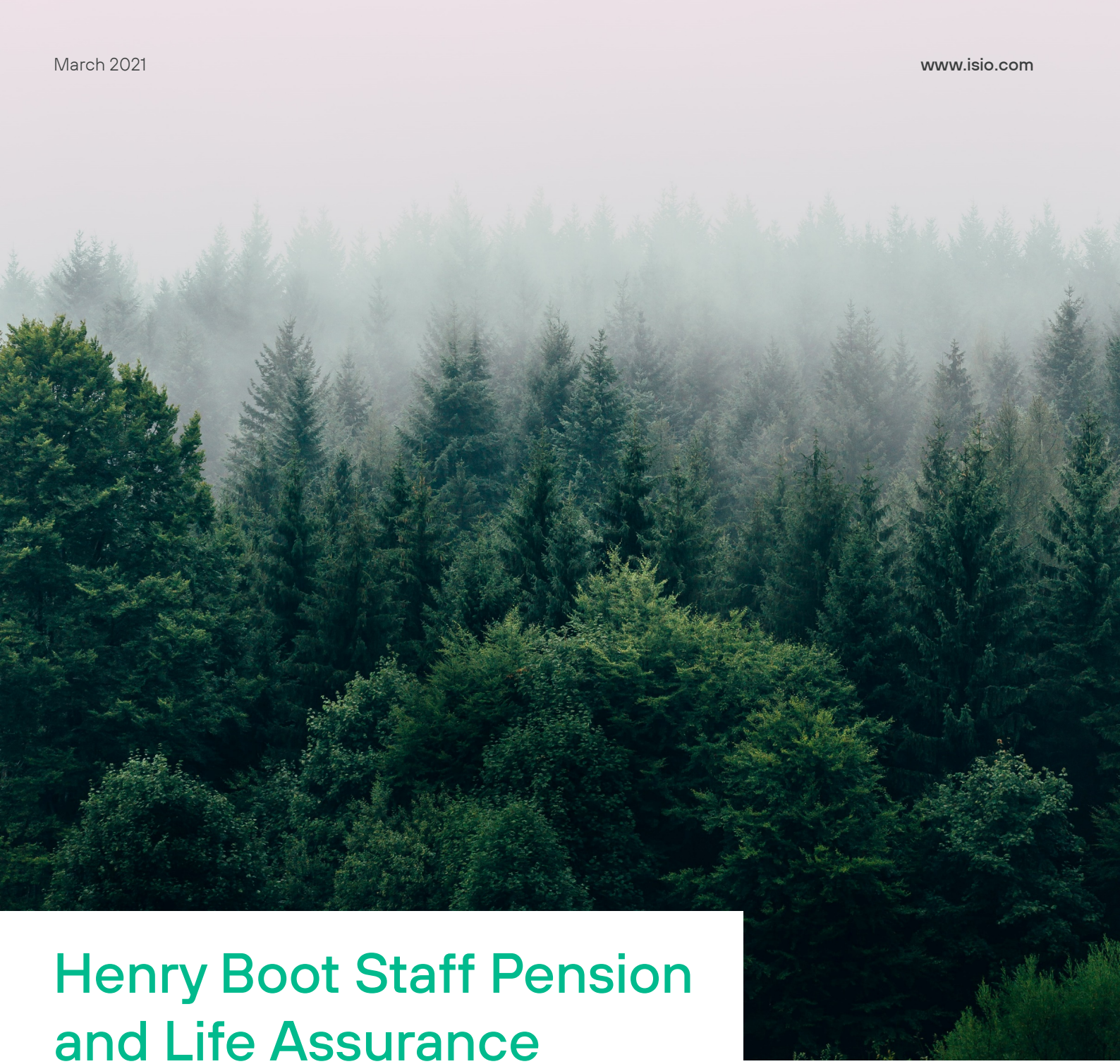

Henry Boot Staff Pension and Life Assurance Scheme - Implementation Report

March 2021

isio.

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve the 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 and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles ("SIP")

The Scheme updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change; and
- policies on the stewardship of the investments.

The SIP can be found online at the web address:
www.henryboot.co.uk/media/1964/statement-of-investment-principles-september-2020.pdf

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This 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; and
- voting behaviour covering the reporting year up to 31st December 2020 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

- The Scheme committed £20 million to two new infrastructure equity mandates with J.P. Morgan and IFM.
- The Diversified Income – Hedged Fund held with PIMCO was fully disinvested as the PIMCO BRAVO III Fund called all remaining capital in April 2020. The Diversified Income – Hedged Fund was used to meet the PIMCO BRAVO III Fund commitment while managing the underlying USD currency exposure.

Implementation Statement

This report demonstrates that the Henry Boot Staff Pension and Life Assurance Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

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 assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 50% of these risks on a Technical Provisions basis.	There have been no changes to policy over the reporting 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 manager.	There have been no changes to policy over the reporting year.
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.	There have been no changes to policy over the reporting year.
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. 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.	There have been no changes to policy over the reporting year.

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.	ESG is taken into account as part of Isio's standard due diligence and ongoing research and as such is a consideration in the selection and monitoring of the Scheme's investment managers.	The Scheme monitor the appointed investment managers to ensure that they are managing ESG risks in an appropriate manner. The managers' ESG policies were reviewed and presented to the Trustee in an ESG Manager Summaries report. Further detail provided on the approach of each of the Scheme's investment managers is provided later in this report
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	There have been no changes to policy over the reporting year.

Changes to the SIP

Areas for engagement	Method for monitoring and engagement
Date updated: September 2020	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	For the investments in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee policies. However, the Trustee invest in a portfolio of pooled funds that are aligned to the strategic objective. The Trustee have a segregated arrangement with PIMCO thereby allowing the investment managers to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis. The investment managers are incentivised to meet the objectives agreed with the Trustee and provide a high quality service via the fees paid by the Trustee for the investment managers services.
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 review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustee monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. Where the Trustee has concerns, it will raise them with the investment manager, where appropriate, or consider terminating the mandate.
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 review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. The Trustee evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. Investment manager fees are monitored quarterly to make sure the amount charged is in line with the agreed fees and they remain competitive. Where appropriate, any investment manager which is considered to be performing poorly may be required to account for their performance and exceptionally their mandate may be terminated.
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 do 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 Scheme invests in. For closed ended funds or funds with a lock-in period the Trustee ensure the timeframe of the investment or lock-in is in line with the Trustee objectives and Scheme'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.

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 Isio's assessment criteria as well as the ESG beliefs used in evaluation the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers., our actions for engagement and 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 intend to review the Scheme's ESG policies and engagement 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 and engagement activity	Through the manager selection process ESG considerations will form part of the evaluation criteria The Scheme's investment advisor, Isio, will monitor managers' ESG polices on an ongoing basis.	The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee

Approach / Framework	3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in the debt of a company/project/asset, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge. 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.
Voting & Engagement	9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 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.

ESG summary and actions with the investment managers

Manager - Fund	ESG Summary	Key actions identified
PIMCO – Diversified Income Fund PIMCO - BRAVO III PIMCO – Tactical Opportunities	PIMCO has a clear firm-wide ESG policy in place and aim to evaluate ESG risks as part of risk management within the Fund. However, we would prefer to see a thorough quantitative analysis implemented which leads to ESG targets and KPI's. Whilst PIMCO have demonstrated a strong level of engagement with issuers for their ESG-focused funds, we would expect the manager to increase ESG engagement for the non ESG-focused funds.	PIMCO should be able to demonstrate how ESG risks are monitored on an ongoing basis within credit due diligence, and how these adapt over time. PIMCO should look to define ESG objectives for non-ESG Funds, which are both quantifiable and measurable, and directly link to the firm's ESG policy.
Apollo - Total Return Fund	Apollo have been actively incorporating ESG into their investment process for a number of years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.	Apollo should set-out formal ESG criteria for each potential credit investment and emphasise ESG factors in day-to-day investment decisions. This could include more clarity on how Apollo analyses what constitutes 'material' ESG risks. There is currently no formal measurable rating system. Apollo could Implement a score card system, so each investment has a formal rating.
Walter Scott – Long Term Global Equity Fund	Walter Scott's long-term investment philosophy and focus on the sustainability of investee companies naturally excludes poor scoring ESG stocks from the portfolio. However, the investment process does not directly exclude companies with poor ESG metrics. Walter Scott do not monitor ESG risks at a fund level which means the usefulness of their ESG reporting is limited, however the level of detail is high for reporting on engagements and proxy voting statistics.	Walter Scott should monitor key ESG metrics for each holding in the portfolio and to include further analysis of these ESG metrics in their annual and quarterly reports. Walter Scott to engage with investee companies to a greater extent on Social and Environmental risks. Walter Scott to collaborate with other equity managers and ESG organisations to discuss best practice approaches, host ESG-related events/workshops and increase awareness on key ESG issues.

Alcentra – European Direct Lending (EDL) Fund I	Whilst Alcentra has a working group of investment professionals to coordinate the firm's ESG policy, they do not employ a central dedicated ESG team. The Fund have introduced the analysis of ESG risks within their investment process and engage with companies and the wider community where possible.	Alcentra do not currently have any overarching ESG priorities or fund objectives. This could be implemented to act as a guide for decision making. There is currently no ESG reporting standard for the Fund, with no explicit KPIs, which is an area that Alcentra could develop.
Alcentra – European Direct Lending (EDL) Fund II		
Partners Group – Private Markets Credit Strategies 2016	Partners Group have a specialist ESG and Sustainability team, who support the business in achieving their ESG objectives. At a fund level they can demonstrate that ESG is a key aspect of the due diligence process and ongoing engagement is apparent through an investment's lifecycle. Partners Group could improve the level of ESG reporting compared to its peers and we would like to see a clearer focus on diversity metrics in their ESG risk assessment at a fund level.	In future reports, Partners Group could include examples of where they have worked with portfolio companies to bring about a desired change highlighted by Partners Group. Partners Group should provide more granular information/data on the diversity metrics in place at portfolio level, including ethnicity, LGBTQ+ and social mobility stats.
Partners Group – Private Markets Credit Strategies 2018		
Barings – Investment Grade CLO Fund	Barings has a clear firm-wide ESG framework, managed by a dedicated team who integrate ESG considerations across their business. We note that the Barings ability to influence CLO managers is limited as an investor but we are comforted by Baring's commitment to ESG through their business level ESG priorities and collection of ESG data from CLO managers to develop further insight into the industry.	Barings to identify and categories ESG risks within the portfolio Barings should implement a quantitative scorecard to quantify ESG risks through a standardised process. Barings should implement KPIs to measure engagement effectiveness
LGIM – Mathcing Core LDI Range	LGIM have a team dedicated to understanding and assessing the impact of ESG factors for the wider business. LGIM use proprietary tools to quantify and monitor ESG risk. LGIM believe engaging with regulators, governments and other industry participants will help mitigate ESG risk. We believe LGIM have a strong ESG framework relative to their competitors.	LGIM should include the ESG scoring of counterparties in regular client reporting of LDI Funds.
LGIM – Absolute Return Bonds Fund	LGIM is aware of ESG issues and the effect on long-term returns within its Fund offering. They have also taken steps to integrate these issues within their investment process at a business level. However, there was a lack of fund-specific information with respect	LGIM should provide more detail on how they have engaged with the companies in the Absolute Return Bond Fund including information on the ESG issues that have been raised/addressed, and the outcome of LGIM intervention.

to risk management and reporting and given the direction of travel we would expect these points to be addressed in the coming months

Engagement

As the Scheme invest 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 31st December 2020.

Manager - Fund	Engagement Summary	Commentary
PIMCO – Diversified Income Fund PIMCO - BRAVO III PIMCO – Tactical Opportunities	Details not provided by PIMCO	ESG engagement activity is undertaken on a firm wide basis, with no specific fund level engagements for these funds. ESG engagements in the funds are the responsibility of the credit analyst overseeing a specific issuer/sector. Due to the firm wide nature of PIMCO's engagements they were not able to provide a engagement summary relating specifically to these funds, but were able to provide examples of engagements carried out at the firm. Examples of engagements include: **Lloyds Banking Group -** PIMCO has engaged with the company to discuss the firms progress on their internal ESG initiatives and climate risk assessments. **Aercap Holding** – PIMCO engaged regarding the companies lack of a sustainability report or ESG performance data to try and set targets and standards for the company to meet.
Apollo - Total Return Fund	Total Engagements: 32 Environmental: 12 Social: 10 Governance: 12 Human Capital: 6	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. Examples of significant engagements include: **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. **Gannett Co. Inc. -** As part of the Apollo Term Loan, Apollo negotiated two board observer rights for the company that extend to board seats based on certain leverage thresholds. This enabled Apollo to have greater engagement rights regarding the overall governance structure of the company. Following from this engagement, Apollo built upon their close relationship with the company in order to increase their involvement in the day to day operations of the business.
Walter Scott – Long Term Global Equity Fund	Total Engagements: 78 Environmental: 18 Social: 36 Governance: 24	Walter Scott has a track record of engaging with companies to encourage disclosure of ESG factors, including carbon usage and executive pay. As equity holders in public companies, Walter Scott have strong engagement rights compared to other managers, and the relatively small number of managers in the portfolio (c.50) allows the team to engage frequently and in more detail with individual companies. Examples of engagement include: **Booking Holdings** - Walter Scott held calls with the company to discuss the direct carbon foot print of the company. This had historically not been a focus area of the firm leading to low ESG scoring from independent rating companies due to the lack of transparency and disclosure. Following the engagement Booking Holdings is working to address this.

Alcentra – European Direct Lending (EDL) Fund I	Details not provided by Alcentra.	Alcentra engage with portfolio companies with the aim of improving ESG practices. Alcentra note that their ability to drive initiatives and strategies is somewhat restricted as a debt provider but seek to ask questions and make recommendations where possible. In Q1 2020, Alcentra introduced an ESG questionnaire which was circulated to existing portfolio companies for completion. The aim of the questionnaire is to understand their borrowers' approach to ESG risk and to be used as a tool to track ESG performance.
Alcentra – European Direct Lending (EDL) Fund II		
Partners Group – Private Markets Credit Strategies 2016	Total Engagements: 12	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. Examples of engagement include: **JLA Ltd.** – In March 2020 Partners Group held calls with the CFO to assess JLA's preparation for a pandemic. Partners followed up on these calls through the pandemic to judge the impact to the business and the extend to which government support was utilised. **SAI Global** – Partners have set up constant lines of communication with the sponsor and management of this deal to provide updates on the business strategy and impact of Covid-19 on the firm.
Partners Group – Private Markets Credit Strategies 2018		
Barings – Investment Grade CLO Fund	Details not provided by Barings	Due to the nature of CLO's as an asset class, engagement is not possible in the same way a traditional bond holder is able to engage with the underlying holdings. However, Barings have produced ESG outlooks on the parties that the engage with for CLO deals, outlining a current ESG score and view if the party is improving, stable, or deteriorating from an ESG standpoint. Alongside this Barings have engaged with the CLO managers to push for more ESG integration in the generation of the CLOs.

LGIM – Mathcing Core LDI Range	Details not provided by LGIM	LGIM view ESG as an essential component to LDI and integrate ESG into their LDI approach on a top-down and bottom–up basis via; engaging with regulators, governments, and other industry participants to address long-term structural issues. Alongside analysing ESG-related criteria in the assessment of counterparties through LGIM's proprietary ESG tools.
LGIM – Absolute Return Bonds Fund	Details not provided by LGIM	Voting and engagement decisions are based on LGIM's voting and engagement policies and undertaken by the Investment Stewardship team. Despite reduced shareholder rights within bond funds, LGIM take an inclusive view, believing ESG issues are still fundamentally important to investors, regardless of exposure.

Voting (for equity funds only)

As the Scheme invest via fund managers, the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31st December 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Walter Scott – Long Term Global Equity Fund	*Meetings Voted at: 51* Votes cast: 728 Votes 'For' management; 706 Votes 'Against' management: 22	**Compass Group –** Walter Scott voted against a resolution to authorise the issue of additional equity due to the potential to dilute the firm's equity by greater than 10%. This vote was against management's recommendations to vote for. This resolution was passed, and Walter Scott continue to monitor the situation.	While Walter Scott has voted with management on the majority of its resolution, they have evidenced a series of significant votes in which they have voted against management if they believe it's against current shareholders interest. Notable Walter Scott have voted against management when investee companies look to issues new equity.

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