

Somerfield Pension Scheme Engagement Policy Implementation Statement

6 June 2024

Background

In 2019, the government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 which requires the Trustee to a statement setting out (among other things) how the Trustee has followed its policies on the exercise of voting rights attaching to their investments and engagement activities. This document is intended to meet those requirements (and those in the DWP's statutory guidance on Reporting on Stewardship and Other Topics, dated June 2022) and will be included in the Scheme's Report and Accounts and published on the Scheme's website.

This is the Somerfield Pension Scheme's fifth published Implementation Statement and covers the Scheme year from 1 April 2023 to 31 March 2024.

The Trustee's review of the SIP over the year

The Trustee maintains a Statement of Investment Principles (or "SIP") for the Scheme, and it is reviewed annually or following any significant changes in investment policy.

The Trustee reviewed and updated the SIP in May 2023 to reflect changes to the Scheme's long term investment strategy and revised collateral management framework, including the termination of the LGIM passive equity mandate and the move of the LGIM Buy and Maintain credit mandate from a segregated mandate to pooled fund arrangement. The SIP was also updated in September 2023 to reflect changes to the Scheme's allocation to illiquid assets, including the decision to sell holdings in one mandate and run-off illiquid assets in another. Changes were also made to reflect new regulations relating to Trustee's statements in relation to sustainability to ensure they are a fair reflection of the underlying investments. The SIP is available on the Scheme's website, www.somerfieldpensionscheme.co.uk, which was introduced for members in 2023.

In preparing the SIP, the Trustee consults with the sponsoring employer. The employer is consulted regarding any proposed changes to the Statement and investment strategy, however, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities (Section 12 of the SIP)

The Trustee's policies on engagement (as applicable during the year) are set out in the SIP, and are summarised below, together with the Trustee's assessment of how and the extent to which these policies have been implemented:

Policy	Assessment
<i>The Trustee seeks to address [the broad Responsible Investment issues set out in its Responsible Investment Policy] ... in a number of ways. For example, one of the Scheme's Buy and Maintain credit mandates is the LGIM Future World Net Zero Fund which seeks to reflect the Investment Manager's long-term thematic views including those related to climate change, by integrating ESG factors as part of the Investment Manager's selection process, and has a Net Zero target.... The</i>	The Trustee considers the most effective way to align the Scheme's investment with its values is to appoint fund managers that take a responsible and sustainable approach to investment, as well as to engage with asset managers in relation to the three broad issues that the Trustee identifies as priorities in the Scheme's responsible investment policy, namely:

<p><i>Trustee also applies a specific exclusion list of stocks for the segregated investment grade credit mandate to restrict investment in companies identified as conflicting with the Trustee’s aims under these issues.</i></p> <p><i>The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.</i></p>	<ul style="list-style-type: none"> • Climate change and the protection of the environment; • Labour conditions and equal pay; and • Corporate governance. <p>Where assets are held directly by the Scheme (specifically the segregated corporate bond assets with Royal London Asset Management, “RLAM”), the Trustee applies explicit exclusion lists to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. This has been applied throughout the year with updated exclusions lists provided to the managers quarterly based on ESG data licensed from MSCI.</p> <p>Elsewhere, the Scheme invests entirely in pooled investment funds alongside other investors and does not therefore directly invest in underlying companies or have the ability to engage directly with these companies.</p> <p>In particular, since June 2023 the corporate bond assets invested with LGIM are invested via the LGIM Future World Net Zero pooled fund which seeks to reflect the Investment Manager’s long-term thematic views, including those related to climate change, by integrating ESG factors as part of the Investment Manager’s selection process.</p> <p>Following an investment strategy review in 2022, the Scheme no longer holds investments in equity (directly or indirectly).</p>
<p><i>The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.</i></p>	<p>No specific issues were escalated to investment managers during the year.</p> <p>Over the year, the Trustee incorporated carbon reduction targets within the IMA for Royal London Asset Management (“RLAM”) in the management of their Buy and Maintain credit mandate for the Scheme, in order to align the management of the mandate with the Scheme’s Net Zero targets.</p>
<p><i>Investment Managers are asked to report to the Investment Committee on the issue of responsible investment.</i></p>	<p>The Trustee has, directly or through the Co-op’s Manager Monitoring and Implementation Committee, met with all five of the Scheme’s</p>

	managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments, and areas of engagement as well as developments over the year.
<i>In addition, the Investment Committee monitors how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.</i>	As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Investment Committee receives reporting from its investment consultants integrated into the Scheme's quarterly performance monitoring on its researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.
<i>As part of the appointment of new investment managers and its ongoing monitoring process, the Trustee will consider the Investment Adviser's assessment (in terms of ESG ratings) of how each investment manager embeds ESG and stewardship factors into its investment process and how the manager's responsible investment philosophy aligns with the Trustee's Responsible Investment policy. This includes the investment managers' policy on voting and engagement.</i>	No new managers were appointed over the year, although as part of the move from a segregated corporate bond mandate with LGIM to a pooled fund, the Trustee considered the ESG approach and Net Zero alignment of the Future World Net Zero fund, and the alignment with the Trustee's wider ESG priorities.
<i>In addition, the Trustee carries out regular reviews of the managers' ESG policies and actively engages with managers to better understand their processes.</i>	As noted above, the Co-op's Manager Monitoring committee met with all five of the Scheme's managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies were discussed at each meeting.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Exercise of voting rights

As noted above, the Trustee invested in equities through pooled funds managed by LGIM, until September 2022, at which point the Scheme's equity assets were sold. The scheme did not therefore hold instruments with attaching voting rights over the scheme year to 31 March 2024.