Annual Engagement Policy Implementation Statement for the year ended 31 March 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the Fund continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the below web address, and changes to the SIP are detailed on the following page:

SSSPF - SIP (pensionpal.co.uk)

The Implementation Report details:

- actions the Fund 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 Fund 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
- voting behaviour covering the reporting year up to 31 March 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

  - The volatility experienced in the UK gilt market over the reporting period led the Fund to receive a number of capital calls in order to top-up the Fund's LDI collateral. Capital was sourced from cash, and the Fund's absolute return bonds mandate, which was subsequently depleted. Following this, additional capital was sourced from the Fund's diversified growth mandate, in line with the collateral waterfall framework.

  - In Q4 2022, due to the continued rise in gilt yields, the Trustee reduced the hedge with LGIM to 42% (on a Technical Provisions basis) in order to ease liquidity strain on the Fund. Additionally, the Trustee agreed to redeem the Fund's holdings in the Partners Group Partners Fund and M&G Alpha Opportunities Fund to improve Scheme liquidity. Redemption proceeds were received in Q1 2023. Gilt market volatility subsided during Q4, and the Trustees re-increased the liability hedge to 60% (on a TPs basis).

  - In November 2022, the Trustee conducted a review of the Fund's investment strategy, whereby it was agreed to increase the target hedge to 85% (on a TPs basis), in addition to some amendments to the strategic benchmark. These changes included decreased allocations to Diversified Alternatives, Diversified Growth, and Diversified Credit in favour of Semi-Liquid Credit and Absolute Return Bonds. The increased hedge was successfully implemented in Q1 2023.

Implementation Statement

This report demonstrates that the Fund 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 Fund assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 85% (on a flat gilts basis) of the total liability movements caused by changes to interest and inflation rates.	During the 12-months ending 31 March 2023, the Trustee decreased the liability hedge to relieve liquidity pressures placed on the Fund, and was therefore below the target hedge level. A new strategic benchmark was agreed in November 2022, and in Q1 2023, the Trustee successfully rebalanced the Fund's LDI mandate to a new target hedge ratio of 85% (measured on a Technical Provisions basis) against changes in inflation and interest rates.
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.	The Fund's strategy has a large allocation invested in mandates which have daily/weekly liquidity. The Trustee monitors the Fund's liquidity position as part of quarterly performance reporting, and took the above action to relieve liquidity pressures experienced by the Fund. In order to provide liquidity to the Scheme the Trustee agreed to redeem the Partners Group Partners Fund and the M&G Alpha Opportunities Fund.
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.	The Trustee: - Implemented an increased liability hedging level, to protect against interest rates and inflation. - Made full redemptions from the Fund's diversified credit and diversified alternatives mandates.
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 Fund for the risk of default.	As mentioned above, the Trustee fully redeemed the Fund's investments in the M&G Alpha Opportunities Fund and the Partners Group Partners Fund. The LGIM ARB was fully depleted due to capital calls from the LDI mandate. Following the receipt of proceeds the M&G mandate, these were invested into the LGIM ARB, mandate. Overall, the Fund's diversification of credit risk declined over the period.

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.	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 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the mangers on an ongoing basis. The Trustee monitors the managers on an ongoing basis. The Trustee considers ESG issues as part of the investment process, and believe that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.	No Trustee actions or amendments were implemented over the reporting period in respect of ESG risk/policy.
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	Hedge all currency risk on assets that deliver a return through contractual income.	No Trustee actions or amendments were implemented over the reporting period in respect of currency risk.
Non-financial	Any factor that is not expected to have a financial impact on the Fund's investments.	Non-financial matters are not taken into account in the selection, retention, or realisation of investments.	No Trustee actions or amendments were implemented over the reporting period in respect of non-financial risk.

Changes to the SIP

The SIP was updated in 2023 to reflect the revised investment strategy outlined above.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Fund's policy with regards to ESG as a financially material risk. The Fund has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG polices. This page details The Fund's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Fund 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 companies' debt, 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 Fund'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.

Engagement

As the Fund invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the reporting year up to 31 March 2023.

<table>
<tr><th>Fund name</th><th>Engagement summary</th><th>Commentary</th></tr>
<tr><td>LGIM Cash</td><td>LGIM do not currently provide details of their engagement activities at Fund level, however the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm’s engagement reporting.</td><td rowspan="3">LGIM currently do not provide examples of their engagement activities at the Fund level.

LGIM’s Investment Stewardship team are responsible for engagement activities across all funds. LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</td></tr>
<tr><td>LGIM Absolute Return Bonds</td><td>Total engagements: 108
Environmental: 52
Social: 20
Governance: 30
Other: 6</td></tr>
<tr><td>LGIM LDI Portfolio</td><td>Total engagements: 33
Environmental: 23
Social: 1
Governance: 8
Other: 1</td></tr>
<tr><td>LGIM Diversified Fund</td><td>Total engagements: 979*
Environmental: 435
Social: 226
Governance: 281
Other: 37
*One engagement can comprise of more than one topic across each company</td><td>LGIM have clearly identified firm-wide sustainability goals and have a dedicated team responsible for engaging with portfolio companies. At a firm level LGIM is strong in their approach to ESG and voting/engagement.</td></tr>
<tr><td>Apollo Total Return Fund</td><td>Total engagements: 36
Environmental: 10
Social: 3
Governance: 0
‘Broad-based ESG’: 5</td><td>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.</td></tr>
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	Other: 18	Examples of significant engagements include: **Moss Creek Resources Holdings, Inc.**– Apollo engaged to mitigate the company's environmental impact, Moss Creek shared with them that the company has prioritised reducing emissions in its operations, primarily by reducing flaring and through the build out of an extensive water infrastructure and recycling system (which reduces the need for thousands of miles of truck driving and for freshwater extraction). Moss Creek's US assets are ringfenced from the parent entity, mitigating governance risks. Management has taken strides to improve its governance structure by forming a Corporate Responsibility Team and gathering stakeholder feedback via a third-party consultant. **PG&E Recovery Funding LLC; Pacific Gas & Electric Company** – Apollo engaged with senior members of the company's management team on its wildfire mitigation, grid hardening, and system resiliency strategy. Apollo also engaged on customer affordability initiatives and political and regulatory relationships.

Voting (for equity/multi asset funds only)

As the Fund invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2023. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	*Meetings eligible to vote for: 9,541* *Resolutions eligible to vote for: 99,252* *Resolutions voted for: 98.8%* *Resolutions voted with management: 77.4%* *Resolutions voted against management: 21.9%* *Resolutions abstained from: 0.7%*	**Anglo American Plc**– LGIM voted against approving the Climate Change Report. LGIM recognise the substantial progress the company has made in climate reporting, primarily on transparency and the expansion of GHG emissions reduction targets, as well as the importance of the company's products in enabling the low-carbon transition. However, LGIM note their concerns that the company's interim operational emissions targets (to 2030) are insufficiently ambitious to be considered aligned with the 1.5C trajectory. **Salesforce, Inc** – LGIM voted in favour of the shareholder resolution to require an Independent Board Chair. LGIM has a longstanding policy of advocating for the roles of Chair and CEO to be separate due to risk management and oversight, and expects companies to establish the role of independent Board Chair.	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made LGIM and we do not outsource any part of the strategic decisions.