



Engineering Employers' Federation Staff Pension Fund ("the Fund")

July 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 schemes to detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles

In response to the DWP regulation, the Fund updated its SIP to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments
- policies in relation to investment management arrangements

The SIP can be found online at the web address, <https://www.makeuk.org/-/media/governance-docs/statement-of-investment-principles.pdf>

Further detail on the changes made to the SIP can be found on page 6.

Implementation Report

This implementation report provides evidence that the Fund 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 the Fund's investment managers and in turn the engagement activity of the managers with the companies they invest in
- voting behaviour covering the reporting year up to 31 March 2021 for and on behalf of the Fund including the most significant votes cast by the Fund or on its behalf

Summary of key actions undertaken over the Fund's reporting year

- The majority of the Fund's new investment strategy has now been implemented except for Alcentra Direct Lending, which has called c.80% of committed capital as at 31 March 2021
- The Trustee issued an instruction to fully redeem the Fund's allocation to the Schroders Diversified Growth Mandate. The proceeds from this were used to fund in part the Fund's commitment to JP Morgan. The remainder of the call was funded using the LGIM Absolute Return Bond mandate.
- The Trustee also instructed full redemption of the Fund's holdings to ASI GARS and the BlackRock Property mandate – proceeds from this were also used to meet capital calls from the Fund's Direct Lending mandates.

Implementation Statement

This report demonstrates that the Engineering Employers' Federation Staff Pension Fund 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

The Trustee has included a non-exhaustive list of risks and financially material considerations it has considered whilst implementing the Fund's investment strategy.

On this page we will look at the risks outlined in the Fund's SIP, the Trustee's policy and any actions in the accounting year taken to address those risks.

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Investment	The risk that the Fund's position deteriorates due to the assets underperforming.	<p>Selecting an investment objective that is achievable and is consistent with the Fund's funding basis and the sponsoring company's covenant strength.</p> <p>Investing in a diversified portfolio of assets.</p>	<p>The Trustee receives quarterly investment reports from its investment advisor.</p> <p>As part of these reports the funding level is monitored, as well as the risk of the Fund's investment strategy at each quarter end.</p>
Funding	The extent to which there are insufficient Fund assets available to cover ongoing and future liability cash flows.	<p>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</p> <p>The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.</p>	<p>In September 2020 the Trustee considered how the Fund's investment strategy will evolve as the Fund reaches its long-term objective.</p> <p>This fed into a more detailed journey planning discussion in February 2021 where de-risking options were considered as part of the upcoming actuarial valuation.</p>
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Fund.	When developing the Fund's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Fund is exposed to is at an appropriate level for the covenant to support.	No action over the period.

Interest rates and inflation	The risk of mismatch between the value of the Fund's assets and present value of its liabilities due to changes in interest rates and inflation expectations.	To broadly fully hedge these risks on the Technical Provisions basis through the LDI mandate.	No action over the period.
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 and synthetic equity manager.	The Trustee improved the liquidity of the Fund by switching the allocation to Absolute Return Bonds from weekly to daily dealing. The Fund's allocation to Semi-Liquid Credit completed its soft lock-in period in August 2020 and is now able to be redeemed on a quarterly basis.
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 made full redemptions from the Aberdeen Standard Investments and Schroders Diversified Growth Funds over the period and invested the proceeds into more contractual asset classes.
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.	No action over the period.
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 Fund's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 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 4. ESG specific reporting 5. UN PRI Signatory	No action over the period.
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	To invest in funds that hedge the majority of currency risk as far as practically possible.	The Trustee chose to commit capital to the GBP Shareclass of JP Morgan's Infrastructure Equity Fund, and this

			commitment was drawn in October 2020.
Non-financial	Any factor that is not expected to have a financial impact on the Fund's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No action over the period.

Changes to the SIP

The Trustee updated the Scheme's SIP on 21 September 2020 to include the following:

- The Trustee's policies in relation to investment management arrangements
- The Trustee's policies for managing ESG risks

Policies added to the SIP

Date updated: 21 September 2020

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

As the Fund is invested in pooled funds, 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.

The Scheme's mandates for Direct Lending and Infrastructure Equity are subject to a performance related fee.

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 will review the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement performance versus investment objectives.

The Trustee will evaluate 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 Fund 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's objectives and the Fund'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.
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Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Fund's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, and the rest of this statement provides an evaluation of the stewardship activity.

The below table outlines the areas which the Fund's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Fund'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	<p>The Trustee's investment managers provide reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</p> <p>The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.</p>	<p>The manager has not acted in accordance with their policies and frameworks.</p> <p>The manager's policies are not in line with the Trustee's policies in this area.</p>

ESG summary and actions with the investment managers

Isio, as the Fund's investment consultant, engage with all of the Fund's investment managers on an ongoing basis. ESG and Engagement are specifically covered in both the initial due diligence and ongoing monitoring of funds that Isio actively monitor.

Engagement

As the Fund invests via pooled funds, the Trustee delegates all engagement responsibilities to the investment managers. The managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 March 2021.

Fund name	Engagement summary	Commentary
LGIM - Matching Core Funds		For LDI funds, Legal and General ("LGIM") typically communicate strategic aspects of long-term engagement via thought pieces, presentations and meetings.
LGIM - Absolute Return Bond Fund	We requested this data from the manager, however the manager is currently unable to produce this level of reporting. Isio will work with the manager to try ensure that this data is available in the future.	<p>LGIM provide an annual update setting out the firm's approach to stewardship and activities during the year.</p> <p>LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness.</p> <p>Engagement activity is recorded in a dedicated data management system. This system is also used to oversee progress and quantify engagement effectiveness.</p>
LGIM - Synthetic Leveraged Equity		On a quarterly basis, LGIM provide a standalone Active Ownership ESG Impact Report detailing case studies of voting and engagement activities undertaken and/or concluded.
Alcentra - European Direct Lending III	We requested this data from the manager, however the manager is currently unable to produce this level of reporting. Isio will work with the manager to try ensure that this data is available in the future.	<p>Alcentra believe that as fixed income investors, they have limited influence over engagement.</p> <p>Alcentra do communicate on ESG issues with the companies they invest in. This will include dialogue with the sponsor, ESG issues raised at manager meetings and, where available, board presentations. For a number of positions, Alcentra hold a seat on the board and are able to influence strategy where possible.</p>
Partners Group - Private Markets Credit Strategies 2018	Total engagements: 6 Corporate: 5 Monitoring: 1	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.

	<p>*Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2020 calendar year.</p>	<p>Investing in private companies also reduces the transparency of the information available to assess ESG risks.</p> <p>Examples of significant ESG activities within portfolio projects include:</p> <p>Gong Cha – Partners Group engaged with the company on their financial performance and the impact of COVID-19 over the period. Partners Group held monthly update calls with the company’s CFO and management to discuss the FY20 performance overview, operations during the pandemic, FY21 expectations, reporting and covenant requirements. Partners Group established a line of communication for early intervention in case Covid-19 disrupts the business again. They also had more frequent verbal updates on performance and set out the timetable for delivery of the new budget and performance.</p> <p>TEG – Partners Group held quarterly lender calls and engaged with the company regarding specific updates on the impact of Covid-19. Following this engagement Partners Group had comfort that the company has sufficient liquidity to ride out COVID-19 and the associated cancellations / delays of events, including an understanding of cost cutting measures taken and monthly levered cash burn.</p>
<p>Apollo – Total Return Fund</p>	<p>Total Engagements: 32</p> <p>Environmental: 7</p> <p>Social: 5</p> <p>Governance: 6</p> <p>Human Capital: 3</p> <p>ESG: 4</p> <p>All: 7</p>	<p>Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for 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 renewable energy projects during 2020.</p> <p>Gannett Co. Inc. - At the Board meeting Apollo discussed the overall health of the organization as well as diversity and inclusion. The Company has established a Diversity Advisory Council and Employee Resources Groups to increase representation particularly among the leadership team. Following this engagement with Apollo, the company has now set a goal of >50% of the workforce consisting of underrepresented groups by 2025 and increasing diversity at the director level and above.</p>

<p>JP Morgan – Infrastructure Investment Fund (“IIF”)</p>	<p>JP Morgan did not provide the data in a format where we were able to split the engagements by type.</p>	<p>JP Morgan use their position within their portfolio companies to develop business plans and other strategic initiatives alongside management.</p> <p>JP Morgan work directly with portfolio companies and team members to understand ESG issues and to uncover any risks and opportunities that could be facing the assets.</p> <p>Examples of significant engagements include:</p> <p>Diversity and Inclusion - In Q3 2020, IIF launched a updated portfolio company Diversity and Inclusion survey where the team overlaid the context of social justice and COVID-19 on the core themes of i) governance an culture, ii) inclusive workplace, iii) external stakeholders, and iv) employee demographics.</p> <p>17 portfolio companies responded and demonstrated positive progress and continued strong focus on Diversity and Inclusion.</p>
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