GBP. The Scheme's manager hedges currency exposure from holding overseas assets back to GBP.	This Trustee had previously had a policy to broadly hedge all currency risk, but has taken the decision to invest solely in GBP share classes, which do not require additional currency risk mitigation.
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 of realisation of investments.	No changes were made over the year.

Changes to the SIP

In October 2022, the Trustee updated the Scheme's SIP as part of their 3-year annual review and also as a result of new stewardship regulations that came into force in June 2002. The changes included the following new voting and engagement policies as well as expansions of or changes to existing policies, also outlined below.

Changes to Investment Manager Monitoring and Engagement

Date updated: October 2022

Environmental, Social, Corporate Governance factors and the exercising of rights

- The Trustee receives information from their investment adviser about relevant matters.
- The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters.

Policies added to / updated in the SIP

Date updated: October 2022

Voting Policy - How the Trustees expect investment managers to vote on their behalf

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment manager on its behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

The Trustee, via their investment advisors, will engage with managers about relevant matters at least annually. Example stewardship activities that the Trustee has considered are listed below:

- Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities.
- Asset manager engagement and monitoring – on an annual basis,

the Trustee assesses the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustee's investment decision making.

Currency

The Scheme invests solely in pooled funds that are denominated in GBP. The Scheme's manager hedges currency exposure from holding overseas assets back to GBP.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose. The Trustee invites Legal and General to present their ESG policies at a Trustee meeting on an annual basis.

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	<ul style="list-style-type: none">• The Trustee receives information from the investment manager on their approach to engagement.• The Trustee receives information from their investment adviser about relevant matters.• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.• The manager's policies are not in line with the Trustee's policies in this area.

ESG summary and actions with the investment managers

ESG engagements with Legal and General Investment Management

LGIM actively engage on behalf of Buy and Maintain investors through their equity holdings hence, despite having no voting rights, the Trustee still benefits from this by being invested with LGIM. The use of active engagement enables LGIM to generate sustainable long-term returns for the Scheme. Furthermore, LGIM use climate pledges to improve the carbon footprint of the underlying businesses and reduce climate related risks to the Scheme. In January 2023 the Trustee invited LGIM to a Trustee meeting to present on and engage on ESG matters.

LGIM has incorporated green gilts into the LDI portfolio, which aligns with the client's general ESG beliefs. Also, they see potential for green gilts to generate suitable yields in comparison to non-green gilts within the fund.

Engagement

The table below outlines LGIM's approach to engagement in Buy and Maintain and LDI funds:

Fund name	Engagement summary	Commentary
LGIM Maturing Buy and Maintain Pooled Fund Range	<p>LGIM can provide engagement reporting at a Fund level. They can now also provide case studies of significant engagement, however, only at a firm-level. Isio will continue to engage with LGIM on the Trustee's behalf surrounding the firm's engagement reporting.</p>	<p>LGIM have firm wide stewardship priorities with a current priority on ethnic diversity, dual-class shares, and deforestation and emerging market diversity. All engagement themes are currently at a firm-level.</p>
	<p>Engagements (12 months to 30/09/2023)</p>	<p>Isio is working with LGIM to evolve engagement reporting, but fund level metrics are not currently available.</p>
	<p>Grand Total 636</p>	<p>LGIM 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.</p>
	<p>of which</p>	
	<p>Total Environmental 273</p>	
	<p>Total Social 135</p>	
<p>Total Governance 197</p>		
<p>Other 31</p>		
LGIM Enhanced Service LDI Funds	<p>LGIM have improved their engagement reporting capabilities and can now provide reporting at a fund level for LDI funds. However, LGIM are still working towards providing engagement case studies at a fund-level.</p>	<p>Examples of firm level engagements include:</p>
	<p>Engagements (12 months to 30/09/2022)</p>	<p>ExxonMobil: Currently, LGIM is signed up to the Climate Impact Pledge, which was one of the top concerns raised within the company. The company has successfully engaged with 80 companies to improve practices and disclosures following an increased global focus on climate change. A company they have engaged with is ExxonMobil, where LGIM identified issues concerning lack of Scope 3 emission disclosures</p>
	<p>Grand Total 24</p>	
	<p>of which</p>	
	<p>Total Environmental 18</p>	
	<p>Total Social 0</p>	
<p>Total Governance 6</p>		
<p>Other 0</p>		



and lack of comprehensive net zero commitment. Since 2021, LGIM have seen notable improvements such as better disclosure of Scope 3 emissions, and a 'net zero by 2050' commitment for Scopes 1 and 2 emissions, but ExxonMobil remains in their divestment list as there are still environmental concerns and lack of transparency.

Universal Health Services:

During the 2022 AGM season, LGIM took a strong position on the issue of board-level ethnic diversity. The firm voted against one company due to its lack of diversity but managed to resolve this issue effectively through further dialogue and engagement.
