



CH Johnson Pension Plan

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 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)

The Plan has updated its SIP in September 2020 in response to the DWP regulation to cover:

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

The SIP can be found online at the web address

<https://www.heimbach.com/de/heimbach-gruppe/downloads>

Implementation Report

This Implementation Report is to provide evidence that the Plan continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustees have 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 Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest in

Summary of key actions undertaken over the Plan reporting year

- The Plan invested in the Apollo Total Return Fund in May which was funded from the BMO Sterling Liquidity Fund. Over Q2, the Plan also completed a full disinvestment of its corporate mandate with RLAM with proceeds from the disinvestment allocated to the M&G Total Return Credit Investment Fund along with funds from the BMO Sterling Liquidity Fund.
- In November, the Plan also invested in the Partners Group Partners Fund, using proceeds from the BMO Sterling Liquidity Fund and the M&G Total Return Credit Fund. The investment completes the Plan's transition towards its new strategic benchmark.

Implementation Statement

This report demonstrates that CH Johnson Pension Plan 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 Plan's assets and present value of liabilities from changes in interest rates and inflation expectations.	The Trustees aim to hedge this risk both directly and indirectly where appropriate and affordable.	The Plan maintains its level of hedging to better protect the Plan against interest rate and inflation risk.
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).	The Plan's investment strategy includes an allocation to liquid mandates which allows for disinvestments to meet ongoing cashflow requirements.
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.	The Plan's allocation to the M&G Total Return Credit Investment Fund, Partners Group Partners Fund and Apollo Total Return Fund provide diversification to the Plan.
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 Plan for the risk of default.	The completion of the transitions over the year to the M&G Total Return Credit Investment Fund, Partners Group Partners Fund and Apollo Total Return Fund provide diversified exposure to credit markets.
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 Plan'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	The Trustees' policy on managing ESG related risks was reviewed by the Trustees as part of the SIP and IID update in September 2020. More details of the ESG policy and how it was

		<p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>implemented are presented later in this report.</p>
<p>Currency</p>	<p>The potential for adverse currency movements to have an impact on the Plan's investments.</p>	<p>To largely invest in GBP share classes where possible to eliminate direct currency risk. To largely invest with managers that hedge exposure to foreign currency risk in underlying holdings, except where active currency positions are held.</p>	<p>There were no changes to the policy during the 12 month period.</p>

Changes to the SIP

Policies added to the SIP

Date updated: 28 September 2020

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

- As the Plan is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.

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 Trustees review the performance of all the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustees do 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 Trustees' policies.

- The Trustees review the performance of all of the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustees 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 Trustees 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 Plan's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Plan invests in.
 - For closed-ended funds or funds with a lock-in period, the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Plan's liquidity requirements.
 - For open-ended funds, the holding periods are flexible and the Trustees 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 Plan's policy with regarding to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Plan's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Plan's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Plan'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 and engagement activity	<ul style="list-style-type: none">• Through the manager selection process ESG considerations will form part of the evaluation criteria• The Plan's investment advisor Isio will monitor managers' ESG policies on an ongoing basis	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

Risk Management	<ol style="list-style-type: none"> 1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	<ol style="list-style-type: none"> 3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Voting & Engagement	<ol style="list-style-type: none"> 6. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 7. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Reporting & Monitoring	<ol style="list-style-type: none"> 9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	<ol style="list-style-type: none"> 11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD. 12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

Engagement

As the Plan invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 5 April 2021.

Fund name	Engagement summary	Commentary
BMO Short Profile Dynamic Funds	<p>Total engagements: 42</p> <p>Environmental: 25</p> <p>Social: 11</p> <p>Governance: 6</p> <p>Please note that the data above covers the 12 months to 31 December 2020 as BMO only provide engagement data semi-annually.</p>	<p>For LDI portfolios, BMO are only able to engage in dialogue with the counterparty banks that provide them with leverage to encourage them to identify and manage ESG risks thus the limited number of engagements.</p> <p>Examples of significant engagements include:</p> <p>Barclays plc: BMO engaged with the bank's chair through a group meeting as a member of the UK Investor Forum. BMO stressed the need for the board to adopt a more robust climate policy. BMO's key messages were for the bank to take an ambitious approach with its climate strategy, including further tangible steps in order to meet the commitments already made through the Principles for Responsible Banking and to pro-actively engage with shareholders on its work in these areas.</p> <p>Credit Suisse Group AG: BMO engaged with Credit Suisse's Head of Sustainability Affairs as well as two members from the investor relations team on the bank's plans around climate risk management and the lack of relevant reporting. BMO also encouraged the inclusion of climate risk in the bank's risk appetite statements and asked Credit Suisse to enhance their environmental and social risk due diligence procedures for financial institutions.</p>
BMO Sterling Liquidity Fund	<p>Total engagements: 7</p> <p>Environmental: 6</p> <p>Social: 0</p> <p>Governance: 1</p> <p>Please note that the data above covers the 12 months to 31 December 2020 as</p>	<p>BMO's credit team works together with the Responsible Investment team to engage with companies through active dialogue when more in depth information on ESG issues is needed or to express concerns.</p> <p>Examples of significant engagement include:</p> <p>Commonwealth Bank of Australia: BMO spoke to the company to discuss its climate change management strategy, including its approach to climate-related</p>

	<p>BMO only provide engagement data semi-annually.</p>	<p>disclosures. BMO also encouraged the company to address gaps in areas such as oil and gas financing and supporting the transition to a low carbon economy. Specifically, BMO called for a reduction in exposure to fossil fuel industries and expressed their support for future actions to expand the scope of low carbon financing activities.</p> <p>Swedbank AB: BMO engaged with the bank on their decision to support a climate change-related shareholder proposal. BMO also outlined concerns about the lack of a clear plan to scale back exposure to the oil and gas sector and subsequently urged the bank to continue exploring alternatives to address its fossil fuel exposure.</p>
<p>Partners Group Multi-Asset Credit V</p>	<p>Total engagements: 5</p> <p>Environmental: 0</p> <p>Social: 0</p> <p>Governance: 5</p> <p>Please note the data above covers the 12 months to 31 December 2020 as Partners Group only provide engagement data semi-annually.</p>	<p>Given the immaturity of the portfolio, fewer engagements are expected for the MAC V Fund at present. This is expected to increase as the Fund makes more investment.</p> <p>Examples of significant engagements include:</p> <p>Gong Cha – PG engaged with the company through monthly update calls with the CFO and management to discuss FY20 performance, operations during the pandemic, FY21 expectations and reporting and covenant requirements. PG were able to establish a line of communication for early intervention in case of COVID-19 disruption.</p> <p>TEG Pty LTD – PG engaged with the company to understand the impact of COVID-19 on business. Through the engagement, PG gained comfort that the company has sufficient liquidity through COVID-19 and had better understanding of monthly levered cash burn.</p>
<p>Partners Group Partners Fund</p>	<p>No data available</p>	<p>Partners Group were unable to provide engagement data in relation to the Plan's private markets mandate for the 12 months to 5 April 2021. Isio will continue to engage with Partners Group so that data is available in the future.</p>
<p>Apollo Total Return Fund</p>	<p>Total engagements: 31</p> <p>Environmental: 19</p> <p>Social: 18</p> <p>Governance: 16</p> <p>Please note some engagements cover multiple areas.</p>	<p>Examples of significant engagements include:</p> <p>Clearway Energy: Apollo met with the CEO and CFO to discuss additional accretive growth investments the company is making to increase efficiency of existing owned renewable wind farms and the acquisition of new contracted renewable wind and solar power projects. Following the engagements, Clearway Energy will invest at least \$300m in new renewable energy projects in 2020.</p> <p>Gannett Co. inc: Apollo engaged with Gannett to discuss the overall health of the organisation 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 the engagement, Gannett has set a goal of 50%+ of the workforce</p>

		<p>consisting of underrepresented groups by 2025 and increasing diversity at the director level and above.</p>
<p>M&G Total Return Credit Fund</p>	<p>Total engagements: 11</p> <p>Environmental: 6</p> <p>Social: 0</p> <p>Governance: 5</p>	<p>Examples of significant engagements:</p> <p>Heathrow Airport: M&G engaged with management through a series of meetings on the proposed covenant waivers and amendments related to COVID-19 impact. M&G asked the shareholders to support the business with fresh equity to cover the cash burn through the period. M&G felt that such shareholder support would not only protect the business at this critical time but also send a strong message to employees and to the regulator.</p> <p>HSBC: M&G engaged with HSBC and NGO ShareAction to compromise on a single climate resolution, which would be recommended by the HSBC board. ShareAction proposed a shareholder resolution to phase out fossil fuels and the HSBC board proposed its own climate resolution which HSBC believed to be better suited and more aligned to net zero than the ShareAction proposal. M&G met with both parties which resulted in the negotiation of a single resolution which HSBC will include its climate transition plans to a shareholder vote.</p>

Voting (for multi asset funds only)

As the Plan's only multi asset fund investment, voting is only relevant for The Partners Fund.

The manager provided details on their voting actions including a summary of the activity covering the reporting year up to 31/12/2020 as the data is only produced every 6 months.

Fund name	Voting summary	Examples of significant votes	Commentary
Partners Group The Partners Fund	Meetings eligible to vote at: 58	Ferrovial: PG voted against the approval of a remuneration report which intended to provide shareholders with information and a voice on the implementation of the remuneration policy. PG stated the report provided inadequate disclosure of performance targets linked to remuneration, no deferral of annual bonus to management, and sizeable equity rewards to controlling shareholders and the executive chair.	Private market investments have the largest exposure in The Partners Fund and these are typically held directly, where Partners Group controls the board and therefore the direction and strategy of the business.
	Resolutions eligible to vote for: 763		
	Resolutions voted for: 752 (99%)		
	Resolutions voted with management: 695 (92%)		
	Resolutions voted against management: 49(7%)		
	Resolutions abstained from: 8(1%)		
	Note that the data above relates to the 12-month period to 31 December 2020 as Partners Group only provide voting data semi-annually.		

