



House of Fraser Beatties and Jenners Pension Scheme Implementation Report

March 2022

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 \(hofpensions.co.uk\)](https://www.hofpensions.co.uk/Member-Updates-House-of-Fraser-Pensions). 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 2022.
- As a result, the Scheme completely redeemed its investments from the Apollo Total Return Fund and PIMCO holdings throughout the year.

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: 1. Responsible Investment ('RI') Policy / Framework	Further details are provided later in this report.

		<p>2. Implemented via Investment Process</p> <p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>The Trustees monitor the managers on an ongoing basis.</p>	
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.	There have been no changes to the policy over the reporting year.
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.	There have been no changes to the policy over the reporting year.

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.	<ul style="list-style-type: none">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.	<ul style="list-style-type: none">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.	<ul style="list-style-type: none">The Trustee reviews the performance of all 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.	<ul style="list-style-type: none">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	<ul style="list-style-type: none">The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.<ul style="list-style-type: none">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 2021.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements:43 Engagement with corporate entities: 43	<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>The HoF Section has disinvested from the fund in December 2021 with the proceeds due to settle in January 2022.</p> <p>Example of significant engagements include:</p> <p>Adani Ports and Special Economic Zone Limited- Apollo engaged with the company on steps taken to improve ESG - investment in Myanmar, exposure to Coal, governance, appointment of new CFO. As a result the company announced its exit from Myanmar, provided information to Apollo on trajectory of coal through its ports over the next 10 years, confirmed that no investments into Carmichael mine would be made from Adani Ports and constituted a Corporate Responsibility Committee comprising Independent Directors to provide assurance for all ESG commitments</p> <p>Bank Hapoalim B.M.- Apollo met with senior management over the course of a new issue roadshow. Apollo encouraged additional public progress updates on improvements in Anti -Money Laundering checks following the 2020 fine for FIFA money laundering. The management reiterated changes made following the FIFA scandal and agreed to 1x1 calls to provide updates on progress.</p>

<p>LGIM Segregated LDI Fund</p>	<p>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>	<p>LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement.</p> <p>LGIM integrates ESG factors in their processes by using proprietary tools to quantify and monitor ESG risk.</p> <p>LGIM have shown that they are improving their reporting processes, with ESG LDI and Derivatives reports available on an ad hoc basis which include engagement summaries.</p>
<p>LGIM Segregated Buy & Maintain Credit Fund</p>	<p>Number of Entities Engaged: 71</p> <p>Number of Engagements: 114</p>	<p>LGIM have a clear firmwide ESG policy which includes priority ESG objectives focusing on climate change, diversity and inclusion, and corporate governance. This policy is applied to all fixed income strategies.</p> <p>Engagement with companies is done at a firm wide level rather than on a fund basis. This is spearheaded by the central Investment Stewardship Team. We believe that this is a sensible approach as it helps leverage on the size of total holdings to help drive change on any ESG issues.</p>
<p>LGIM Managed Property Fund</p>	<p>Number of Entities Engaged: 13</p> <p>Number of Engagements: 28</p>	<p>LGIM Investment Management Real Assets ("LGIMRA") has an established framework to monitor ESG and Climate Change issues and has a dedicated ESG team.</p> <p>LGIMRA have introduced an added level of ESG monitoring, analysis and reporting through their partnership with Evora, a specialist supplier in this area. Evora provide LGIM's specialist ESG data platform and carry out data collection, analysis and reporting on energy, greenhouse gas emissions, water and waste. Using this platform, Evora provide quarterly analysis at asset and fund level and provide LGIM's annual reporting data for their annual report and TCFD, as well as data inputs into LGIM's annual GRESB submissions. EPC ratings are shared upon request and will soon make up part of the Fund's quarterly updates.</p>
<p>M&G Secured Property Income Fund</p>	<p>Number of Entities Engaged: 12</p> <p>Number of Engagements: 12</p>	<p>M&G have an established Responsible Property Investment framework which govern ESG integration into the fund. Extensive ESG analysis is carried out as part of their due diligence process. SPIF has a strong history of active engagement and collaboration on ESG related topics.</p> <p>M&G engage regularly with tenants to promote ESG initiatives. Although engaging can be difficult due to the nature of the long leases, M&G have seen improved tenant engagement leading to almost two-thirds of the portfolio having positive tenant engagement.</p> <p>Examples of significant engagements include:</p> <p>Premier Inn – M&G engaged with this corporate tenant to establish and progress discussions to include wider ESG topics, following receipt of</p>

		energy data for the first time this year. Premier Inn shared their energy data for 2020.
PIMCO GIS Diversified Income Fund	No data available.	The HoF Section has disinvested from the fund in May 2021.
PIMCO GIS UK Corporate Bond Fund	No data available.	The HoF Section has disinvested from the fund in October 2021.
Threadneedle TPEN 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.	Threadneedle incorporate ESG factors into their investment process thoroughly with quantitative objectives, effective engagement with tenants, while also collaborating with other market participants and the wider community. Examples of significant engagements include: 8 Park Row , Leeds – Threadneedle refurbished a vacant city centre office to a lettable state while substantially improving the EPC rating from D to B. Some examples on how this was achieved include using LED lighting, upgraded thermal performance to roof and installing new high efficiency heating/cooling.

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 2021.

Fund name	Engagement summary	Commentary
Schroders Life Diversified Growth Fund	Number of Entities Engaged: >400 Number of Engagements: >800	Schroders applies a firmwide ESG policy, which filters through to asset class teams. Sustainable investment team 'accredit' a fund as sustainable or not and continue to review on an annual basis, ensuring the ESG policy of the firm is followed.
State Street MPF Strategic Diversified Fund	We requested this data from the manager however currently they cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	The success of State Street's engagement strategy is built on their ability to prioritize and allocate resources to companies and issues that have the greatest potential impact on shareholder returns. They endeavour to build geographic diversity into their engagement activities to reflect their economic exposure to global markets.
LGIM LDI Funds	We requested this data from the manager however currently they cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.	LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. LGIM integrates ESG factors in their processes by using proprietary tools to quantify and monitor ESG risk. LGIM have shown that they are improving their reporting processes, with ESG LDI and Derivatives reports available on an ad hoc basis which include engagement summaries.
LGIM CAAG -Buy & Maintain Credit Fund	Number of Entities Engaged: 95 Number of Engagements: 178	LGIM have a clear firmwide ESG policy which includes priority ESG objectives focusing on climate change, diversity and inclusion, and corporate governance. This policy is applied to all fixed income strategies. Engagement with companies is done at a firm wide level rather than on a fund basis. This is spearheaded by the central Investment Stewardship Team. We believe that this is a sensible approach as it helps leverage on the size of total holdings to help drive change on any ESG issues.

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 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Commentary
Schroders Schroders Life Diversified Growth Fund	<p>The manager was unable to provide data in a processable format.</p>	<p>As active owners, Schroders recognises their responsibility to make considered use of voting rights. Schroders, therefore, vote on all resolutions at all AGMs/EGMs globally unless they are restricted from doing so (e.g. as a result of share blocking).</p> <p>The overriding principle governing Schroder's voting is to act in the best interests of their clients. Where proposals are not consistent with the interests of shareholders, Schroders are not afraid to vote against resolutions. They may abstain where mitigating circumstances apply, for example where a company has taken steps to address shareholder issues.</p> <p>In 2020, Schroders Voted on approximately 99% of total resolutions, and instructed a vote against management at 36% of meetings. In total, they voted on 6,518 meetings.</p>
State Street MPF Strategic Diversified Fund	<p>Votable proposals: 61,568</p> <p>Proposals voted: 60,977</p> <p>For votes: 53,921</p> <p>Against votes: 7,487</p> <p>Abstain votes: 973</p>	<p>All State Street's voting decisions are exercised in accordance with their in-house guidelines or specific client instructions. The manager has established robust controls and auditing procedures to ensure that votes cast are executed in accordance with their instructions. Transparency on these key issues is vital. With regards to this, State Street publish a record of their global voting activity on the Asset Stewardship section of their website.</p>

