



Merchant Investors Staff Pension Scheme Implementation Report

31 July 2024

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as the Environmental, Social and Governance ("ESG") based investing framework 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 Trustee 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: [MISPS-Statement-of-Investment-Principles-January-2024.pdf](#)

The Implementation Report details:

- Actions the Trustee has taken to manage financially material risks and implement the key policies in the 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.
- Voting activity of the fund managers with companies in the investment mandate. Please note, that given the Scheme is not invested in assets with voting rights, there is no voting data to report.

Summary of key actions undertaken over the Scheme reporting year

- Following the volatility seen in recent years, the Scheme has continued to efficiently meet collateral calls required by the LDI mandate with Legal and General Investment Management ("LGIM").
- Over the year, the Trustees reviewed the current Scheme strategy and agreed that an investment split of 65% Buy and Maintain Credit and 35% LDI remains appropriate.
- In November 2023 the Trustees decided to change to the Scheme's investment objective from Gilts + 1.1% to Gilts + 0.8%, following an update to the Scheme investment strategy.
- In January 2024, the Trustee considered the collateral adequacy policy of the Scheme. The Trustee updated the Statement of Investing Principles ("SIP") and the Investment Implementation Document ("IID") to reflect the updated collateral management arrangements and new investment objective.

- The Trustees also decided to implement a new LDI benchmark, targeting approximately 117% interest rate and inflation hedge on the Technical Provisions basis (which was an increase from the c.109% hedge ratio targeted over the year). The LDI benchmark was implemented post Scheme year-end.

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 broadly 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 Technical Provisions basis, whilst ensuring compliance with all regulatory guidance in relation to leverage and collateral management.	<p>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.</p> <p>The Trustee retains this policy while also deciding to maintain regulatory compliance regarding leverage and collateral management.</p> <p>Over the year, the Trustee reviewed the suitability of the current LDI benchmark and decided to implement a new benchmark post Scheme year end.</p>
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 meet regulatory guidance around providing 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 2024, there were a number of recapitalisation events that took place. However, these were comfortably managed within the LDI portfolio, and there remained a sufficient amount of headroom within the LDI portfolio to withstand volatile market movements throughout the year.</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>The Trustee views interest rate and inflation risks as unrewarded and hence has chosen to hedge some of these risks relative to the Technical Provisions basis.</p> <p>Additionally, LGIM leverages their expertise to diversify exposure within funds across various sub-sectors and countries.</p>
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.	<p>The Trustee has appointed LGIM as the Scheme's investment manager.</p> <p>LGIM typically invest in more defensive sectors, ensuring the Buy and Maintain funds remain robust to economic downturns.</p> <p>Additionally, the Trustee reviewed the existing investment strategy and concluded that it was comfortable with the current level of credit risk held within the Scheme's assets.</p>
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.	<p>To appoint an investment manager who satisfies the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 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 <p>The Trustee monitors the manager on an ongoing basis.</p>	<p>The Trustee undertook a Sustainable Integration Assessment in Q2 2024. The purpose of this assessment was to evaluate LGIM's approach to integrating ESG factors and suggest actions for improvement. The Scheme's investment advisor Isio then communicates these proposed actions to the Scheme's investment managers on the Trustee's behalf.</p>
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 has taken the decision to invest solely in GBP share classes, which do not require additional currency risk mitigation. Within the Funds, the Scheme's investment

			manager takes steps to mitigate currency risks.
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 November 2023, the Trustee updated the wording in the Scheme's SIP to reflect the updated collateral management policy arrangements. The Trustee has agreed on a process for meeting collateral calls when required by the Scheme's LDI investment manager. The Trustee will review and stress test this policy/framework on a regular basis. Further details on the collateral management policy/framework can be found in the Scheme's Investment Implementation Document ("IID").

In addition, the SIP and IID reflect the updated change to the investment objective, which has moved from Gilts + 1.1% p.a. to Gilts + 0.8% p.a., following the updated strategic allocations of 65% to Buy and Maintain Credit and 35% to LDI.

Further to the above, the Trustee has updated the SIP to amend the engagement policies with regards to implementation and frequency of engagement. There was also an update to the Interest rate and inflation policy and liquidity policy to align with the collateral management framework.

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

In Q2 2024, Isio conducted due diligence on the ESG processes of the Scheme's investment manager (LGIM), and the results were reported back to the Trustee in the form of a Sustainable Integration Assessment.

Given the report was issued close to the Scheme's year end, this statement will not include a progress update on the actions that were set. This will be covered in a future implementation statement.

Manager - Fund	Key Actions Identified	Progress of Actions
LGIM Maturing Buy and Maintain Pooled Fund Range	<p>LGIM should formally assess the effectiveness of green bonds.</p> <p>Increase engagement as a percentage of the portfolio, since this appears to be lower than peers.</p> <p>Look to include social metrics and engagement details in regular fund reporting.</p>	N/A - <i>To be reported in future implementation statements.</i>
LGIM Enhanced Service LDI Funds	<p>LGIM should introduce a formal ESG training program with defined training priorities.</p> <p>They should provide better incentives for investors to use the Active ESG tool towards maximising engagement thus improving outcomes.</p> <p>Finally, LGIM should aim to increase greenhouse gas (GHG) data coverage for holdings within the funds. This refers to the extent and comprehensiveness of data collected and reported on GHG emissions. Enhancing this coverage provides better data to inform strategic decisions with the aim of achieving reduced emissions and mitigating climate change.</p>	N/A - <i>To be reported in future implementation statements.</i>

Engagement

The table below outlines LGIM's approach to engagement in the 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 and case studies of significant engagement at a fund level.</p> <p>LGIM has revised its engagement reporting to now include active Fund Manager engagements in the statistics for their Buy and Maintain Pooled Fund ranges. Active Fund Manager engagements involve interactions and dialogues between Fund Managers and the companies they invest in, with the goal of influencing and enhancing corporate practices and policies. This differs from the engagements conducted by LGIM's Investment Stewardship team, which primarily focuses on broader governance and sustainability issues across the portfolio. This update, implemented from Q2 2024, has been a major factor in the increase in reported engagement figures, as shown below. Prior to this change, the statistics only included engagements by LGIM's Investment Stewardship team.</p> <p>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 focus on themes such as: climate, nature, people, health, governance and digitisation.</p> <p>LGIM have improved their engagement reporting and now reports engagement themes at a firm and fund level.</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>Examples of fund level engagement in the Buy and Maintain Funds include:</p> <p><u>United Utilities</u> In 2023, LGIM engaged with United Utilities on environmental and financial issues, including pollution, water security, and infrastructure investment. LGIM has joined a collaborative working group on concerns regarding the UK water system. This engagement has provided LGIM's investment and stewardship teams with valuable insights into the challenges facing the water sector and has helped form the basis of their expectations for the sector going</p>

	Engagements (12 months to 31/07/2024)		forward. LGIM plans to continue engaging with United Utilities and other stakeholders to address these challenges. LGIM aims to work with other stakeholders to help ensure the global water system becomes more resilient.
	Grand Total	1300	
	of which		
	Total Environmental	575	
	Total Social	193	
	Total Governance	356	
	Other	176	<u>Unilever</u>
LGIM Enhanced Service LDI Funds	LGIM can no longer provide reporting at a fund level for LDI funds, due to the short-term nature of these liquidity funds and the relatively high frequency of trading within the funds.		In 2023, LGIM continued to engage with Unilever on their targets related to the ShareAction Healthy Markets Initiative, a collaborative effort aimed at improving people's health by increasing access to affordable, healthy food. This engagement aimed to promote and support healthier consumer diets. LGIM also engaged with Unilever on other governance topics, including the living wage. These engagements have provided LGIM with valuable insights into the challenges facing the food and beverages sectors. They continue to work with stakeholders to promote healthier diets and address governance topics, aiming for long-term sustainability. LGIM plans to continue engaging with Unilever and other stakeholders to improve access to healthier, affordable products and accurate consumer information.

Voting

The Scheme is not invested in any assets that have voting rights.

