James Fisher & Sons plc Pension Fund for Shore Staff Implementation Report

July 2021

isio.

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)

Over the 12-month period to 31 July 2021, the Scheme has updated its SIP 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/james-fisher-sons-plc-pension-fund-statement-of-investment-principle/

Changes to the SIP are detailed on the following pages.

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 Trustees have 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 Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- Voting behaviour covering the reporting year up to 31 July 2021 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key strategic actions undertaken over the Scheme reporting year

- Over the course of the year, the Scheme moved to a new investment strategy, disinvesting from its dual-purpose LDI holdings with ASI ILPS and BMO and consolidating them into a single standalone LDI mandate with Insight.

- The Scheme also fully disinvested from the PIMCO PARS III and ASI GARS Funds and reinvested the proceeds into an asset-backed securities ("ABS") mandate with Insight. The Scheme also committed to a £5.0m investment to illiquid credit via the Partners Group MAC VI Fund, of which c.£1.5m was drawn down as at 31 July 2021.

Implementation Statement

This report demonstrates that James Fisher and Sons plc Pension Fund for Shore Staff has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed: Jon Vick

Position: Trustee

Date: 28 February 2022

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	The Trustees aim to hedge these risks directly where appropriate and affordable.	The Scheme has a target hedge ratio of 100% of Technical Provision liabilities to protect its funding level against interest rate and inflation risk. The Scheme's LDI mandate was reviewed over the 12-month period to 31 July 2021 as part of the consolidation exercise. The Scheme disinvested from its holdings with ASI and BMO and invested in a single standalone LDI mandate with Insight to ensure that the 100% target hedge was maintained.
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).	Over the 12 months since 31 July 2020, the Scheme entered into a new investment in Insight's Global ABS Fund which will be the first port of call for liquidity purposes such as capital calls and ongoing cashflow requirements. The Trustees also agreed to commit £5.0m to a new illiquid investment in Partners Group's MAC VI Fund. The Trustees are comfortable that there is sufficient liquidity in the strategy overall accounting for this allocation.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable.	The Trustees aim to diversify the Scheme's holdings across sectors and asset classes and are satisfied the strategy remains suitably diversified.

			Over the reporting period the Scheme has been meeting capital calls in relation to the £5.0m commitment to the Partners Group Multi Asset Credit VI Fund to maintain a new strategic benchmark allocation, as specified in the 2021 Statement of Investment Principles.
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.	The Scheme invests in a range of credit funds diversified across geographies and sectors. The new £5.0m commitment to the Partners Group Multi Asset Credit VI Fund has increased overall credit diversification through its exposure to private credit.
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 of the following: 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 Trustees monitor the managers on an ongoing basis.	ESG actions undertaken: • This updated ESG policy was reviewed by the Trustees as part of the SIP in February 2021. • In future the Trustees will consider obtaining Impact Assessments, which are formal summaries of each investment manager's approach to and capabilities within ESG. More details of the ESG policy and how it was implemented are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To largely invest in GBP share classes where possible to eliminate direct currency risk. To largely invest with managers that hedge exposure to foreign currency risk in underlying holdings, except where active currency positions are held.	The Scheme invests in GBP share classes to avoid direct foreign currency exposure. Currency risk arising from the underlying holdings in pooled investment vehicles is typically hedged at the fund level.

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 Trustees 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	• 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 • The Trustees are provided with a report detailing the managers' ESG policies as well as a summary of actions Isio has engaged with managers on to ensure the scheme is not exposed to risks relating to Environmental, Social or Governance factors.	• The manager has not acted in accordance with their policies and frameworks. • An investment manager's policy is not in line with the Trustees' policy in this area, whether in its current form or revised.

Example areas of assessment and ESG beliefs

The table below outlines example areas on which the Scheme's investment managers could be assessed when evaluating their ESG policies and engagements.

Risk Management	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 Trustees believe that ESG integration leads to better risk-adjusted outcomes.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor.
Voting & Engagement	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 Trustees believe 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 Trustees want to understand the impact of voting and engagement activity within their investment mandates.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	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.

Engagement

As the Scheme invests via pooled funds managed by external fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 July 2021. Please see below for a summary relating to the Funds the Plan had exposure to over this period.

Fund name	Engagement summary	Commentary
Insight – Enhanced Selection LDI Funds	Total Engagements: 16 Social: 1 Governance: 15	The mandate only invests in UK government bonds and derivatives (such as swaps) to obtain hedging exposure. As such engagement rights with the underlying issuer (i.e. the UK government) are limited. Instead, Insight's engagement focuses on liaising with counterparties/suppliers of leverage, and wider LDI market issues. When identifying material ESG risks, Insight engage with relevant companies and other issuers to understand the issues and exert influence on behalf of clients to encourage change. Some issues are too big to tackle alone, in which case they may collaborate with other stakeholders. An example of significant engagement is: **HM Treasury -** On 22 November 2018, the HM Treasury introduced draft legislation, the Financial Services Bill, that would allow the UK to domesticate changes brought under EU law by the European Market Infrastructure Regulation (EMIR) REFIT should it be agreed by the EU in the two years after exit day in a 'no-deal' scenario. EMIR Refit ensures that certain pension scheme arrangements are temporarily exempt from the clearing obligation until 18 June 2021 in respect of Over The Counter derivative transactions that are measurable as reducing investment risks that directly relate to the financial solvency of the pension schemes. Following the end of the Brexit transition period, UK pension schemes were technically not able to benefit from the temporary clearing exemption under EMIR when transacting with European Economic Area entities. Once the transition period ended, the temporary exemption of certain pension scheme arrangements from the clearing obligation became part of UK retained law. Insight engaged with the UK HM Treasury on ensuring that the UK on-shored EMIR and EMIR Refit rules achieved the following:

		• Ensured UK pension funds are correctly defined and exempted in the UK • Ensured they go beyond EU EMIR by recognising some third-country pension schemes, namely EU pension schemes (which become third-country pension schemes post-Brexit). This ensures that trades with UK banks and EU pension schemes can remain exempt post-Brexit too • UK pension fund clearing exemption was more flexible than in EU EMIR, in that it went outright to June 2023 and has the possibility of the UK HM Treasury to keep extending it indefinitely, should it wish to do so.
Insight Asset-Backed Securities Fund	Total engagements: 178 (equivalent to 9% of issuers and 24% of total exposure). Insight did not provide the split across the three categories; Environmental, Social and Governance. Please note that the above uses data for the 12 months prior to 30 June 2021 as it is the latest available to the reporting date of 31 July 2021.	Examples of significant engagements include: Insight engage with issuers when underwriting deals. These engagement activities are consistent with the firm's stewardship and ESG policies. Insight have provided the below example of engagement with an originator of some of the asset backed security structures that they invest in. **RMBS La Trobe** – Insight believe that RMB La Trobe, an issuer of ABS securities in the Fund, have strong governance and social scores, but they had some questions regarding the provision of information on environmental risks. Insight engaged with the issuer to obtain information on environmental metrics and stress tests and to incorporate climate change factors into their origination process. Post-engagement, the Insight still believe some areas can be improved on the origination and servicing side. These include the way origination teams are compensated and the setting of fee incentives for the services collection process. Insight would also like to see the complaints independently reviewed away from the service function.
M&G Alpha Opportunities Fund	Total Engagements: 14 Environmental: 5 Governance: 8 Social: 1	M&G keep regular contact with the management teams of the companies within their portfolio. Given the fund invests in debt and debt-like assets however, M&G will typically rely on the equity sponsor to report ESG concerns and push ESG improvements. **BP plc** – M&G engaged with BP to seek publication of an enhanced carbon data and emission disclosure given that M&G, as an investor, has committed to Net Zero by 2050. M&G wished to encourage BP to include itself on the CDP portal used to monitor and track climate performance of investments, in the hope that this would aid with M&G's Net Zero goals. M&G met with BP's investor relations manager to outline their position and BP stated that their goals were to be recognised as an industry leader in transparency and reporting. BP's belief was that they had already made good progress in the area however subsequently to the meeting with M&G, BP informed CDP of its intentions to respond to the 2021 climate questionnaire.

The Partners Fund	Total engagements: 10 Environmental & Governance: 8 Social & Governance: 2 Please note that the above uses data for the 12 months prior to 30 June 2021 as it is the latest available to the reporting date of 31 July 2021.	To assist with the engagement with the private companies in which they invest, Partners Group aim to have a seat on the advisory board of each company and formulate a dialogue with management to monitor investment decisions. Partners Group as a Firm held 350 advisory board seats as at the end of 2019 across all private market investments. The portfolio invests exclusively in private assets but utilises both equity and debt investments within its strategy. Engagement rights are typically stronger for the equity positions due to their associated ownership rights, but we note positively the use of board positions to improve engagement in debt positions. In private equity investments, Partners Group can typically exert greater influence over the board than public equity managers can as a smaller investor in much larger public corporations. **Techem** – As mentioned above Partners Group aim to have a seat on the advisory board as this allows for meaningful change. Following engagement from the board, Techem initiated a new sustainability program across the company in 2020. As a part of this program, a new hire was made specifically for sustainability communication. The starting point of the program was to engage with key stakeholders within and outside the organization with the end goal to define priority topics. These topics will form the basis for Techem's sustainability management, which the company will start to report on as of 2021.
Partners Group Multi Asset Credit VI Fund	Partners Group have notified us that they haven't yet produced an engagement report for MAC VI as it was only launched in October 2020. However, Partners Group have advised that they will be able to provide this data going forward.	Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group aim to have a seat on the advisory board to enhance engagement capabilities beyond that of a typical debt investor and formulate a dialogue with portfolio companies to monitor investment decisions. As part of the multi asset credit ESG efforts, Partners will collect further ESG key performance indicators ("KPIs") as of 2022 (34 KPIs in total). These ESG KPIs cover material ESG factors such as carbon emissions, board diversity, or cybersecurity measures. This will allow Partners Group to identify ESG risks at an earlier stage. Partners Group have begun originating sustainability-linked loans, which include ESG 'ratchets', whereby the interest rate paid by the borrower is linked to performance relative to key pre-defined ESG-related KPIs. Partners Group have completed three ESG-linked unitranche deals with ESG margin ratchets. These ratchets mean that certain ESG KPIs are included in the covenants and are tested every quarter, helping to reduce risk by aligning the interests of the manager and portfolio company.

Voting (for equity/multi asset funds only)

As the Scheme invests via pooled funds managed by external fund managers, the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 July 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
The Partners Fund	Meetings voted: 69 Votes cast: 759 Votes 'for' management: 707 Votes 'against' management: 52 Vote 'abstain': 43	Partners Group were unable to provide meaningful voting examples for The Partners Fund.	Partners Group's voting rights are a particularly useful tool for managing ESG risks within their private equity holdings, whereas their debt positions do not carry any voting rights and are more reliant on any engagement rights Partners Group can establish. As mentioned above for engagement, as a larger shareholder in smaller private companies, Partners Group's vote carries more weight and can drive more action than other managers can in larger public corporations.

**Figures may not sum to the exact total number of votes cast due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.*