



Schenker Limited Retirement Benefits Scheme ("The Scheme")

5 April 2024

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 Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address [schenker-scheme-statement-investment-principles.pdf \(schemedocs.com\)](https://www.schenker-scheme-statement-investment-principles.pdf) changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Trustee 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
- voting behaviour covering the reporting year up to 5 April 2024 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 funding position for the Scheme improved over the reporting year as rising yields reduced the value of the Scheme's liabilities by more than the assets. As a result, the Trustee agreed to review the investment strategy in Q3 2023 to reduce risk and protect the improvement in funding.

Following this review, the Trustee successfully appointed Legal and General Investment Management ('LGIM') as the Scheme's new LDI manager, in place of Columbia Threadneedle ('CT'). In addition, the Scheme replaced its exposure to Multi-Asset Credit ('MAC') funds with JP Morgan and M&G, with an allocation to the LGIM Absolute Return Bond ('ARB') fund. The updated investment strategy targets a reduced target expected return, from Gilts + 1.4% p.a. to Gilts + 1.0% p.a. The Trustee also agreed to increase the LDI hedge ratio up to 100% of technical provision liabilities to better protect against movements in interest rates and inflation.

The Scheme's allocation to the Partners Group Multi Asset Credit 2017 (IV) fund has reached the harvesting stage of its lifecycle and continues to receive distributions

of capital back to the Scheme. These proceeds are invested in the LGIM ARB mandate to support the LDI collateral position.

The Trustee continues to have conversations with the Company regarding the long-term objective of the Scheme, with the Trustee considering the timing of a potential disinvestment from the Apollo mandate as the lock up period ends in September 2024.

Implementation Statement

This report demonstrates that the Schenker Limited Retirement Benefits Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

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 c.100% liabilities on a Technical Provision basis.	During the reporting period, the Trustee reviewed the investment strategy and agreed to increase the target hedge ratio on interest rates and inflation from 95% to 100% on a Technical Provision basis.
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.	<p>The majority of Scheme's assets are held on the Mobius Life investment platform, with the exception of Partners Group which is a closed-ended fund.</p> <p>The strategy is sufficiently liquid with LGIM ARB traded daily, LGIM LDI and B&M Credit traded weekly and Apollo traded quarterly.</p> <p>The Scheme's LDI portfolio has an automatic collateral rebalancing framework, with LGIM ARB as the source for collateral calls.</p> <p>LGIM ARB is also a liquid source of capital to support cashflow needs of the Scheme as required.</p>
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.	During the reporting period, the Scheme replaced MAC exposures in JPM and M&G, with an allocation to LGIM ARB. The Trustee is satisfied that the Scheme's exposure to market risk is reasonably reduced through asset diversification.
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.	The Scheme reduced its target return over the period, and replaced exposures to MAC, with an allocation to LGIM ARB, and increased its

			allocation to LGIM B&M Credit. This is expected to reduce credit risk in the investment strategy and the Trustee is satisfied that the Scheme remains suitably diversified from a credit perspective.
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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 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 <p>The Trustee monitors the managers on an ongoing basis.</p>	Further detail provided later in this report
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge currency risk on assets, where it is appropriate to do so, and does not materially impact the views of the manager.	No actions or changes to policy.
Non-Financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No actions or changes to policy.

Changes to the SIP

Over the reporting period, the Trustee updated the SIP to reflect changes in the investment strategy.

Policies added to the SIP

Latest update: December 2023

Investment Objective

- Increased interest rate and inflation hedge ratios from 95% to 100% on a Technical Provisions basis.
- Decreased expected return from Gilts+1.4% p.a. to Gilts+1.0% p.a.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes Scheme policy with regards to ESG as a financially material risk. The Trustee has agreed to adopt Isio's Criteria for ESG assessment of managers which describes how it monitors and engages with the investment managers regarding the ESG policies. This page details the Trustee's ESG policy. The next page details the Trustee's view of the managers, the actions for engagement and an evaluation of the engagement activity.

Risk Management	<ol style="list-style-type: none">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	<ol style="list-style-type: none">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	<ol style="list-style-type: none">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	<ol style="list-style-type: none">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	<ol style="list-style-type: none">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	Actions identified	Engagement with manager commentary
LGIM - Matching Core LDI Funds	The manager at a firm level is strong in their approach to ESG and Stewardship. They are actively committed to integrating ESG considerations into LDI funds. They have a dedicated team which plays a crucial role in stewardship and responsible investment, ensuring premium risk management through their proprietary tools.	<p>LGIM maintains a broad commitment to ESG integration within their LDI funds, underscored by a dedicated ESG team that bolsters effective stewardship and responsible investment. Their approach emphasises meticulous risk management via proprietary tools. Overall, LGIM embodies a strong, firm-wide approach to ESG and stewardship.</p> <p>The manager should consider introducing a formal ESG training program with defined training priorities.</p> <p>The manager should consider providing better incentives, more choice and encouragement to investors for using the manager's ESG tool, which may improve outcomes and maximise engagement.</p>	<p>The manager has made little progress in terms of introducing a formal ESG training programme, complete with well-defined training objectives.</p> <p>The manager has made some progress towards improving data coverage on climate related metrics reported.</p>
LGIM - Buy and Maintain Fund	We consider LGIM as one of the market leaders in implementing ESG policies within their funds. The fund and asset class allows a significant degree of ESG integration due to strong data availability and a requirement to consider long-term factors to facilitate holding bonds to maturity.	<p>The manager should look at formally assessing the effectiveness of green bonds.</p> <p>They should look at increasing engagement as a percentage of the portfolio, since this appears to be lower than peers.</p> <p>The manager should also look to include social metrics and engagement details in regular fund reporting.</p>	<p>The manager has made some progress towards setting specific climate and social KPIs. Metrics can be generated; however, they are not assessed as KPI's in relation to the fund's performance. They have also started to provide fund-specific engagement figures; however, these aren't included in LGIM's formal ESG reporting.</p>
LGIM - Absolute Return Bond Fund	LGIM is one of the more advanced asset managers in relation to ESG, with a well-defined firm-wide ESG policy and a net zero commitment. The manager	<p>The manager could look at developing a process for independently assessing the effectiveness of green/sustainability-linked bonds. They could also look</p>	<p>The manager has made not made sufficient progress towards developing a process for independently assessing the effectiveness of green/sustainability-</p>

	collaborates with a range of industry participants to monitor and influence a broad range of ESG topics.	at improving reporting for nature or bio-diversity related metrics.	linked bonds. However, they have completed an action point to provide fund-level ESG or sustainability reporting in their quarterly ESG reports.
Partners Group - Private Markets Credit Strategies 2 S.A. - Multi Asset Credit 2017 (IV) GBP - Multi Asset Credit	The manager has a strong firm-wide approach towards ESG. Their investment approach uses robust screening, guided by industry standards like TCFD and UN Global Impact. Yet, PG's reporting lags behind peers, leading to a lower score in this area.	The manager should look at reviewing and updating the ESG scorecard on an annual basis. This includes climate and social risks. They should also look at providing examples of engagements where they have enhanced ESG specific factors.	The manager has made some progress towards setting ESG-objectives through sustainability-linked loans but does not have an over-arching or quantifiable target. The manager has not made sufficient progress towards including social and climate risks within their ESG assessments.
Apollo - Total Return Fund - Semi Liquid Credit	The manager have a central ESG team, including a sub-team that is dedicated to ESG Credit which work with credit investment professionals. At the moment the manager does not have clear stewardship policies or priorities for the fund. However, they do have an Impact Sleeve, which comprises of assets which meet impact criteria.	The manager should look at developing ESG objectives for the Fund, including formalising an exclusions policy. They should also look at developing climate scenario analysis for the fund.	The fund may need to consider methods to better incorporate climate risks. The manager has also not made sufficient progress towards formalising an exclusions policy to apply during the investment process. However, they have completed an action point to provide evidence of how the ESG risks they've identified at the due diligence stage, are actively managed through the life of the investment.

Engagement

As the Scheme invests 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 31 March 2024. LGIM have only provided engagement data and case studies on a fund level for ARB and B&M.

¹Please note, one engagement could cover multiple different themes.

Fund name	Engagement summary	Commentary
Apollo - Total Return Fund	<p>Total engagements: 59¹</p> <p>Number of entities engaged: 39</p> <p>Environmental: 50 Social: 30 Governance: 28 Other: 37</p>	<p>Apollo have a central ESG team, who works in partnership with credit investment professionals. ESG considerations are integrated into the Fund's risk management framework and due diligence process.</p> <p>Examples of significant engagements include:</p> <p>Host Hotels & Resorts, L.P. – Apollo encourage companies to improve energy efficiency. They engaged with Host Hotels & Resorts to discuss their LEED certification strategy. As a result, they increased the number of certified properties from 8 to 11 with more scheduled. They also aim to source 50% of their electricity usage from renewable sources by 2030. Apollo are actively monitoring Host Hotels & Resorts' performance.</p> <p>Covanta Holding Corporation - Apollo discussed several ESG topics with the company, including sustainability goals, labour turnover, and union presence. The company predicts it will achieve its sustainability linked KPIs by 2025. Less than 10% of the workforce is unionised. This information enhances Apollo's understanding of the company's ESG risks and opportunities, influencing investment decisions.</p>

<p>LGIM - Buy and Maintain Fund</p>	<p>Total engagements: 177¹</p> <p>Number of entities engaged: 83</p> <p>Environmental: 112 Social: 70 Governance: 151 Other: 44</p>	<p>LGIM have a well-defined and robust firm wide ESG policy, which is strongly integrated within the due diligence process used to assess the ESG credentials within the funds.</p> <p>Examples of significant engagements include:</p> <p>Tesco – Tesco were not paying all their UK employees a real living wage as at 2022. LGIM engaged with the company to advocate for fair wages. LGIM believe their consistent engagement has led Tesco to change their practices, resulting in all their UK employees being paid a real living wage. If the company fails to meet LGIM's minimum requirements by 2025, LGIM plan to vote against the Chairman.</p> <p>JP Morgan Chase – LGIM believe that financing from banks should align with the Paris Agreement and aim to monitor how the company meets commitments under the Net Zero Banking Alliance. LGIM engaged with JP Morgan to guide the company's transition towards green financing. LGIM influenced the company to increase the number of sectors covered by interim targets and to review target ranges. LGIM continue to encourage improved disclosures to accurately price climate-related risks and opportunities.</p>
<p>LGIM - Absolute Return Bond Fund</p>	<p>Total Engagements: 156¹</p> <p>Number of entities engaged: 75</p> <p>Environmental: 146 Social: 39 Governance: 99 Other: 46</p>	<p>Toyota Motor Corporation – LGIM supported a shareholder proposal requesting greater transparency on climate lobbying activities and alignment with the Paris Agreement. As a result of the shareholder proposal on climate lobbying, the company has expressed intentions to seek third party reviews on alignment. However, additional transparency is needed regarding how the company's climate lobbying aligns with its targets.</p>
<p>LGIM - Matching Core LDI Funds</p>	<p>The manager does not produce a detailed breakdown of the engagement activity for LDI funds.</p>	<p>Engagement with companies for LDI and cash funds is done at a firm wide level rather than on a fund basis and guided by the central stewardship team. LGIM leverages its scale and influence to engage with companies and policymakers globally, with the aim of improving market ESG standards and best practices.</p>

**Partners
Group²-
Multi-Asset
Credit**

Total Engagements: 4¹
Exit: 1
Corporate: 3

Partners Group have a clear policy regarding engagement with underlying portfolio companies. Engagements are managed by the investment teams with input from the central ESG team when required.

Examples of significant engagements include:

Envision Healthcare Holdings – Post Envision Healthcare’s bankruptcy in 2023, Partners Group engaged with the company and converted its debt exposure to a c.18% equity holding in Amsurg, Envision’s more stable, ambulatory surgery business. Amsurg is currently meeting budget, reporting robust financial performance and positive revenue growth.

AGS – Partners Group held multiple engagements with sponsor Baring PE Asia on the extension of the acquisition loan provided in 2019. Given that AGS continues its good performance, invested funds extended their exposure at attractive new terms and received an additional amendment fee.

²31/12/2022-31/12/2023

