

BHS Pension Scheme

Annual Implementation Statement for the year ending 31 March 2021

Introduction

This document is the Annual Implementation Statement (“the **Statement**”) prepared by the Trustees of the Bhs Pension Scheme (the “**Scheme**”) covering the year to 31 March 2021 (the “**Scheme Year**”). The purpose of this statement is to:

- Set out the extent to which, in the opinion of the Trustees, the Scheme’s Statement of Investment Principles (the “**SIP**”) required under section 35 of the Pensions Act 1995, as amended, has been adhered to during the year in relation to voting and engagement.
- Detail any reviews of the SIP the Trustees have undertaken, and any changes made to the SIP over the year as a result of such reviews.
- Describe the voting behaviour by, or on behalf of, the Trustees over the year.

A copy of this implementation statement will be made available alongside the Scheme’s SIP at the following link: <https://schemedocs.com/download/BHS-pension-scheme-statement-investment-principles-2020.pdf>.

Review of, and changes to the SIP

The SIP was reviewed during the Scheme Year, with a revised version being published as at September 2020. The changes included:

- As a result of Department for Work and Pensions (DWP) regulations under section 2.3 of the Occupational Pension Schemes Investment Regulations 2005 coming into force from 1 October 2020, the ‘Manager monitoring’, ‘Fee basis’, ‘Social, environmental and ethical issues’ and ‘Rights attaching to investments’ sections of SIP were added and/or amended to provide detail regarding:
 - How financially material considerations are taken into account over the appropriate time horizon of the investments, including in the selection, retention and realisation of investments.
 - Policies in relation to stewardship, including engagement with firms and exercise of voting rights.
 - Policies in relation to undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters).
 - Policies in relation to the monitoring of costs within the Scheme, including those relating to portfolio turnover.
- An update to the Investment Consultant’s expectations for the rates of return to be earned on the asset classes that the Scheme invests in.

The September 2020 SIP is the version referenced in the following sections of this document, where we set out how the principles have been implemented. Where new Trustee policies have been added to the SIP that was in place at the start of the Scheme Year, we have referenced how these have been implemented from the time of adoption to the end of the Scheme Year.

Adherence to the Trustees’ policies

The Trustees’ policies on alignment, ESG and stewardship as documented in the SIP are set out below, together with supporting comments on how these have been met over the Scheme Year.

Manager monitoring and alignment

- *Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. Where relevant, this monitoring process may include specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.*
- *For most of the Scheme's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.*
- *The Trustees appoint its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. Given this, the Trustees' arrangements with its investment managers have no set duration, but have appropriate termination rights included in their terms.*
- *Given the current position of the Scheme and the high quality of assets held, there is not expected to be any material turnover in the portfolio. As a result, the Trustees have no target turnover or turnover ranges against which turnover is monitored.*

The Scheme's assets comprise pooled fund investments in Gilts, Index-Linked Gilts and Cash, all managed by Legal and General Investment Manager ("LGIM"). Reflecting the nature of the assets held, over the Scheme Year the Trustees have not identified a need to engage with LGIM in order to encourage further alignment with the Trustees' policies.

Social, environmental and ethical issues

- *In view of the low risk and largely passive investment strategy of the Scheme, the Trustees have formed the view that environmental, social and governance factors, including climate change, and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings are not financially material to the Scheme and therefore have chosen not to take them into account in the development of the Scheme's investment strategy.*
- *The Trustees have decided not to take into account non-financial considerations in designing and implementing the investment strategy, including (but not limited to) the views of members and beneficiaries of the Scheme.*

It is the Trustees' policy that consideration of ESG factors is not relevant in the selection, retention and realisation of investments and that sustainability considerations are not considered to present a significant financial risk to the Scheme. This policy reflects the low risk nature of the assets held and the expected time horizon to the conclusion of the Assessment Period. As such, these matters were not explicitly considered by the Trustees over the course of the Scheme Year.

Stewardship

- *The Trustees believe it is appropriate for its investment managers to engage in stewardship activity with key stakeholders. Such stakeholders may include corporate management of debt or equity issuers, other holders of the debt or equity, others with an interest in the issuer or debt or equity, or regulators and governance bodies (as appropriate to the Trustees' investments). As part of this, the Trustees expect investment managers to discuss with these stakeholders matters concerning the relevant issuer of debt or equity, including corporate governance, management of potential conflicts of interest, capital structure, performance, strategy, risks and ESG factors.*
- *The Trustees expect that investment managers will provide details of their stewardship policy and activities on a periodic basis, where relevant to their investment strategy and restrictions.*
- *The Trustees support the aims of the Stewardship Code and their Investment Managers are invited to operate in accordance with the guidelines laid out in the Stewardship Code which covers matters of both voting and engagement. The Investment Managers are required to report their adherence to the Stewardship Code using the "comply or explain" principle, where appropriate.*

The Trustees have been provided with a copy of LGIM's stewardship policy together with the investment consultant's assessment of the manager's overall approach. This did not identify any immediate causes for concern.

LGIM are signatories of the UK Stewardship Code.

Voting policy and information

As set out in the SIP, the Trustees' policy is to delegate the day to day sustainable investment considerations (including environment, social and governance factors) and stewardship activities (including voting and engagement) to the Scheme's investment managers.

The Scheme's investment assets cover UK Government bonds and cash. However during the Scheme Year no investments were held in securities with associated voting rights and therefore no voting data has been provided in this section of the Statement.

Conclusion

The Trustees believe that the policies outlined in the SIP have been adhered to during the Scheme Year to the extent practical given the circumstances of the Scheme.

This Statement was agreed by the Trustees on 1 September 2021