



# Loomis UK Limited Pension Scheme Implementation Report

August 2023

# Background and Implementation Statement

## Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

## Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address

<https://www.loomis.co.uk/images/pension/Loomis-SIP.pdf> . Changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Scheme 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 Scheme 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 in the investment mandate.

Please note that the Scheme's year end date is 5 April 2023 however for the purpose of this document, the reporting period used is the 12 months to 31 March 2023.

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

- A decision was made to target buy-out whereby all members' benefits would ultimately be insured. As a result, the target hedging basis has changed to 95% of estimated buy-out liabilities. The Trustee is in the process of implementing this post year end.
- The Scheme has received a number of distributions from the Private Market Credit mandate as the fund remains in its wind-down stage. These proceeds have been used for ongoing Scheme cashflow purposes (pensioner payroll etc).
- The Scheme rebalanced its ABS allocation back to target in November 2022 and therefore transferred £14m from the Aegon mandate to the Insight LDI. This provided additional liquidity to the portfolio in what was a volatile period for markets during the gilt crisis in Q3/Q4.

#### Implementation Statement

This report demonstrates that the Loomis UK Limited Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change over the 12 months to 31 March 2023.

**This statement was approved by Jo Myerson and Andrew Bradshaw on behalf of Ross Trustees Services Limited (Part of the Independent Governance Group), as the Trustee of the Loomis UK Limited Pension Scheme on 22 August 2023**

# Managing risks and policy actions DB

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 c.95% of these risks on an estimated buy out basis of the liabilities.	The Trustee changed the Scheme's hedge target to an estimated buy-out basis.
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.	<p>Following the liquidity crisis in gilt markets in Q3/Q4 2022, the flexibility of the LDI mandate allowed the Scheme to navigate through this with limited impact.</p> <p>The Scheme topped up the LDI allocation in November to bring it in line with its target of 55%.</p> <p>Proceeds received from the private market credit are used for cashflow purposes which improves liquidity.</p>
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.	The Trustee changed the Scheme's interest rate and inflation hedge target to 95% of estimated buy-out liabilities.
Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>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.</p>	The Scheme rebalanced its ABS allocation back to target by selling c.£14m from the Aegon mandate in November.

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.	<p>The Trustee will undertake an impact assessment in relation to ESG risks ahead of the appointment of a new manager and/or fund.</p> <p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI signatory</li> <li>6. UK Stewardship Code signatory</li> </ol> <p>The Trustee will monitor the managers on an ongoing basis.</p>	Further details provided later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge currency risk on assets, where it is appropriate to do so, and does not materially impact the views of the managers.	No actions to report.
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.

# Changes to the SIP

The Trustee updated the Scheme's SIP in early 2023 to reflect the change to the hedging target i.e. to hedge c.95% of interest rates and inflation expectations on an estimated buy out basis of the liabilities. The Trustees also included the following policies in relation to stewardship responsibilities.

## Policies added to the SIP

Date updated: 2023

Voting Policy - How the Trustees expect investment managers to vote on their behalf

The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.

The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Example stewardship activities that the Trustee has considered are listed below.

- Selecting and appointing asset and fiduciary managers – the Trustee will consider potential managers' stewardship policies and activities
- Asset manager engagement and monitoring – on an annual basis, the Trustee assesses the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustee's investment decision making
- Collaborative investor initiatives – the Trustee will consider joining/supporting collaborative investor initiatives

# 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 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 Trustee intends 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	<ul style="list-style-type: none"><li>• The Trustee's investment managers provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li><li>• The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.</li><li>• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.</li></ul>	<ul style="list-style-type: none"><li>• The manager has not acted in accordance with their policies and frameworks.</li></ul>

Areas of assessment and ESG beliefs

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



# ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
Partners Group ("PG") Multi Asset Credit	The Isio ESG rating for PG has been downgraded from 'Meets Criteria' to 'Partially Meets Criteria'. While PG have demonstrated growth within their ESG team and practices, they are lagging compared to peers across a number of areas, primarily reporting. PG should consider the below proposed actions in order to improve their ESG score.	<p>Identify Fund Level ESG targets.</p> <p>Provide a Diversity Report and improve diversity reporting metrics.</p> <p>Adopt engagement targets and include engagement information in quarterly reporting.</p> <p>Report on TFCF Climate Change Metrics and incorporate ESG metrics into quarterly reports.</p>	<p>PG aimed to improve diversity reporting beginning Q1 2023. Progress of this will be assessed following engagements with the manager.</p> <p>PG expect to begin reporting on TCFD metrics by June 2023.</p>
Aegon European ABS	Aegon have detailed Responsible Investment and Stewardship policies that are applied to the Fund. These are used to enhance the ESG credentials of the assets through both exclusions and by raising the average ESG rating. The Responsible Investment team works with Portfolio Managers on engagement but does not feed into the investment decision process. Aegon have made progress on engaging with issuers and have developed ESG reporting for the Fund, which will become more comprehensive over time.	<p>Develop Climate and Social objectives for the Fund.</p> <p>Develop ESG risk management, particularly in the area of Social factors. Model Implied Temperature Rise for the portfolio and develop climate scenario analysis.</p> <p>Improve collaboration with other investment managers and regulators on ESG issues, particularly on social issues.</p>	Following engagement with the manager, Aegon have established stewardship priorities for the Fund and developed their ESG reporting to include a breakdown of ratings of issuers.
Insight Global ABS	Insight have shown a good level of engagement and data collection from the originators, however there is still a clear lack of data collection quality, which is common in the ABS market. Insight has improved their risk management with the introduction of the 'ESG	<p>Continue to engage with originators to improve the quality of ESG data collection.</p> <p>Develop a quantitative scorecard for originators. Publish the Stewardship policy.</p>	Insight are in the process of updating their stewardship policy. We expect this to be published online in due course.

	<p>Academy' that provides firm-wide compulsory training on ESG matters on an ongoing basis.</p>	<p>Include engagement metrics in their ESG reporting.</p>	
<p>Insight LDI</p>	<p>Insight have demonstrated a comprehensive selection and monitoring process for assessing ESG risks in counterparties.</p> <p>Insight have made improvements to their counterparty engagement process with the aim of achieving a greater level of impact in their engagements with counterparties.</p>	<p>Consider developing internal diversity targets, focussed not just on gender but also race.</p> <p>Consider greater emphasis on diversity and inclusion issues in assessing companies / counterparties.</p> <p>Consider key KPIs and milestones for engagement.</p> <p>Consider the inclusion of an engagement summary in regular reporting.</p>	<p>Goals have been developed to address gender imbalance and racial disparity. Stated aim of goal is for offices to be as diverse as the communities they are situated in. Insight continues to progress this workstream, with policies and targets in place around gender and ethnic diversity across teams.</p> <p>Insight are continuing efforts to evolve engagement reporting in order to produce a disclosable narrative. Insight anticipates this will be available in regular reporting into 2023.</p>

# 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-month period to the end of March 2023.

Fund name	Engagement summary	Commentary
Partners Group Multi Asset Credit	<p>Total engagements: N/A,</p> <p>Partners Group were unable to disclose the number of engagements for the reporting period</p>	<p>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.</p> <p>Partners Group were unable to provide meaningful examples of ESG related engagements during the period.</p>
Aegon European ABS	<p>Total Engagements: 113</p> <p>Please note Aegon were not able to provide a breakdown of engagements into environmental, social and governance categories.</p>	<p>Aegon have shown good commitment to ESG integration and have adequate risk management controls in place.</p> <p>While more can be done to improve data collection and setting specific quantifiable ESG targets, we do acknowledge the difficulties doing so in the ABS space. ABS tends to lag other public credit strategies due to its securitised nature, which provides access to hundreds of underlying borrowers per deal and has fewer engagement rights as a result.</p> <p>Examples of a significant engagement includes:</p> <p>RMBS &amp; Consumer ABS Issuers – During engagements with originators, Aegon express their preference for financing products which contribute to a better ‘green’ or ‘social’ environment. These products are incentive-based, encouraging people to buy energy-efficient properties, or making their current property more energy efficient. The incentive could be a favourable interest rate on residential mortgages for the financing of or improvement of energy-efficient properties. Or in a case of consumer loans by offering the borrowers a discount if the loan purpose has an environmental impact.</p> <p>Aegon begin with sending the ABS issuer their ESG questionnaire specific for the ABS sector. After receiving the answers, they have several meetings with senior management members to discuss the answers to the questionnaire, their ESG goals and areas in which they</p>

		<p>would like to see improvement/development or more ESG awareness.</p> <p>Following these engagements, Aegon have received positive feedback on the ideas and over the last year they have seen the number of originators offering these mortgages and consumer loans grow substantially. Aegon believe that as a large investor in ABS, their influence has helped to drive the growth in ESG-friendly mortgage products.</p>
Insight Global ABS	<p>Total engagements: 50</p> <p>Please note Insight were not able to provide a breakdown of engagements into environmental, social and governance categories for this Fund.</p>	<p>Insight have shown a strong level of engagement on ESG and have adequate risk management controls in place.</p> <p>However, integrating ESG considerations within ABS is more challenging than other fixed income strategies, with data collection a common issue across the ABS market.</p> <p>Examples of significant engagements include:</p> <p>Pepper (non-bank lender) – Further to the engagement Insight had with Pepper on environmental risk management during the previous reporting period, Insight engaged on ESG considerations in their loan origination and underwriting process. The issuer had not previously included ESG as part of their loan origination process, so Insight decided to engage with them on this topic. Insight engaged with Pepper in the form of a meeting to raise the issue and determine their level of engagement as the first step towards better disclosures to enable Insight’s ESG analytics to be conducted more thoroughly.</p> <p>Following the engagement, Pepper confirmed that ESG considerations were not a significant part of their loan origination and underwriting processes. However, Pepper agreed that disclosures needed to be improved and would be looking to improve a number of ESG metrics in their annual reports.</p> <p>European Data Warehouse (EDW) – Insight engaged with EDW on the topic of data provision and reporting of market level ESG data. Improving data availability and comparability across the market is an important step in enhancing ESG analysis and reporting for Insight. As such, the key reason for this engagement was the collection and provision of sufficient ESG data to enable consistent ESG analytics. Insight expects this to be a multi-year ongoing engagement as they suggested the introduction of a data aggregation tool to pool information on public deals, such as energy performance certificate (EPC) ratings, across a residential collateral pool.</p> <p>EDW were receptive to the engagement and have prepared reports to engage on EPC scores and map ESG ratings across geographies. Additionally, follow up meetings have been scheduled in order to determine how data provision could be improved to meet Insight’s needs.</p>
Insight LDI	<p>Total engagements: 37*</p> <p>Environmental: 22</p> <p>Social:26</p>	<p>Insight has demonstrated a comprehensive selection and monitoring process for assessing ESG risks in counterparties.</p> <p>Example of a significant engagement includes:</p>



## Governance: 15

\*Environmental, Social and Governance engagements do not sum to total engagements due to some engagements overlapping into several categories.

UBS – Insight held a dedicated ESG meeting surrounding the topic of UBS’s governance and board effectiveness. UBS has experienced various governance-related controversies. Insight discussed these and asked about the controls in place to avoid a repeat of these in the future. Additionally, Insight challenged UBS on their gender diversity performance at the management level. Since then, UBS have released targets to have 30% of management to be women.

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