

Red Funnel Staff Pension Scheme

Statement of Investment Principles - Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustee's Statement of Investment Principles ('SIP') dated March 2023 have been implemented.

It also includes the Trustee's voting and engagement policies, as well as details of any review of the SIP during the year, and subsequent changes made with the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustee, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 February 2022 to 31 January 2023.

Investment Objectives of the Scheme

The objectives of the Red Funnel Staff Pension Scheme ('the Scheme') are set out on page 3 of the SIP and are summarised below.

Funding Objective

The primary funding objective of the Scheme is to ensure, as far as possible, that there are sufficient assets to provide benefits to the Scheme members as and when these fall due.

Investment Objectives

The Trustee's high level objectives with regard to investing the Scheme assets are to:

- achieve a return which is sufficient, over the longer term, to meet the Funding Objective
- adopt an approach that recognises the need to balance risk with the achievement of a satisfactory investment return.

Review of the SIP

The SIP was last reviewed in March 2023 to reflect updates to the strategic asset allocation.

The Trustee has a policy on financially material considerations relating to ESG issues, including the risk associated with the impact of climate change. In addition, the Trustee has a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out later in this Statement, and are detailed in the Trustee's SIP.

The Trustee's policies on financially and non-financially material considerations, as well as engagement and voting activities, were not updated in the SIP in force during the year.

Investment managers and funds in use

The investment funds used for the Scheme are set out below.

Asset Class	Fund
Global equities	LGIM World Equity Index Fund
Diversified growth funds	Baillie Gifford Diversified Growth Fund BNY Mellon Real Return Fund
Multi asset credit funds	Vontobel TwentyFour Strategic Income Fund
Property funds	ML Property Fund
Investment grade corporate bonds	ML All Stocks UK Corporate Bond Fund
Government bonds	LGIM Over 5 Year Index-Linked Gilts Index Fund
Liability driven investment	CT Equity-Linked Real LDI Fund CT Nominal Dynamic LDI Fund

Investment Governance

The Trustee is responsible for making investment decisions, and seek advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustee's investment consultant.

The Trustee does not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP as the Scheme is comprised of a diverse membership, which the Trustee expects to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

The Trustee has put in place strategic objectives for Broadstone, as the Trustee's investment consultant, as required by Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations. These strategic objectives cover demonstration of adding value, delivery of specialist investment consultancy services, proactivity of investment consultancy advice, scheme management, compliance and service standards. The strategic objectives were put in place in December 2019, and these were reviewed in February 2023.

In addition, the Trustee regularly reviews its advisers (including Broadstone as its investment consultant). The last review was undertaken in December 2022.

Trustee's Policies

The table below sets out how, and the extent to which, the relevant policies in the Scheme's SIP have been followed:

Requirement	Policy	Implementation of Policy
Financially and Non-Financially Material Considerations	<p>The Trustee believes that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustee expects its investment managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee assesses the ESG integration capability of the investment managers.</p> <p>Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustee expects its investment managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and ethical views) in relation to the selection, retention and realisation of investments.</p>	No deviation from this policy over the year to 31 January 2023.
Voting Rights and Engagement	<p>The Trustee believes that, in order to protect and enhance the value of the investments during the time horizon over which benefits are paid, it must act as a responsible asset owner. The Trustee expects its investment managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this timeframe. On an ongoing basis, the Trustee assesses the stewardship and engagement activity of its investment managers.</p>	No deviation from this policy over the year to 31 January 2023.

Financially and non-financially material considerations

The Trustee notes that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

This position is monitored periodically. As part of the monitoring process, the Trustee has access to updates on governance and engagement activities by the investment managers, and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustee acknowledges that it is delegating the consideration of financially material factors in relation to determining the underlying holdings to its investment managers given they are investing in comingled arrangements.

The Trustee invests across a range of asset classes and styles. The Trustee expects the investment managers to take into account ESG considerations by engaging with the underlying companies and, where relevant, by exercising voting rights on these companies.

The Trustee's views on how ESG issues are taken account of in each asset class used is set out below.

Asset Class	Active/Passive	Trustee's views
Global equities	Passive	The Trustee acknowledges that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if it has concerns relating to ESG. The Trustee does expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
Diversified growth funds and multi asset credit funds	Active	The Trustee expects the investment managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use their discretion to generate higher risk-adjusted returns. The Trustee also expects its investment managers to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.
Property	Active	The Trustee acknowledges that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if it has concerns relating to ESG. The Trustee does expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
Investment grade corporate bonds	Active	The Trustee expects the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustee also expects its investment manager to engage with investee companies, where possible, although it appreciates that fixed income assets do not typically attract voting rights.
Government bonds	Passive	The Trustee believes that there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.
Equity-Linked Liability Driven Investments (LDI)	Active	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, however there is also a growth overlay of passive equities which are invested in line with specific indices. Therefore, the Trustee believes there is less scope for the consideration of ESG issues but does expect the investment manager to take into account ESG considerations by engaging with companies that form the index.

Commented [A1]: There are two DGF investment managers, hence plural.

Voting rights and engagement activities

The Trustee currently invests in pooled investment funds with the investment managers, and it acknowledges that this limits its ability to directly influence each investment manager. In particular, all voting activities have been delegated to the investment managers, as the Trustee does not have the administrative mechanism to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

Within the current investment arrangements, the equity and multi-asset funds contain publicly-listed equity holdings. These funds have voting rights attaching to these underlying equities, and the Trustee has delegated these voting rights to the investment managers, where they set their own voting policy. A summary of the votes from 1 January to 31 December 2022 on behalf of the Trustee for each fund currently used by the Scheme is provided in the table below.

Manager	Fund	Approx % of Scheme Assets	Resolutions Voted On	Resolutions Voted:		
				For	Against	Abstained
LGIM	World Equity Index Fund	14.6%	1,627	87%	8%	5%
Baillie Gifford	Diversified Growth Fund	5.6%	1,039	96%	3%	1%
BNY Mellon	Real Return Fund	5.6%	1,287	89%	11%	0%

All the Scheme's assets are invested in pooled funds. Information regarding proxy voting is detailed below:

- LGIM utilises ISS's voting platform to electronically vote shares, but it will apply its own internal policy rather than relying on the recommendations of ISS.
- Baillie Gifford is cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis) but client voting decisions are made in-house and in line with Baillie Gifford's in-house policy.
- BNY Mellon (Newton) uses ISS for the purposes of managing upcoming meetings and instructing voting decisions via its electronic platform, but will apply its own voting guidelines.

Significant votes

The Trustee has requested details of the significant votes made on behalf of the Trustee by each manager of a fund in which the Scheme invests which has voting rights. In determining significant votes, each manager's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at the manager's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;

The Trustee believes the following are the most significant votes undertaken on their behalf over the Scheme year:

SIGNIFICANT VOTE	
Investment Manager	LGIM
Company	Amazon.com, Inc.
Date of vote	25 May 2022
% of portfolio invested in firm	c. 1.83% of LGIM World Equity Index Fund at date of vote
Resolution	Elect Director Daniel P. Huttenlocher
Why significant	Human rights: A vote against was applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.

Voting decision	VOTED AGAINST MANAGEMENT
Manager comments	LGIM pre-declared its voting intention for this resolution, demonstrating its significance
Vote outcome	The proposal was passed by 93% of shareholders

SIGNIFICANT VOTE	
Investment Manager	Baillie Gifford
Company	Lyft, Inc.
Date of vote	16 June 2022
% of portfolio invested in firm	c. 0.93% of Baillie Gifford Diversified Growth Fund at date of vote
Resolution	Shareholder resolution requesting further reporting on lobbying activities
Why significant	<i>This resolution is significant because it was submitted by shareholders and received greater than 20% support.</i>
Voting decision	VOTED FOR
Manager comments	<i>Ahead of the vote, Baillie Gifford did not inform the company of its intention to vote against the resolution.</i>
Vote outcome	The proposal failed.

SIGNIFICANT VOTE	
Investment Manager	BNY Mellon
Company	Universal Music Group
Date of vote	12 May 2022
% of portfolio invested in firm	c. 0.64% of Real Return Fund invested in company at date of vote
Resolution	Advisory vote to ratify named Executive Officers' compensation
Why significant	The vote provides an example of where a majority of the company's minority shareholders disagreed with a company's pay practices
Voting decision	VOTED AGAINST MANAGEMENT
Manager comments	<i>Ahead of the vote, Newton did not inform the company of its intention to vote against the resolution.</i>

Vote outcome	The proposal was carried by 21.0% of shareholders
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Engagement activities

The Trustee has also delegated engagement activities to LGIM, Baillie Gifford and BNY Mellon. The notable engagement activities of these investment managers are provided below:

- **LGIM**, in collaboration with ShareAction, engaged with Sainsbury's in relation to scrutiny over their decision to pay a real living wage to all employees, except those in outer London. LGIM joined ShareAction in filing a shareholder resolution asking the company to become a living wage accredited employer. Since filing the shareholder resolution, Sainsbury's has made three further pay increases to its directly employed workers, harmonising inner and outer London pay and is now paying the real living wage to its employees, as well as extending free food to workers well into 2023.
- **Baillie Gifford** engaged with biotechnology company Genus to discuss the company's decarbonisation strategy. Given the material emissions of the global farming industry and the associated risk that this poses to the company, Baillie Gifford encouraged the company to invest in decarbonisation initiatives. When speaking to the company again in September 2022, Genus advised that it had had partnered with a satellite monitoring company to track GHG emissions from its nucleus farms, and was piloting other decarbonisation projects.
- **BNY Mellon** (Newton) engaged with Unilever in relation to health in collaboration with the Healthy Markets initiative. The engagement focused on the impact of an activist investor joining the company's board on the company's strategy around ESG and nutrition. The general takeaway was that the investor's presence would not change the strategy, and that nutrition remains a priority and has been elevated within the company's ESG and sustainability strategy.

Signatories to the UNPRI (United Nations Principles for Responsible Investment) will receive an overall 'score' which represents how well ESG metrics are incorporated into managers' investment processes. Investment managers will submit a transparency report on their processes across different categories which is then assessed by the UNPRI and graded in a formal report. Scores are presented in performance bands ranging from 'A+' to 'E'. The latest UNPRI scores of the investment managers are outlined in the table below.

Manager	UNPRI Score
LGIM	A+
Baillie Gifford	A+
BNY Mellon	A+

The Trustee also considers the investment managers' policies on stewardship and engagement when selecting and reviewing investment managers.

Monitoring of Investment Arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustee receives quarterly performance reports from Broadstone to ensure the investment objectives set out in its SIP are being met.

Signed:

Date:

On behalf of the Trustee of the Red Funnel Staff Pension Scheme