



House of Fraser Beatties and Jenners Pension Scheme Implementation Report

March 2021

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 to 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 [Member Updates - House of Fraser Pensions \(hofpensions.co.uk\)](#). 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 Trustee has 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 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 they invest
- voting behaviour covering the reporting year up to 31 December 2020 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 Scheme's reporting year

- The Scheme is in the Pension Protection Fund assessment period and looking to move towards an insurance transaction (or similar) in 2021.
- As a result, the Scheme completely redeemed its investments from the LGIM Long Lease Property Fund and Blackstone Partner OS Master ICAV Fund over 2020 and implemented Buy and Mandate Credit mandates with LGIM for both sections of the Scheme.

Implementation Statement

This report demonstrates that House of Fraser Beatties and Jenners Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Managing risks and policy actions House of Fraser Beatties and Jenners Pension Scheme

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's assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 116% of liabilities for the HoF Section and 100% of liabilities for the BJRB Section, both on the PPF basis.	HoF Section's interest rate and inflation hedging is currently on the old technical provisions basis with the hedging levels of 100%.
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. Account is also taken of the potential need for the portfolios to be fully liquid as part of a move towards an insurance transaction.	There have been no changes to the policy over the reporting 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.	There have been no changes to the policy over the reporting year.
Credit	Default on payments due as part of a financial security contract.	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.	There have been no changes to the policy over the reporting year.
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 criterion: <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 	Further details are provided later in this report.

4. ESG specific reporting

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 on expected cash proceeds in foreign currency.	The Trustees refined the USD currency hedge position with LGIM to protect the USD denominated cash proceeds from the sale of Scheme's illiquid assets.
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.	

Changes to the SIP

Policies added to the SIP

Date updated: September 2020

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

- As the Scheme is invested in pooled funds for growth assets, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

- The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

- The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.
 - For closed-ended funds or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee objectives and Scheme's liquidity requirements.
 - For open ended funds, the duration is flexible, and the Trustee will from time-to-time consider the appropriateness of

these investments and whether they should continue to be held.

Implementing the 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, 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 engagement activity.

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	<ul style="list-style-type: none">The Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis.	<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 policies of the Trustee in this area.

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 adopted Isio's standard ESG beliefs, shown below:

Areas of assessment and ESG Beliefs

Risk Management	<ol style="list-style-type: none"> 1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none"> 3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none"> 6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore, the Trustee will receive training as required to develop their knowledge. 8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none"> 9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none"> 11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

Engagement HoF Section

As the HoF Section invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 December 2020.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements:28 Engagement with corporate entities: 28	<p>Apollo have a clear due diligence and engagement framework. The team continually engages with portfolio companies through discussion with management, and these engagements have been a key driver for the production of formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.</p> <p>Examples of significant engagements include:</p> <p>Clearway Energy - Apollo met with the firm's CEO and CFO to discuss the efficiency of the company's existing renewable wind farms, as well as the acquisition of new renewable wind and solar powered projects. Following this engagement, the company intend to invest at least \$300m in new renewable energy projects during 2020.</p> <p>Gannett Co. Inc. At the board meeting, Apollo discussed the firm's transition to digital subscribers to reduce newsprint usage. Following the engagement, Garnett has set a one million digital subscriber target by the end of 2020. The firm's response to COVID-19 and the protection of employees through the provision of PPE was also discussed as part of the engagement.</p>
Blackstone Partners Offshore Sterling Fund Ltd	No data available.	Due to the fund of funds structure of this fund, the asset manager does not undertake any engagement activity. The HoF Section has disinvested from the fund on 31 December 2020.
LGIM Segregated LDI Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	LGIM engage with regulators, governments, and other industry participants to address long-term structural issues.

LGIM Segregated Buy & Maintain Credit Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	LGIM is very much aware of ESG issues, and how the long-term impact of ESG themes may affect the cash flow visibility of a company and have taken actions to integrate these themes within their investment process. However, there is a lack of fund-specific information with respect to engagement and reporting with stewardship driven at the firm level.
LGIM Managed Property Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	LGIM have a strong and integrated ESG approach for pooled funds which follows a robust framework. At firm level, LGIM have a strong history of active engagement, on ESG related topics. At a real assets business level, LGIM believe that sustainable investments are crucial to provide resilient long-term investment returns.
LGIM LPI Income property Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	<p>LGIM have a strong and integrated ESG approach for pooled funds which follows a robust framework. At firm level, LGIM have a strong history of active engagement, on ESG related topics. At a real assets business level, LGIM believe that sustainable investments are crucial to provide resilient long-term investment returns.</p> <p>The HoF Section disinvested from the fund on 10 November 2020.</p>
M&G Secured Property Income Fund	No data available.	M&G have an established Responsible Investment framework and carry out extensive ESG analysis as part of their due diligence. SPIF has a strong history of active engagement and collaboration on ESG related topics.
Morgan Stanley AIP Phoenix Global Real Estate Secondaries Fund	No data available.	<p>The fund invests in closed-ended private equity funds that acquire real estate, and Morgan Stanley do not engage on ESG related issues.</p> <p>Morgan Stanley noted that all underlying real estate investments in the Fund have now been exited and the Fund is in the liquidation process.</p>
PIMCO GIS Diversified Income Fund	No data available.	<p>PIMCO look to engage with corporates wherever they think they can make positive impact. They have a systematic and regular approach to the engagement process, whereby ESG issues, actions and engagement outcomes are documented and tracked by analysts.</p> <p>Where ESG-related engagement occurs for an investment within the fund, it is the responsibility of the credit analyst overseeing the issuer/sector, with support from dedicated ESG integration and engagement analysts who work within the credit research team.</p> <p>Examples of significant engagements include:</p>

		<p>Aercap Holding – PIMCO’s engagement specialist and credit team met with the CFO and Treasurer of AerCap to learn more about the company’s ESG performance as Aercap didn’t use to publish a sustainability report. Following the engagement, the company’s management agreed to move towards sustainability reporting.</p> <p>Sumitomo Mitsui – PIMCO engaged with the company on their lending policy, as this could be improved along ESG lines. The company’s green bond reporting was not fully aligned with industry best practices. Subsequently, the company published a sustainability report and initiated further green bond issuance.</p>
<p>PIMCO GIS UK Corporate Bond Fund</p>	<p>No data available.</p>	<p>PIMCO look to engage with corporates, wherever they think they can make positive impact. They have a systematic and regular approach to the engagement process, whereby ESG issues, actions and engagement outcomes are documented and tracked by analysts.</p> <p>Examples of significant engagements include:</p> <p>Lloyds Banking Group – PIMCO has engaged with the company on various issues including climate risk assessment and Paris alignment, which lead to an update on PIMCO’s ESG view for Lloyds. PIMCO aims to have follow up discussions on these areas moving forward</p>
<p>Threadneedle TPEN Property Fund</p>	<p>No data available.</p>	<p>Columbia Threadneedle integrate ESG factors into their investment process and have an established dedicated RI team.</p> <p>The Fund has a strong history of active engagement and collaboration on ESG related topics and is looking to improve the extent and depth of its reporting on these issues</p> <p>Examples of significant engagements include:</p> <p>Harold Wood Industrial Estate, Romford – Threadneedle refurbished an industrial warehouse to a lettable state while improving the EPC rating from E to B. Some examples on how this was achieved include using LED lights, electric panels and removal of gas supplies.</p> <p>Wellington, Wimbledon –. The refurbishment process improved the EPC rating from E to B, and the reduction of parking spaces aimed to reduce the carbon emission associated with car usage in Wimbledon town centre. Threadneedle co-operated closely with the local community to understand their concerns and ensured construction traffic was reduced as much as possible</p>

Engagement BRJB Section

As the BRJB Section invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 December 2020.

Fund name	Engagement summary	Commentary
Schroders Life Diversified Growth Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	Schroders are a large asset owner with a well-resourced ESG team. At firm level, they appear to have strong ESG-credentials and are actively involved in a wide range of key organisations. In line with peers, ESG risks are taken into account at multiple stages, however clear links to voting and engagement activity are difficult to quantify, as are exposure to ESG risks due to a lack of Fund-level reporting.
State Street MPF Strategic Diversified Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	No data available.
LGIM LDI Funds	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	LGIM engage with regulators, governments, and other industry participants to address long-term structural issues.
LGIM CAAG -Buy & Maintain Credit Fund	We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	LGIM is very much aware of ESG issues, and how the long-term impact of ESG themes may affect the cash flow visibility of a company and have taken actions to integrate these themes within their investment process. However, there is a lack of fund-specific information with respect to engagement and reporting with stewardship driven at the firm level.

Voting (for equity/multi asset funds only)

As the BRJB Section invests via multi asset fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Schroders Schroders Life Diversified Growth Fund	-	-	The manager was unable to provide data in a processable format.
State Street MPF Strategic Diversified Fund	-	-	The manager was unable to provide data in a processable format.

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