Johnson Group Defined Benefit Scheme – Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year to 30 September 2024. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended), the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator.

In accordance with section 35 of Pensions Act 1995, a SIP has been prepared by the Trustee which incorporates the investment strategy. The most recent SIP was signed by the Trustee in March 2023.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The primary objective of the Scheme, as included in the SIP, is to invest the Scheme's assets in the best interest of the members and other stakeholders and, in the case of a potential conflict of interest, in the sole interest of the members. Within this framework, the Trustee is aiming to generate an investment return, over the long term, above that of the actuarial assumptions under which the funding plan has been agreed.

The Trustee and Committee have agreed that the long-term funding and investment objective for the Scheme is to target full funding on a gilts + 0.5% p.a. basis by 31 December 2028, and to reduce the 1-year Value at Risk ("VaR") measure to below £15m if possible.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ("ESG") factors, including stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change, as well as the processes followed by the Trustee in relation to voting rights and stewardship. There were no changes to the ESG, stewardship and climate change policy over the year.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their Investment Adviser on responsible investment. This covered ESG factors, stewardship, climate change and ethical investing. The Trustee keeps this policy under regular review, with the SIP subject to review at least triennially.

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

Voting Activity

The Trustee has delegated any voting rights to the investment managers. Where applicable, investment managers are expected to provide voting summary reporting on a regular basis, at least annually. However, the Scheme is no longer invested in pooled funds that hold assets with significant voting rights. As such, whilst the Trustee monitors investment manager engagement, there is no longer any significant voting activity and the Trustee therefore does not assess this.

Engagement

The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the Scheme's appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustee with ESG ratings for the strategies in which the Scheme invests.

The Trustee requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. All but one of the Scheme's managers confirmed that they are signatories of the current UK Stewardship Code, as of the latest update on 22 July 2024. The exception was Oaktree Capital Management, who have reported that they apply their own business principles and philosophy within their investment strategy globally, which is disclosed on the Oaktree website and maintained within Oaktree's internal policies and procedures. This investment is a legacy investment of the Scheme that is in the process of winding up, meaning exposure is expected to reduce to zero over the coming years.

The Trustee reviews investment performance reporting provided by the Scheme's Investment Adviser on a quarterly basis – this includes ratings (both general manager/strategy and specific ESG ratings). All of the managers remained highly rated during the year. Where managers may not be highly rated from an ESG perspective the Trustee continues to monitor this. When investing with a new manager, the Trustee considers the ESG rating of the manager. The investment performance reporting provided by the Investment Adviser includes assessment of how each investment manager is delivering against their specific mandate.

The Scheme's investment managers engaged with companies over the year on a wide range of different issues, including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris Agreement).

The Scheme's investment managers provided examples of instances of engagements with companies they were invested in (or intending to invest in) that resulted in positive outcomes. These engagement initiatives are driven mainly through regular engagement meetings with the companies in which the managers invest. The resolutions are often co-filed by a number of investors who indicate (or not) their support for the resolution to the company's management.

M&G Investments

M&G's Secured Property Income Fund owns buildings rather than investments with companies. However, they do engage with the occupiers in investee buildings on ESG issues, in the capacity of landlord rather than investor.

M&G Real Estate's Responsible Property Investment strategy puts areas of environmental excellence; health, wellbeing & occupier experience and contributing to communities & society at its core. M&G identified that the key to delivering the Fund's ESG strategy is proactive occupier engagement and, where feasible, support and alignment with their environmental, social and governance initiatives, programmes and aspirations.

M&G have implemented minimum requirements on ESG which form part of the checklist when acquiring any real estate assets. This is subject to scrutiny during the pre-acquisition due diligence process. As a standard part of this process, M&G commission building survey reports and environmental risk assessments.

As part of M&G Real Estate's commitment to achieve net zero carbon emissions by 2050, they continue to work on identifying carbon reduction pathways with third party specialists and are in the process of appointing a preferred supplier for climate change-related physical risk modelling. M&G are also actively engaging with occupiers regarding their environmental programmes and initiatives, and endeavour to support them in meeting their net zero carbon targets. Due to the Full Repairing and Insuring ("FRI") lease structures, the Fund has zero directly controllable operational carbon emissions, only those which derive from tenants sourcing energy. M&G's strategy will therefore be focused around working with tenants to help them achieve efficiency improvements and switch to low carbon energy sources.

Insight

The Scheme's investment with Insight comprises corporate bonds and government bonds.

Insight state that their purpose is to build a better future for their clients. To achieve this, they work to support stable and resilient social, environmental and economic systems and efficient, well-managed financial markets. These, in turn, will help them to achieve their clients' target investment outcomes.

Insight believe that integrating ESG issues into their investment processes, and in their dialogue with issuers and other stakeholders, supports better investment decisions and can have the potential to help clients achieve their desired outcomes. They have provided the following wording in relation to the firm's engagement activities:

"As a leader in investment management, Insight understands that we must demonstrate the highest standards of accountability and transparency in our stewardship programme. We have an unwavering commitment to stewardship. We believe effective stewardship includes taking clients' needs into account and working for the benefit of all stakeholders. Given Insight's business focus on risk management, liability driven investment (LDI) and fixed income, for clients with very long-term investment horizons, our activity looks different when compared to the activity of many of our peers in the investment management industry, which focus largely on equities. We aim for transparency across all our activities and collaborate with stakeholders where we believe we can maximise the impact of our engagement.

With regards to our holdings in corporate bonds, in 2023, Insight conducted 992 engagements with corporate bond issuers, including derivative counterparties, the majority of which incorporated discussions of environmental, social and governance (ESG) issues. We also work with governments, companies and civil society organisations to build knowledge and *awareness, to share expertise and to create a common voice on these issues when engaging with stakeholders in relations to our clients' investments. In recent years we have engaged with the industry on the transition from LIBOR, central clearing for European pension schemes, RPI reform, with the Office of the Prime Minister and Department for Energy Security and Net Zero in the UK, UN PRI on responsible investment 'progression pathways' and successfully petitioning for a 'mixed goals' UK SDR sustainability label.*

Our engagements are focused on creating positive change at the organisations we invest in. In determining the nature and objectives of an engagement relating to ESG factors, we adopt a Double Materiality Framework, whereby our approach is to categorise different themes to describe whether they have a greater impact in terms of their Financial Materiality or their Environmental & Social Materiality. Each potential engagement theme is prioritised by magnitude of importance to both enterprise financial value and societal stakeholders. Using a Double Materiality framework helps us to categorise the importance of different topics in their implications for an investments' financial value (financial materiality) and for how that investment may impact the world at large (environmental and social materiality).

We are focused on driving positive change throughout the market at both an individual issuer level and also market wide, as evidenced by our membership to an extensive list of working groups and initiatives outlined on the next sheet. In particular, our involvement with Climate Action 100+: where the world's largest investors have united for change, aligns investor engagement to encourage the world's largest carbon emitting companies to take action on climate change".

Mercer

Mercer, through its global investment consulting business, has advised investors on all aspects of responsible investment ("RI") since 2004, and were awarded Investment Consultant of the year at the 2021 Sustainable Investment Awards. This experience informs the approach taken by Mercer Alternatives ("MA") team members, who are supported by members of the global RI team. Mercer articulates its approach in its global investment beliefs. These beliefs support Mercer's commitment to the Principles for Responsible Investment ("PRI") and recognise the international and regional guidance on stewardship.

Mercer's "Investing in a Time of Climate Change" report, and "The Sequel, the Paris Agreement on Climate Change and the drivers underpinning the Sustainable Development Goals" are examples of other frameworks that inform their RI views. Mercer believes a sustainable investment approach is more likely to create and preserve long–term investment capital and more specifically that:

1. ESG factors can have a material impact on long–term risk and return outcomes, and these should be integrated into the investment process.
2. Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. Climate change poses a systemic risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
4. Stewardship (or active ownership) helps the realization of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, MA believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of clients.