



Merchant Investors Staff Pension Scheme Implementation Report

31 July 2022

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: [statement-of-investment-principles-04102022.pdf \(isio.com\)](#)

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 discussed investment matters at two Trustee meetings during the year.

During the meeting on 1 September 2021, the Trustee invited LGIM to provide an update on the Scheme's investment strategy. As well as this, the Trustee also took this opportunity to engage with LGIM on their ESG policies.

On the 24 March 2022 Isio presented their annual investment performance report and the Trustee also engaged with the Scheme's new sponsor.

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 2022 government bond yields rose materially. LGIM automatically recapitalised the Scheme's LDI funds on behalf of the Trustee. This happened several times and allowed the Scheme to maintain its interest rate and inflation hedge in line with target.</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.	<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>
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 managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion:</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 managers on an ongoing basis.</p>	During the meeting on 1 September 2021 the Trustee invited LGIM to present on their Environmental, Social and Governance policies.
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.	The Trustee invests solely in GBP share classes. No changes were made to this policy over the reporting period.

Changes to the SIP

There have been no changes to the SIP over the accounting year. Shortly after the year end the Trustee updated the Scheme's SIP as part of their 3 year annual review and also to include additional policies with regards to Stewardship.

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">• 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• The Trustee receives information from the investment manager on their approach to engagement.• When attending Trustee meetings, Legal and General are asked to present to the Trustee on actions they have taken in respect of ESG factors	<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

The Trustee invited Legal and General to present at the Trustee meeting on 1 September 2021. As part of their presentation, the Trustee asked LGIM to provide further details on their ESG policies and approaches.

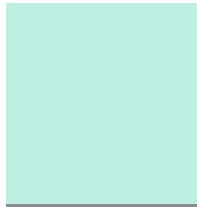
In particular, the Trustee discussed how LGIM integrate ESG considerations into the Buy and Maintain Portfolio. LGIM actively engage on behalf of Buy and Maintain investors through their equity holdings hence, despite having no voting rights, Trustees still benefit from this by being invested with LGIM. 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.

With regards to the LDI portfolio, the Trustee discussed green gilts and whether they would be used in LGIM's LDI portfolios. At the time of discussion LGIM were waiting to see what the yield on the bonds would be compared with non-green gilts before introducing them to their funds. LGIM have discretion to hold green gilts in the Scheme's portfolio if they think they're appropriate given the client's objectives.

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	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.	LGIM have firm wide stewardship priorities with a current priority on ethnic diversity, human rights, and good health & wellbeing. All engagement themes are currently at a firm-level.
	Engagements (12 months to 30/09/2022)	Isio is working with LGIM to evolve engagement reporting, but fund level metrics are not currently available.
	Grand Total	482
	of which	
	Total Environmental	160
	Total Social	104
LGIM Enhanced Service LDI Funds	Total Governance	199
	Other	19
	LGIM have improved their engagement reporting capabilities and can now provide reporting at a fund level for LDI funds. Although, LGIM are still working towards providing engagement case studies at a fund-level.	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.
	Engagements (12 months to 30/09/2022)	Examples of firm level engagements include:
	Grand Total	26
	of which	
	Total Environmental	13
	Total Social	2
	Total Governance	10
	Other	1
		Currently, LGIM is signed up to the Access to Nutrition initiative, tackling undernutrition. LGIM have presented in the Investor Pledge at the Nutrition for Growth Summit. They now actively work with 20 global food and beverage companies covered by the ATNI's Global index.
		LGIM announced their



minimum expectations for ethnic diversity. 51/79 companies they have engaged with since 2020 have added at least one ethnically diverse director.

