January 2026

www.isio.com

Merchant Investors Staff Pension Scheme Implementation Report

31 July 2025

Document classification: Public

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as the Environmental, Social and Governance (“ESG”) based investment 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

- In October 2024, the Trustee introduced a revised Liability Driven Investment ("LDI") benchmark to reflect updated cashflows following the 2023 actuarial valuation. As part of this change, the hedge ratio on both interest rates and inflation (on a Technical Provisions basis) was increased to 117%.
- In March 2025, the Trustee agreed to reduce the Buy and Maintain ("B&M") credit holding in favour of topping up LDI collateral and reducing the credit sensitivity in the portfolio. This involved disinvesting from the three longest-dated B&M funds and reinvesting the proceeds into gilts and index-linked bonds. The changes were completed in April 2025.

  As a result, the asset split as at 31 July 2025 was c.7% in L&G B&M Funds and c.93% in LDI Funds, compared to the 2024 strategic target of 35% and 65%, respectively. This shift reflects the Trustee’s decision to position the portfolio for an insurance buy-in during 2025.

- Post Scheme year-end the Trustee made a decision to complete an insurance buy-in with Just, insuring the majority of the Scheme's liabilities.

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.	As part of the Trustee's agreement, Legal and General Investment Management (L&G) managed the Scheme's interest rate and inflation hedge to a bespoke liability benchmark throughout the reporting year. The Trustee retains this policy while also deciding to maintain regulatory compliance regarding leverage and collateral management. Over the year, a new LDI benchmark was implemented. The Trustee agreed to target a 117% hedge on interest rates and inflation, on a Technical Provisions basis. This decision was made to better align the portfolio with purchasing a buy-in policy.
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.	The Scheme's investment strategy is designed to use capital from the shortest-dated B&M fund to meet member cashflows as they become due. Proceeds from the disinvestments from the three longest-dated B&M funds have been reinvested into highly liquid assets. An automatic instruction has been set up to meet LDI capital calls as and when required. Any recapitalisation events during 2025 were comfortably managed within the LDI portfolio, and sufficient headroom was

			maintained to withstand volatile market movements throughout the year.
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.	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. Additionally, L&G leverages their expertise to diversify exposure within funds across various sub-sectors and countries.
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 L&G as the Scheme's investment manager. L&G typically invest in more defensive sectors, ensuring the Buy and Maintain funds remain robust to economic downturns. Additionally, the Trustee reviewed the existing investment strategy and concluded that it would disinvest from the Scheme's three longest dated B&M funds due to their expensive value relative to other credit assets, therefore, reducing the Scheme's credit risk.
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 an investment manager who satisfies the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 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 manager on an ongoing basis.	The Trustee undertook a Sustainable Integration Assessment in Q2 2024. The purpose of this assessment was to evaluate L&G'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. In Q2 2025, Isio engaged with L&G and were provided progress updates on the suggested actions for improvement.

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

There have been no changes to the SIP over the period to 31 July 2025. Following the end of the reporting period, the Trustee made changes to the SIP to reflect the Scheme's purchase of a buy-in insurance policy in October 2025.

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 has reviewed the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose. The Trustee has invited 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	• 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.	• 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 (L&G), and the results were reported back to the Trustee in the form of a Sustainable Integration Assessment.

Isio engaged with L&G in Q2 2025 and were provided with a progress update on the actions that were set. The below table outlines the agreed-upon actions, and any progress made.

Manager - Fund	Key Actions Identified	Progress of Actions
L&G Maturing Buy and Maintain Pooled Fund Range	L&G should formally assess the effectiveness of green bonds. Increase engagement as a percentage of the portfolio, since this appears to be lower than peers. Look to include social metrics and engagement details in regular fund reporting.	L&G are currently in the process of refining their framework for sustainable debt, to better assess the effectiveness of green bonds. L&G have improved the accuracy of their engagement activities by having these conducted by two dedicated teams. They are still in the process of increasing engagement as a percentage of the portfolio. L&G reports in line with the ICSWG ESG metrics template, a standardised framework developed by the Investment Consultants Sustainability Working Group to enhance transparency and comparability of ESG reporting by asset managers. The template covers environmental, social, and governance factors, including social metrics such as diversity and labour standards.

L&G Enhanced Service LDI Funds	L&G should introduce a formal ESG training program with defined training priorities. They should provide better incentives for investors to use the Active ESG tool towards maximising engagement thus improving outcomes. Finally, L&G 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.	L&G regularly provides ESG training for all investment team members, including Portfolio Managers, on how to use the Active View tool and stay updated on new developments. The Active View tool is L&G's own platform that integrates ESG data and insights into investment decisions, helping teams assess risks and opportunities linked to environmental, social, and governance factors. The training sessions are recorded and made available to all investment team members. L&G also informally monitor the use of ESG tools to identify where additional support or guidance might be helpful.

Engagement

The table below outlines L&G's approach to engagement in the Buy and Maintain and LDI funds:

Fund name	Engagement summary	Commentary
L&G Maturing Buy and Maintain Pooled Fund Range*	L&G can provide engagement reporting and case studies of significant engagement at a fund level. Their engagement reporting statistics includes both active Fund Manager engagements, involving interactions and dialogues between Fund Managers and the companies they invest in, and engagements conducted by L&G's Investment Stewardship team. Any variations in the annual engagement figures for the Funds reflect normal, minor fluctuations, which is to be expected. Isio will continue to engage with L&G on the Trustee's behalf surrounding the firm's engagement reporting. **Engagements (12 months to 31/07/2025)** Grand Total 807 of which Total Environmental 495 Total Social 98 Total Governance 128 Other 86	L&G have firm wide stewardship priorities with a current focus on themes such as: climate, nature, people, health, governance and digitisation. Engagement themes are reported at a firm and fund level. L&G also 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. Examples of fund level engagement in the Buy and Maintain Funds include: <u>PepsiCo</u> In 2024, L&G engaged with PepsiCo, focusing on their approach to plastics and sustainable packaging. L&G's objective is for PepsiCo to transition away from fossil-fuel-based plastics, support the Global Plastics Treaty, and avoid negative lobbying on related regulations. L&G co-led discussions with PepsiCo on their plans to scale reuse models, increase recycled content, and reduce non-recycled plastics. While PepsiCo reports on sustainability initiatives, L&G believes a more detailed assessment would benefit both the company and its investors. These engagements
L&G Enhanced Service LDI Funds	L&G can no longer provide reporting at a fund level for LDI funds, due to the relatively	

	high frequency of trading within the funds.	have provided valuable insights into the challenges of reducing plastic waste and protecting nature. L&G considers progress ongoing and will continue working with PepsiCo and other stakeholders to encourage sustainable practices and long-term resilience. <u>Walmart</u> In 2024, L&G continued its engagement with Walmart on living wage policies, advocating for fair pay across its operations and supply chains. The engagement focused on encouraging Walmart to adopt a clear, time-bound policy to ensure all employees earn a living wage and to extend this commitment to Tier 1 suppliers (those that supply goods or services directly to Walmart) and ideally Tier 2 suppliers (those that provide goods or services to Walmart's Tier 1 suppliers). These engagements have provided Walmart employees with greater opportunities to enhance their skills and increase their earnings. L&G believes the company can still do more to meet expectations under the living wage campaign, so will continue to work collaboratively and individually with Walmart, as well as other stakeholders, to promote decent work, reduce poverty, and drive long-term sustainability.

*The Scheme disinvested from the L&G Maturing B&M Credit 2040–2054, 2035–2039, and 2030–2034 funds (the three longest dated B&M funds) on 24 April 2025. However, the engagement data is reported up to 31 July 2025, as L&G was unable to provide data as of the disinvestment date.

Voting

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