# E.H. Booth & Co. Limited Pension & Assurance Scheme

July 2022

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# 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)

The Scheme updated its SIP in September 2020 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 www.booths.co.uk/wp-content/uploads/EH-Booth-SIP-2020-with-date.pdf.

### 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 their 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 5 April 2022 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

## Summary of key actions undertaken over the Scheme reporting year

- In January 2022, Trustees agreed to roll forward the c.$8.8m uncalled capital commitment from the Scheme's holding in the Apollo Accord IV Fund into the new vintage of the Accord Fund V

- A further c.£2.5m was drawn down into the Partners Group MAC VI mandate as at 5 April 2022. The Scheme's holding has now called c.66% of the total £7m of committed capital.

- The Partners Group MAC 2016 mandate distributed a total of c.£1.7m over the 12 months to 5 April 2022.

- Insight called additional capital of c.£1.7m and c.£2.4m in November 2021 and March 2022 respectively into the LDI funds due to a rise in gilt yields. The capital was sourced from the Insight ABS mandate.

## Implementation Statement

This report demonstrates that the E.H. Booth & Co. Limited Pension & Assurance 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

The Trustees have identified the following risks that it has considered in the Scheme's SIP. These risks and the Trustees' policies are set out in the tables below. The key actions the Trustees have taken over the accounting year to address some of these risks have been highlighted below.

| Risk / Policy | Definition | Policy | Actions |
|---|---|---|---|
| **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 above 90% of these risks on a Self-Sufficiency basis. | No actions to report – the Scheme continues to maintain high levels of interest rate and inflation hedging. |
| **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 provide collateral to the LDI manager. | No actions to report – the Scheme maintains a sufficient allocation to daily traded assets to meet cashflow needs. |
| **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. | No actions to report |
| **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.<br><br>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. | No actions to report – the Scheme's credit mandates are diversified by sector, location, and sub asset class. |
| **Environmental, Social and Governance** | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the | To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each of the criteria: | No actions to report |

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| | performance of the Scheme's investments. | 1. Responsible Investment ('RI') Policy / Framework<br>2. Implemented via Investment Process<br>3. A track record of using engagement and any voting rights to manage ESG factors<br>4. ESG specific reporting<br>5. UN PRI Signatory<br>The Trustees monitor the managers on an ongoing basis. | |
| **Currency** | The potential for adverse currency movements to have an impact on the Scheme's investments. | Hedge currency risk where appropriate on all assets that deliver a return through contractual income. | No actions to report – all mandates are GDP denominated with the exception of the Apollo Accord mandate. The majority of currency exposure is therefore hedged by the managers. |
| **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 or realisation of investments. | No actions to report. |

# 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 the Trustee's investment adviser'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 | • The Trustees' investment managers provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.<br>• The Trustees receive information from their investment advisers on the investment managers' approaches to engagement. | • The manager has not acted in accordance with their policies and frameworks.<br>• The manager's policies are not in line with the Trustees' policies in this area. |

| Areas of assessment and ESG beliefs | |
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| 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 Trustees.<br>2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy. |
| Approach / Framework | 3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities.<br>4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors.<br>5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets. |
| 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.<br>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.<br>8. The Trustees want to understand the impact of voting & 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.<br>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.<br>12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues. |

# Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 5 April 2022. Some managers may note a smaller number of engagements over the period due to the nature of the fund(s). For example, private market investments (such as Apollo) encourage continuous engagement throughout the holding period. Please note that not all categories sum to the number of total engagements, as some engagements covered more than one ESG area.

| Fund name | Engagement summary | Commentary and sample of engagement activity |
|---|---|---|
| **Apollo Accord Fund IV & V** | Total engagements: 2<br><br>Governance: 2 | **Hertz Corporation** - Apollo's approach to engagement is incorporated in its Responsible Investing and ESG policy, with the policy focusing three principles of responsible investing and good stewardship that are built in its investment processes: Integration, Engagement and Transparency. Over the reporting period, Apollo engaged with the Hertz Corporation, discussing various governance topics such as board effectiveness, specifically its independence and oversight of company operations. Apollo also engaged with Hertz regarding aspects of the company's strategy, purpose, and financial performance reporting.<br><br>Apollo will continue to engage with Hertz and follow up in due course. |
| **Insight, LDI** | Total engagements: 24<br><br>Insight did not provide the split across the three categories; Environmental, Social and Governance. | We note that Insight's ability to influence ESG factors in relation to LDI is limited as an investor, but we are comforted by Insight's commitment to ESG through their business level ESG priorities while also being a signatory of UNPRI and Institutional Investors Group on Climate Change. |
| **Insight, Asset-Backed Securities Fund** | Total engagements: 50<br><br>Insight did not provide the split across the three categories; Environmental, Social and Governance. | **Together Financial Services ("Together")** – Insight's team met with senior management to discuss their responses to their proprietary ESG questionnaire. The two areas of weakness where Insight focused discussions were environmental and social impact.<br><br>Regarding environmental, the senior management had not developed a framework for monitoring risks or |

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| | | stress testing the business for future risks. Together also did not incorporate any climate risks on their loans beyond standard business practices. As with most originators carbon data and environmental metrics were limited or absent.<br><br>Regarding social impact, Insight would like to see Together doing more on ensuring borrowers have flexible terms with a change in circumstances and the policies regarding 3rd party servicers being better governed with complaints independently evaluated.<br><br>Overall, Insight continues to consider Together as a well-manged business from an ESG perspective, and will continue to review their practices, following up with an subsequent issuer reviews to monitor progress. |
| **M&G, Alpha Opportunities Fund** | Total Engagements: 22<br><br>Environmental: 18<br><br>Social: 1<br><br>Governance: 3 | **Arqiva Broadcast Finance Plc -** M&G engaged with the company to push for an increase in disclosure and encourage the setting of relevant ESG targets that were not in place.<br><br>M&G contacted company's management to outline the manager's expectation for disclosure and targeting setting but at this time no ESG documentation has been produced. Arqiva are working to share this documentation by the end of 2022.<br><br>M&G are currently awaiting a response to queries surrounding various items where there was no disclosure. M&G will continue to engage with Arqiva and follow up in due course. |
| **M&G, European Loan Fund** | Total Engagements: 16<br><br>M&G did not provide the split across the three categories; Environmental, Social and Governance. | **Arrow Global** – Arrow is a European investor and asset manager in the non-performing and non-core assets sector.<br><br>M&G engaged with Arrow, to encourage the company to continue its ESG work following being taken private. The focus on the work was to improve disclosure on the treatment of customers, including greater granularity across its countries of operation. M&G also requested the company provide improved and consistent disclosure relative to the collections performance and of the underlying borrowers. M&G also highlighted a need to improve the company's ESG external rating as well as M&G's interval view.<br><br>Arrow noted the request for great disclosure regarding the treatment of customers, including by geography, as well as disclosure regarding collections performance borrowers, the company is in discussions as to what can be provided dependant on commercial sensitives and availability of relevant data. |

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| | | As the company is now private, it no longer needs to provide a renumeration report however M&G highlighted that not producing this report is considered a negative from a governance perspective. After M&G's engagement, Arrow representatives have continued discussions internally, M&G will continue to monitor the company and would require further evidence to change their current view on the company's ESG efforts. |
| **Partners Group, The Partners Fund**[1] | Given Partners Group often have control of the board of some of their underlying holdings, they are unable to confirm the exact number of engagements. We are working with members of their working group to see how private markets information can best be captured in the future. | **Techem Metering GmbH** – Partners Group worked with Techem to complete a climate related engagement with an external advisor, where a detailed greenhouse gas inventory was established including Scope 1, Scope 2, as well as material Scope 3 emissions. Initial carbon reduction opportunities were identified, and the analysis formed the basis for the development of Techem's carbon neutrality target.<br><br>After completing a detailed materiality assessment, Techem published its first Corporate Sustainability Report in June 2021, which highlighted key ESG achievements and a detailed sustainability roadmap for the company that included the development of a carbon neutrality target by 2022 and to increase the number of women in management from 17% in 2020 to 35% in 2025. |
| **Partners Group Multi Asset Credit Fund 2016**[1] | Total engagements: 4<br><br>Governance: 4 | **Cote Bistro** – After financial difficulties arose for the company in 2020 and subsequent restructuring of the business, Partner's Group gained 100% equity ownership in Cote. Four months after complete closure, restaurants reopened in May 2021. Partners Group have been encouraged by initial trading and sales on a like-for-like basis have exceed pre-pandemic levels. The company has seen an increase in average spend per head, which has offset a decline in covers against 2019 levels.<br>Partners Group continue to engage with company and monitor its recovery progress post-restructuring. |
| **Partners Group Multi Asset Credit VI**[1] | Total engagements: 4<br><br>Governance: 4 | **Ligentia** – Partners Group discussed the potential for add-on acquisition to the existing holding in Ligentia. The company described the strategic rationale for the add-on acquisition under the consideration that incremental from Partners Group would be required. Partners Group are currently the sole lender to the company, as such discussions continue on the feasibility of further investment and the manager continues to evaluate appetite to providing add-on financing. |

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| **Schroder Life Diversified Growth Fund** | Total engagements: 2468<br><br>Schroders did not provide the split across the three categories; Environmental, Social and Governance. | **Bank of America** – Schroders engaged with Bank of America regarding their disclosure of climate data metrics. Schroders asked the bank to develop interim milestones, and science-based targets relating to their published Paris commitment, alongside transparency over the methodology used to measure these. Schroders also asked the bank to provide supplementary metrics that would support the manager's analysis of the banking sector, specifically in relation to Scope 3 Category 15 emissions relating to its financing activities. Furthermore, the manager would like to see Bank of America disclose further information in relative to the engagements they have with their highest-risk clients on the climate transition in the banking side of their business, such as, the number engaged, the success rates, case studies, and consideration of setting climate related targets and or goals for banking clients.<br><br>Since Schroders engagement, the company has published 2030 interim operational targets, at present there are no science-based or specific targets for high-risk sectors in place however the company has confirmed they have plans to develop these in future. The company has also committed to disclosing its financed emissions no later than 2023. Regarding banking client engagement, the company has said they engage with clients in high-risk sectors on net zero however Schroders would like to see an increased level of detail surrounding this topic to consider the objective achieved, as such they will continue to engage with the company to achieve this. |

1 Partners Group provide ESG related data semi-annually, so the information shown covers 12 months to 31 December 2021.

# Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 5 April 2022. The managers also provided examples of any significant votes.

| Fund name | Voting summary | Examples of significant votes | Commentary |
|---|---|---|---|
| **Partners Group Partners Fund**[1] | Proposals eligible to vote on: 811<br><br>Proposals voted: 744<br><br>Voted with management: 674<br><br>Voted against management: 40<br><br>Abstained from voting: 30 | Examples of significant engagements include:<br><br>**VSB Renewables Platform:** As Partners Group control the board, the vote direction was not applicable.<br>VSB initiated the "VSB Goes Green Initiative" which included several ESG projects aimed at deepening the alignment of business unit and employees with the climate friendly nature of the company. VSB completed a detailed assessment of its IT and cyber security setup across offices with an external consultant and intend to make the necessary improvements that arose from this engagement.<br><br>**Vishal Mega Mart:** As Partners Group control the board the vote direction was not applicable.<br>Vishal established a whistle blower policy that enabled complaints from counterparties can be reported directly to the board, to be follows by internal investigations. Vishal completed a discreet review of its top 15 suppliers regarding child labour, working conditions, and safety protocols. No adverse findings were made. Vishal will continue to audit three or four supplier per quarter over the coming quarters. | Partners Group use the Glass Lewis proxy advisory services with a bespoke proxy voting directive. If there is difference in recommendation between Glass Lewis, the Proxy Voting Directive, and company's management, votes are submitted on a manual basis.<br><br>- 92% of votes were enacted by the proxy agent were in line with the recommendation. |

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| **Schroder Life Diversified Growth Fund** | Proposals eligible to vote on: 1680<br><br>Proposals voted: 1609<br><br>Voted for: 1504<br><br>Voted against: 91<br><br>Abstained from voting: 1 | **Booking Holdings Inc.**<br><br>Proposal: Report on Annual Climate Transition<br><br>The company was being asked to issue an annual climate transition report.<br><br>Schroders voted for the proposal, despite the management voting against the proposal as Schroder are keen for the company to further develop its approach to climate governance, strategy, risk management, reporting and target-setting. | At Schroders, voting and engagement activity is managed centrally by a 'Sustainable Investment Team'.<br><br>Schroders were able to evidence several voting and engagement examples within underlying funds that are consistent with their overarching ESG policy.<br><br>Outcomes for portfolio companies of underlying funds are set at the beginning of each engagement and are measured and monitored over time. |

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