



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

July 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 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

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

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 the Fund's 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

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

- Following an improvement in the funding level, the Trustee agreed to de-risk the investment strategy. This initially involved fully redeeming the Fund's holdings in the LGIM Synthetic Equity mandate in May 2021. The proceeds of this sale were temporarily held in the LGIM Absolute Return Bond fund ('ARB').
- The Trustee made a £19.5m allocation to the M&G Alpha Opportunities Fund in December 2021, a Multi-Asset Credit mandate, which was funded from the ARB fund and excess monies in the Trustee Bank Account.
- The Fund's Alcentra Direct Lending mandate made one drawdown in April 2021. The Fund's investment period runs until April 2023 when Alcentra may draw any undrawn capital and/or reinvest capital which has been distributed early.
- The Trustee agreed to implement a revised LDI mandate with Legal and General and work was completed on this over the second half of the accounting year. The new mandate is expected to better hedge interest rate and inflation risks and was implemented shortly after year end.

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 received quarterly investment reports from its investment advisor.</p> <p>As part of these reports the funding level was monitored, as well as the risk of the Fund's investment strategy at each quarter end.</p> <p>The Trustee reviewed the Fund's investment performance at the Trustee meeting on 1 November 2021.</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>Following improvements in the Fund's funding level, the Trustee agreed to de-risk the investment strategy in May 2021 to protect the funding position.</p> <p>This involved removing the Synthetic Equity allocation and implementing a new Multi-Asset Credit mandate.</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	At the Trustee meeting on 1 November 2021 the Trustee received an update on the financial performance of the company.

		an appropriate level for the covenant to support.	The Trustee receives a bi-annual update from the company. The Trustee also receives formal independent advice annually, and more frequently in unstable periods.
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 hedge these risks in proportion to the funding level on the Technical Provisions basis through the LDI mandate.	The Trustee agreed to implement a refined LDI mandate with Legal and General to more accurately hedge interest rate and inflation risks. Work to implement this started in the second half of the accounting year.
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.	No action over the period.
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 a full redemption from the LGIM Synthetic Equity mandate and made an allocation to the M&G Alpha Opportunities Fund. This activity was intended to lower the overall level of risk the Fund is taking in its investment strategy.
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.	The Trustee made an allocation to Multi-Asset Credit which was seen to be sufficiently diversified to the Fund's existing credit investments. The Trustee appointed M&G to manage this mandate. M&G are expected to use their resources and research capabilities to reduce the likelihood of defaults in the mandate.

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 criterion: 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	The Trustee considered ESG factors when selecting the manager for their new Multi-Asset Credit manager.
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.	For the Multi-Asset Credit investment, the Trustee decided to invest in a GBP share class.
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 amended the SIP over the reporting period to reflect the recent changes to the investment strategy, the full redemption out of Synthetic Equity, investment into Multi-Asset Credit and revision of the LDI mandate.

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 Trustee will work with the investment managers to improve their alignment with the Fund's policies.</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> <p>Where sufficient improvement is not observed, the Trustee will review the relevant investment managers' appointment and will consider terminating the arrangement.</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.

The Trustee has agreed complete a more detailed review of the Fund's managers from an ESG perspective. This will lead to improvement areas being identified for each manager which the Trustee will feedback to them via an engagement process.

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 2022.

Fund name	Engagement summary	Commentary
LGIM - Matching Core Funds	LGIM have not been able to provide any engagement data for the LDI funds however expect to be able to provide this later in the year.	For LDI funds, Legal and General ("LGIM") typically communicate strategic aspects of long-term engagement via thought pieces, presentations and meetings. LGIM provide an annual update setting out the firm's approach to stewardship and activities during the year.
LGIM – Absolute Return Bond Fund	Total engagements: 125 Environmental: 80 Social: 34 Governance: 62 Other: 26	LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness. Engagement activity is recorded in a dedicated data management system. This system is also used to oversee progress and quantify engagement effectiveness. 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	Alcentra have been unable to provide engagement data at a total fund level. However, they have been able to provide one example of an engagement they have been working on recently.	Alcentra believe that as fixed income investors, they have limited influence over engagement. 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. An example of this occurred in May 2021, when Alcentra engaged with a company through their seat on the board at Managing Director level. The engagement focussed on Health & Safety risk register scores, including reportable accidents and concerns

<p>Partners Group - Private Markets Credit Strategies 2018</p>	<p>Total engagements: 5 Corporate: 5</p> <p>*Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2021 calendar year.</p>	<p>with the aim of reducing reportable accidents. Over the period of engagement around Health & Safety risk register scores, reportable accidents have been consistently reducing (2 years in a row).</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.</p> <p>Whilst Partners Group provided 5 examples of corporate engagements, they did not provide any examples of ESG related engagements.</p>
<p>Apollo – Total Return Fund</p>	<p>Total Engagements: 82</p> <p>Environmental: 14</p> <p>Social: 2</p> <p>Governance: 36</p> <p>Broad ESG: 30 </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>Banco General, SA - Apollo encouraged the management team to begin reporting Green House Gas's ('GHG') during a roadshow. The firm's management had received similar requests from other investors and subsequently considered measuring their GHG emissions.</p> <p>AngloGold Ashanti Holdings PLC – In a zoom meeting Apollo asked the Treasurer Rob Hayes and CFO Christine Ramon to review the steps taken in response to a fatality at their Obuasi, Ghana mine in May 2021. They ceased mining activity for 4 months to examine the site for any further structural issues that could lead to the collapse of mining structures and further fatalities.</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>JP Morgan did not provide any examples of ESG related engagements.</p>

M&G – Alpha Opportunities Fund (“AOF”)	<p>Total Engagements: 22</p> <p>Environmental: 18</p> <p>Social: 1</p> <p>Governance: 3</p>	<p>While M&G engage with companies on a ‘bottom-up’ basis, that is, reactive, company-specific engagements, they also undertake ‘top-down’ thematic engagements on a number of issues.</p> <p>Climate is a central focus of their top-down engagement programme for investee companies in both developed and developing markets, focusing on strategy, disclosure, goals and targets to achieve decarbonisation.</p> <p>BASF – M&G met with the company to persuade them to agree a net zero carbon by 2050 strategy for scope 1, 2 and 3 emissions. BASF agreed to implement a strategy for scope 1 and 2 emissions.</p> <p>Origin Energy LTD – M&G asked Australian energy company Origin to publicly announce, by March 2022, that it will be shutting down coal by 2030. The company responded saying it was ‘99.9%’ certain it could reach the goal.</p>
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