



# Schenker Limited Pension Fund ("The Fund")

5 April 2023

# 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')

During the reporting period, the Fund updated its SIP to reflect changes in the investment strategy and new DWP regulations around engagement and voting. More details are presented further in the report:

The SIP can be found online at the web address: [schenker-fund-statement-investment-principles.pdf](https://www.schenker-fund-statement-investment-principles.pdf) ([schemedocs.com](https://www.schemedocs.com)).

## Implementation Report

This Implementation Report is to provide 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 on 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 in which they invest; and
- voting behaviour covering the reporting year up to 5 April 2023 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 reporting year

At the beginning of the reporting period, the Trustee agreed to introduce a new allocation to Semi-Liquid Credit ('SLC') with an investment in the Apollo Total Return Fund. This decision was taken to replace the Fund's allocation to the Partners Group Multi Asset Credit 2017 ('PMC') Fund which has reached the harvesting stage of its life cycle and started to distribute a significant amount of capital back to the Trustee. The SLC mandate was selected an appropriate alternative asset class as it maintains a similar level of expected return and retains some exposure to private credit assets.

Over the 12 months to 5 April 2023, gilt yields have risen significantly, following a meaningful shift in monetary policy and messaging to reflect inflationary pressures. The gilt market movements in September/October 2022, however, were particularly volatile, as the market reacted to the Government proposals made as part of the 'mini-budget'.

Rising yields over the period reduced the value of the Fund's LDI portfolio (and correspondingly, the value placed on the Fund's liabilities) resulting in high leverage levels. To reduce leverage, the LDI funds had to call a significant amount of capital from the Fund's Multi-Asset Credit allocation (through JPM and M&G).

Following these events and changes to the leveraged employed in the LDI funds, the Trustee agreed to reduce the target hedge ratio on interest rates and inflation from 95% to 90% on a Technical Provision basis. These new hedge targets were introduced in November 2022.

After the end of the reporting period, the Trustee agreed to review the LDI allocation with Columbia Threadneedle.

### Implementation Statement

This report demonstrates that the Schenker Limited Retirement Benefits 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 DB

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.90% of these risks on a Technical Provisions basis.	Following the extreme gilt market volatility at the beginning of the fourth quarter, the Trustee agreed to reduce the target hedge ratio on interest rates and inflation from 95% to 90% on a Technical Provision 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>The majority of Scheme's assets are held on the Mobius Life investment platform. These assets, with the exception of Apollo and Partners Group, are daily traded, providing sufficient liquidity if required.</p> <p>Additionally, the Scheme has an allocation in the Partners Group Multi Asset Credit Fund which has reached the harvesting stage of its life cycle and started to distribute a significant amount of capital back to the Trustee.</p> <p>The Scheme's LDI portfolio has an automatic collateral rebalancing framework, whereby funds to meet capital calls are sourced from the Multi-Asset Credit allocation.</p>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable.	During the reporting period, the Fund introduced a new allocation to Semi-Liquid Credit. The Trustee is satisfied with the level of diversification in the strategy.

<b>Credit</b>	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 actions or changes to policy. The Trustee is satisfied that the Fund remains suitably diversified from a credit perspective.
<b>Environmental, Social and Governance</b>	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Fund's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each:</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> </ol> <p>The Trustee monitors the managers on an ongoing basis.</p>	Further details provided later in this report.
<b>Currency</b>	The potential for adverse currency movements to have an impact on the Fund's investments.	Hedge currency risk on assets, where it is appropriate to do so, and does not materially impact the views of the manager.	No actions or changes to policy.
<b>Non-Financial</b>	Any factor that is not expected to have a financial impact on the Fund's investments.	Non-financial matters are not considered in the selection, retention or realisation of investments.	No actions or changes to policy.

# Changes to the SIP

During the reporting period, the Trustee updated the SIP to reflect changes in the investment strategy, as well as expanding the policies shown in the following table. The changes were as follows:

Policies added to the SIP	
Latest Update: April 2023	
Investment Objective	<ul style="list-style-type: none"><li>In November 2022, the Trustee reduced the hedge ratio on interest rates and inflation from 95% to 90% on Technical Provisions basis. It also updated the expected return from gilts + 1.9% p.a. to gilts + 1.3% p.a. to reflect changes in the investment strategy.</li></ul>
Voting Policy - How the Trustee expects investment managers to vote on their behalf	<ul style="list-style-type: none"><li>The Trustee has acknowledged responsibility for the voting policies that are implemented by the Fund's investment managers on their behalf.</li></ul>
Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'	<ul style="list-style-type: none"><li>The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Fund's investment managers on their behalf.</li><li>The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually</li></ul>



# Implementing the current ESG policy and approach

## ESG as a financially material risk

The SIP describes Fund policy on ESG as a financially material risk. The Trustee has agreed to adopt Isio's Criteria for ESG assessment of managers which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Trustee's ESG policy. The next page details the Trustee's view of the managers, the actions for engagement and an evaluation of the engagement activity.

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 Fund.</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; the Trustee will receive ongoing training as required to develop their knowledge.</li><li>8. The role of the Fund's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment adviser, 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 manager's approach to voting and engagement when reviewing the asset manager's 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>

# Engagement

The Fund invests via fund managers, and each has provided details on their engagement actions including a summary of the engagements by category, for the 12 months to 31 March 2023.

Fund name	Engagement summary	Commentary
<b>Columbia Threadneedle</b> Dynamic LDI Funds	<p>Total Engagements: 17*</p> <p>Environmental: 11</p> <p>Social: 6</p> <p>Governance: 6</p> <p>Other: 6</p> <p>*Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.</p>	<p>ESG issues are central to CT's identity and overall investment philosophy. CT integrate ESG considerations into their counterparty selection process and all counterparty engagements are monitored against pre-defined milestones.</p> <p>Examples of significant engagements include:</p> <p><b>Barclays PLC</b> – CT attended an investor group meeting to cover a range of ESG topics. The company accelerated their timeline for ending financing for coal-related projects in the US as a result of investor engagement and US legislation. Barclays also outlined Blue Track, its methodology for measuring financed emissions and how it relates to target setting. They also provided an update on their work on diversity, equity and inclusion.</p> <p><b>BNP Paribas SA</b> – CT met with the chair of BNP to support succession planning due to nearing age limits on the CEO and Chair's roles.</p>
<b>Partners Group</b> Multi-Asset Credit	<p>Total Engagements: 2*</p> <p>*31/12/2021-31/12/2022</p>	<p>Partners Group have a clear policy regarding engagement with underlying portfolio companies. Engagements are managed by the investment teams with input from the central ESG team when required.</p> <p>Partners Group have implemented ESG ratchets for a number of prospective investments. Partners Group can measure effectiveness of engagements and borrowers are incentivised by cheaper borrowing.</p>
<b>JP Morgan</b> Unconstrained Bond Fund	<p>Total Engagements: 278*</p> <p>Environmental: 128</p> <p>Social: 168</p> <p>Governance: 120</p>	<p>JPM have an Investment Stewardship Team which manages engagements and are able to provide engagement evidence in line with firm-level stewardship priorities. The ESG metrics/data provided by JPM on their reports are independently verified by third party assurance in addition to being subject to an external ESG audit.</p> <p>Examples of significant engagements include:</p> <p><b>TotalEnergies</b> – JPM sent a letter to the Chairman of the Board at TotalEnergies, outlining their recommended actions to take around climate change</p>



		<p>risk. In the letter JP Morgan outlined, among other topics, their expectations for the company's greenhouse gas (GHG) emissions reporting, their targets for methane emissions reductions and how their business model may change as the economy moves towards net zero emissions. JPM also invited a follow up discussion covering these issues and other concerns. As a result, TotalEnergies are aware of where they need to improve and are making tangible steps to improve this.</p> <p><b>SPIE</b> – JPM Investment Stewardship Team and International Equity Group investors met with SPIE on its efforts to focus on generating a significant share of its revenue from energy efficiency, electrification and sustainable transport linked sources. As a result, the company intends to increase the number of sales coming from EU taxonomy sources to 50% by 2025. They also reduced its CO2 output by 25%. JPM are actively monitoring the company's progress.</p>
<p><b>M&amp;G</b> Total Return Investment Fund</p>	<p>*Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.</p> <p>Total Engagements: 11* Environmental: 5 Social: 4 Governance: 2</p> <p>*Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.</p>	<p>M&amp;G have a strong firm-wide ESG approach and have evidenced their ability to manage ESG risks in this Fund. The manager has a well-integrated sustainable investment policy to ensure ESG considerations are incorporated across all stages of the investment.</p> <p>Examples of significant engagements include:</p> <p><b>NewRiver Reit Plc</b> – M&amp;G met with the CEO, COO and Company Secretary to improve diversity and inclusion practises throughout the organisation by increasing board gender diversity and disclosing diversity targets. NewRiver Reit Plc are currently meeting M&amp;G's expectations in terms of board gender diversity, however as the company grows the manager reinforced that further progress is necessary in this area.</p> <p><b>BASF SE</b> – M&amp;G pressed the company to add scope 3 to the existing scope 1 &amp; 2 carbon emission reduction targets and commit to decarbonising its feedstock by 2050. M&amp;G had a call with the CEO, Head of Corporate Sustainability and Head of Investment Relations. They explained that the company is making good progress with its 45,000 suppliers in terms of upstream scope 3 emissions. M&amp;G are actively monitoring the company's progress on decarbonising feedstock.</p>

<b>LGIM</b> Buy and Maintain Fund	<p>The manager is currently not able to provide a detailed breakdown of the engagement activity for this fund.</p>	<p>LGIM has a well-defined and robust firm wide ESG policy, which is strongly integrated within the due diligence process used to assess the ESG credentials within the Fund.</p> <p>Engagement with companies is done at a firm wide level rather than on a fund basis and guided by the central stewardship team. LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices.</p>
<b>Apollo</b> Total Return Fund	<p>Total engagements: 48*  Environmental: 45  Social: 24  Governance: 10</p> <p>*Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.</p>	<p>Apollo have expanded their ESG team, who works in partnership with credit investment professionals. ESG considerations are integrated into the Fund's risk management framework and due diligence process. Their internal ESG ratings system has been improved to incorporate sector-specific scoring.</p> <p>Examples of significant engagements include:</p> <p><b>AP Maia Holdings I LLC</b> - The ESG Credit Team and investment team met with the company to walk through the key pillars of their sustainability strategy.</p> <p>On the environmental front, Apollo learned that AP committed to a 30% reduction in GHGs per passenger/km by 2030 and 45% next gen aircraft by 2025, 70% by 2030. The company aims for a third of the positions on the Group's Executive Committee to be held by women who should also represent 40% of management positions by 2030. Apollo are actively monitoring the AP Maia Holdings' targets.</p> <p><b>Energy Transfer LP</b> – Apollo engaged with the head of Investor Relations regarding the company's recent bond offering. Apollo announced their support for Energy Transfer's ESG-related initiatives.</p>

