

## IMPLEMENTATION STATEMENT

# The London Institute of Banking and Finance (LIBF) Pension Fund (the 'Fund')

## Implementation Statement

Investing Fund assets is a fundamental part of the Trustees' duties, and is something the Trustees continuously work with their advisors and fiduciary manager to achieve. New pension scheme regulations now require additional information be made available online to Fund members to explain how the Trustees do this, and that information is set out in this Implementation Statement.

This Statement summarises how voting and engagement rights have been exercised by managers on the Trustees' behalf. Further details on the Trustees' policies for managing the Fund's assets, including how Environmental, Social and Governance (ESG) factors are taken into consideration, are set out in the Fund's 'Statement of Investment Principles' (available here: [https://iconic-ptluk.s3.eu-west-2.amazonaws.com/s3fs-public/LIBF\\_SIP\\_2020.pdf](https://iconic-ptluk.s3.eu-west-2.amazonaws.com/s3fs-public/LIBF_SIP_2020.pdf))

### **1. Introduction**

The Trustees are required to make available online a statement ("the Implementation Statement") covering the Defined Benefit ("DB") section of The LIBF Pension Fund.

This first Implementation Statement covers the Scheme year from 1 January 2020 to 31 December 2020. It sets out:

- How the Trustees' policies on exercising voting rights and engagement have been followed over the year; and
- The voting by or on behalf of the Trustees, including the most significant votes cast and any use of a proxy.

**The Trustees believe that they have acted in accordance with and followed the policies set out in the Statement of Investment Principles over the Scheme year.**

### **2. Voting and Engagement Summary**

The Trustees have followed their Statement of Investment Principles approach to voting and engagement over the year to 31st December 2020 and expects this to have positively contributed to the Scheme's performance. The Trustees have appointed River and Mercantile Investments Limited ("RAMIL") as fiduciary manager to manage their assets. River and Mercantile Group, of which RAMIL are a division, are a PRI signatory and were rated A+ by PRI in 2019 for their Strategy and Governance. To ensure all relevant voting and engagement is covered, this statement includes information on both the fiduciary manager's voting and engagement record as well as those of the underlying managers. Where proxy voting agents have been used, this has been included in the voting information.

This statement of implementation has been completed over the year to 31st December 2020 and where applicable, underlying managers have provided examples of engagement.

References to "ISS" relate to Institutional Shareholder Services, a proxy voting company.

## IMPLEMENTATION STATEMENT (continued)

### *Fiduciary Growth Portfolio:*

As there are c. 30 managers in the DB Stable Growth portfolio, RAMIL have only included allocations which are c.2.5% of Growth assets or higher as at 31<sup>st</sup> December 2020 based on the model portfolio. RAMIL have listed out the funds we have considered in detail below but have requested information from all the underlying managers in the DB portfolios.

PM Asset Class	Sub Asset Class	Fund	%
Equity	Global	BNY Mellon (River and Mercantile) Global Equity Fund	37.70%
Equity	Global Quality	Fundsmith Equity I Share (ACC) Share Class	2.45%
Alternative	Hedge Fund	Millennium	2.50%
Alternative	Hedge Fund	Hudson Bay International Fund Ltd	3.25%
Alternative	Mortality Risk	Leadenhall Life	3.25%
Return Seeking Credit	High Yield	BNY Mellon Efficient US High Yield Beta Fund E-Share Class (GBP hedged)	3.10%
Return Seeking Credit	Regulatory Capital	Orchard Taiga Special Opportunities DAC - Series A	2.50%
Return Seeking Credit	Opportunistic	Neuberger Berman Global Flexible Credit Fund I5 Accumulating Class (GBP hedged)	5.00%
Property	UK Property	Tritax Property Income Fund	2.50%
Property	Global Property	CB Richard Ellis Global Alpha Fund CT3 Acc	2.50%

## River and Mercantile pooled fund voting and engagements

The voting and engagement activities of the managers listed above are detailed on the following pages. However, RAMIL itself is eligible to vote and engage with the fund managers themselves. Details of RAMIL's engagement with these managers is summarised below.

Over the year to 31 December 2020, RAMIL voted on 255 resolutions across 57 meetings. RAMIL voted against management at 11 meetings which was 18% of total meetings and abstained in 7 meetings (12% of meetings).

During 2020, 44 engagements were carried out in relation to their due diligence and voting activities, and within these 44, RAMIL engaged on 8 separate areas on 70 occasions. Significant engagement examples include:

- 13 engagements relating to auditor tenure. 11 of the engagements took the form of advising the manager of RAMIL's policy, typically to provide forward guidance in advance of voting against incumbent auditors in place for over 20 years. For one of the engagements, the auditor had been in place for over 20 years. However, the manager was committed to changing the auditor by a set deadline in line with the transition arrangements permitted under EU regulations and RAMIL subsequently supported the auditor reappointment. Following two other engagements, RAMIL voted against the auditor's reappointment as they had previously engaged and voted against this resolution in both cases

## IMPLEMENTATION STATEMENT (continued)

### River and Mercantile pooled fund voting and engagements (continued)

- Another cost RAMIL would typically consider to be something that the investment manager should cover out of their fee is the marketing expenses associated with pooled investment vehicles. However, it is fairly common for pooled investment vehicle documentation to permit the charging of marketing expenses to the Fund. RAMIL carried out four engagements in relation to marketing expenses during 2020, including engaging with a new credit fund they had seeded where the company's documentation permitted the charging of marketing expenses. RAMIL negotiated with the investment manager to include wording in the documentation for the new fund confirming they did not intend to charge marketing expenses to the Fund.

***Voting and engagement data for the underlying fund managers is set out below.***

## Equity

### ***Fundsmith – Equity Fund:***

#### **Voting Statistics**

	<b>No. of Voteable Proxies</b>	<b>Times actually voted</b>	<b>No. of Votes Against Management Instruction</b>	<b>% Voted</b>	<b>% Voted Against Management</b>
<b>Total 12m to 31/12/2020</b>	423	423	24	100%	6%

- **Most significant vote(s) and examples of engagement**
  - In November 2020 Fundsmith met with Coloplast's Chairman to discuss remuneration. Their existing policy doesn't include a returns or growth-based metric and the Manager engaged to understand how the policy contributed to the long-term, sustainable growth of the company. The Manager was content with the response and changed its vote to support their remuneration policy in 2020.
  - Fundsmith also engaged with multiple companies in the last year on remuneration policies, most notably Diageo and IHG. Fundsmith encourage companies to include returns-based measure such as return on investment capital (ROIC) in their long-term incentive package (LTIP) so that only value accretive growth is rewarded. They were successful in the engagement with IHG (they now include a ROIC measure in the LTIP).
  - Following further engagement Fundsmith were not successful in getting Diageo to add a returns-based measure in their LTIP and as a result voted against their remuneration policy at their Annual General Meeting.

## IMPLEMENTATION STATEMENT (continued)

- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this:**
  - None noted but there are ongoing engagements.
- **How the Firm’s ESG process has evolved over the past 12 months**
  - Fundsmith have been building up the systems and resources to more transparently show the impacts companies invested in have on the wider world, especially in the context of increasing sustainability regulations and the UK Stewardship Code 2020.
  - As long term shareholders Fundsmith consider ESG factors a significant part of their investment process as they want companies that can sustain a return on invested capital across the business cycle. The biggest innovation in their process over the last year was to publish a responsible investment policy, which explains Fundsmith’s approach to responsible investment.

### **BNY Mellon (“BNY”) – Equity Strategy:**

#### **Voting Statistics**

	Meetings	Proposals	Votes For	Votes Against	Votes Abstain	Votes Withhold	With Mgmt	Against Mgmt	With ISS	Against ISS	With Policy	Against Policy
<b>Total 12m to 31/12/20</b>	1131	13999	12521	1248	72	53	12862	1040	13661	241	13896	6

Most significant vote(s) and examples of engagement

No examples of significant engagement provided.

#### **Cognizant Technology (CTSH)**

***BNYM voted against elements of proposed executive pay in last year’s vote. The main issue was the pay structure for the NEO (“Named Executive Office”), where this was inconsistent with that of the CEO in relation to the Long-Term Incentive Plan and pay for performance.***

***In addition, BNYM asked questions in regard to the environmental sustainability goals set for 2020. CTSH does not provide any updates, but has agreed to provide further information in the 2021 report.***

#### **Regeneron (REGN)**

***Regarding compensation, BNYM expressed concern over retention due to volatility in stock pricing. REGN has talked to investors about the right mix of equity awards; in the last year, it took steps to make changes (used stock options and full value awards of rank and file employees and some senior executives). For the top two executives, REGN uses PSUs (Performance Share Units) for a significant portion of the plan. BNYM stated that the company should detail its engagement process in its next proxy statement.***

***BNYM does encourage increased disclosure about efforts made to retain and keep employees safe. This can be in a supplemental report or statement, or included in the next proxy statement.***

## IMPLEMENTATION STATEMENT (continued)

### *Return Seeking Credit*

#### *Neuberger Berman Global Flexible Credit*

- **Significant company engagements that were successful over the past 12 months:**
  - Neuberger Berman (NB) had engaged with a leading manufacturer and distributor of blood testing equipment. The company's solutions are used in hospitals and other healthcare centres worldwide for screening, diagnosing, and monitoring diseases.
  - Diligence process included multiple discussions with the issuer's management team including the Treasurer and CEO. Developed engagement priorities aligned with the Sustainable Development Goals with a focus on the following factors:
    - Encourage the company to develop social targets in addition to its previous environmental focus. NB believes social considerations are material factors to the issuer's overall credit profile due to the socially-focused nature of the healthcare business, along with the importance of affordability and access for the issuer's ESG Quotient.
    - NB encouraged the issuer to increase product distribution to at risk/at-need populations globally through donations of refurbished equipment.
    - NB engaged with the issuer to understand the impact the COVID-19 crisis would have on its long-term business strategy. The firm could test for COVID and NB viewed the issuer's ability to deliver these solutions and products globally as a positive for society and for the issuer's credit profile and operating trends.
  - As a result, Neuberger met with the CEO of the company in 2020 who acknowledged the company has discussed equipment donations. NB has greater confidence the issuer will implement these targets and continues to engage the issuer on providing disclosures so in order to track their progress.
- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this:**
  - Diligence process included a discussion with members from the Treasury team and the Head of Sustainability. They developed engagement priorities with a focus on the following factors:
    - Discussed the company's ESG objectives around smart agriculture goals, water stress, circular packaging, product portfolio and diversity and inclusion.
    - Specifically, NB encouraged the issuer to disclose more information on water stress improvement goals and progress. Water is essential to the operations of the issuer. Water intensity is a material risk to the issuer due to the physical, reputational, and regulatory risks associated with it.

## IMPLEMENTATION STATEMENT (continued)

- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this (continued):**
  - NB encouraged the issuer to set diversity goals and publish data and progress towards this goal due to the importance of strong human capital and talent management practices.
  - While the company was receptive to NB's engagement, NB are still awaiting the publishing of the company's first ever standalone ESG report to assess whether its feedback was implemented and to learn what data the company has disclosed. NB will follow up with the company upon publishing of this report.
  
- **How the Firm's ESG process has evolved over the past 12 months:**
  - The team believes that maintaining an active dialogue with senior management is an essential driver of consistent long-term investment results, as it provides them with a more holistic understanding of the credit risk, enables the team to offer feedback when they see shortcomings, and allows them to suggest alternative steps to protect value when necessary.

## *Orchard Taiga Special Opportunities*

- **Significant company engagements that were successful over the past 12 months:**
  - Speciality Lending Vehicle consisting of senior and subordinated loans as well as an equity positions in a materials company within Western Europe.
    - Environmental impact/Local environmental laws and regulations
      - Some minor compliance issues were detected last year after an audit which have been addressed. While the Company uses log wood as raw material for pallets and thus has the impact of deforestation, this is offset with careful planning of forest resources, which helps benefit reforestation. Supply of wood from calamities (storms, diseases, etc.) is not wasted and is utilized as pallet wood to create lower grades. The generation of electricity from wood is also environmentally beneficial as organic waste (mainly bark) is used.
    - Employee safety
      - New guidelines have been established and new safety equipment and tools have been bought in order to improve safety.

## IMPLEMENTATION STATEMENT (continued)

### *Orchard Taiga Special Opportunities (continued)*

- **Significant company engagements that were successful over the past 12 months (continued):**
  - Maintenance of books and records
    - It was detected during the general business audit performed last year that record keeping was not sufficiently accurate. A new suite of IT tools and clear guidelines are being implemented to better reflect the Company's financial situation at all times.
- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this:**
  - Speciality Lending Vehicle: Share backed loan on a company located in South East Asia
    - Country Score (Governance)
      - While corporate governance standards in Indonesia have significantly improved since 2015, Indonesia does not have a statutory corporate governance code and lags countries like Malaysia or Singapore. Orchard will continue to engage with Management to push forward improvements.
- **How the Firm's ESG process has evolved over the past 12 months:**
  - The firm has started ESG reporting in their Q4 Taiga Report. They have also updated their ESG Policy which now includes a section on engagement.

### ***BNY Mellon: Efficient Global IG Corporate Beta Fund and US High Yield Beta Fund (GBP Hedged)***

The manager's investment process for these funds does not currently involve engaging with issuers. An area under development is an ESG scoring matrix of parameters, which will use MSCI ESG data help the manager de-select especially low-scoring issuers.

## **Property**

### ***Tritax Property Income Fund (TPIF)***

- **Significant company engagements that were successful over the past 12 months:**
  - Tritax has reviewed and improved 19 Energy Performance Certificate ("EPC") ratings during the year, as a result of a range of enhancements to environmental performance, including installing energy-efficient lighting and controls. These were carried out by engaging with its tenants. In 2019, the Trust improved its percentage of A-C grade EPCs by 4% (by floor area) and removed its last E EPC ratings from the portfolio.

## IMPLEMENTATION STATEMENT (continued)

- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this:**
  - Engaging with Telent Technology Services Limited, TPIF had agreed to fund the installation of roof-mounted Solar Photovoltaic Systems (Solar PVs) at its property in Carr Lane, Chorley where they are tenants. Unfortunately, subsequent investigation into the roof structure found that it would not be of sufficient strength to support the installation at sufficient scale to provide the benefit of either a significant reduction to Telent's electricity costs or meaningful improvement to the EPC rating of the building.
- **How the Firm's ESG process has evolved over the past 12 months:**
  - The Fund uses its Annual Report to highlight to investors its corporate sustainability policies, including:
    - Creating a new ESG strategy focused on core materials themes (determined through a materiality assessment) and a series of ESG policies to govern its activities and embedding ESG into their investment policy.
    - Tritax have developed site sustainability action plans for each asset, which are reviewed on an annual basis.
    - Targets have been set for core material themes covering Electric Vehicle (EV) charging, solar PV, energy efficiency and community investment.
    - In order to benchmark the Fund's and Tritax's achievements in this area, they have reported to GRESB (the Global ESG Benchmark for Real Assets) and increased annual disclosures, having successfully engaged with a number of tenants on data sharing to improve energy efficiencies in its building assets.

## ***CBRE Global Alpha Fund***

- **Significant company engagements that were successful over the past 12 months:**
  - Realterm Airport Logistics Properties:
    - Realterm has formed a Joint Venture consisting of BOWA Construction, d'Escoto, and Clayco as the construction team leading the Northeast Cargo Phase III development project at Chicago O'Hare International Airport. The project will be the first air cargo facility nationally of this size and scale to be constructed by an African American-led construction team (BOWA Construction). The other two partners in the Venture also have a strong focus on ESG. D'Escoto is a Hispanic-owned engineering services firm and Clayco is a construction firm with a comprehensive diversity and inclusion program.



## IMPLEMENTATION STATEMENT (continued)

- Cortland Partners US Residential Venture:
  - When the Venture was launched in 2019, the manager did not have a Corporate ESG policy and there were no de-fined targets to improve the sustainability of the Venture's assets. Following CBRE Global Investors' engagement, the manager has formalised an environmental policy to monitor asset level performance, set goals for improvement, and effectively communicate those activities to clients. For the Venture specifically, Cortland has engaged Code Green (a leading ESG consultant) and began tracking all asset data in Measurabl (CBRE Global Investor's preferred ESG data platform). Cortland will be participating in GRESB for the first time in 2021 on behalf of our Venture.
  - At the asset level, the team has ordered energy audits for all new acquisitions, any assets slated to undergo a comprehensive renovation program, and for older vintage assets on a needs-based approach. The recommended improvements have been incorporated in the annual business plan or renovation plan as appropriate.
- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this:**
  - A key area for improvement is in the data coverage of waste management and water consumption, particularly within some logistics holdings within the Global Alpha portfolio. For example, Prologis Targeted US Logistics Fund and the Clarion Partners Lion Industrial Trust have returned data coverage figures for waste of 0% and 0% respectively, and 3% and 27% for water consumption, respectively. This poor level of data coverage has been a drag on the GRESB performance for each venture, and as such CBRE have committed to engaging with these managers ahead of the GRESB 2021 survey to find methods of improving their data coverage, such as comprehensive roll out of environmental monitoring systems which will assist with the automation of data collection.
- **How the Firm's ESG process has evolved over the past 12 months:**
  - The Manager has engaged directly with Global Alpha underlying fund managers and operating partners extensively throughout the year.
  - Their 2021 Sustainability Vision has ambitious targets for the next two decades including a corporate commitment to achieve many of its aspirations by 2040. For indirect strategies, it has committed to using its position to positively influence operating partners and underlying funds to improve their ESG performance by 2040.

## IMPLEMENTATION STATEMENT (continued)

### Alternatives

The alternative nature of these funds means investments tend not to be in listed equities and as such, voting is not relevant.

#### ***Millennium: International Fund***

Due to the nature of the firm's investments, they do not usually vote proxies. In situations where a portfolio manager believes it is useful to vote a proxy, the CLEO (Compliance, Legal, Ethics Oversight) Committee, or a designated member will review the request and decide whether the requested vote is in the Fund's best interest and approve or reject this request accordingly.

#### ***Hudson Bay International Fund Ltd:***

Due to the nature of this Fund's investments it does not utilise vote proxies. Although Hudson Bay does not have an ESG related policy within its overall portfolio design, it recognises and respects the fact that ESG is a very important issue, therefore, has developed the ability to allocate away any profits and losses attributable to investments that would violate a client's ESG mandate.

#### ***Leadenhall Life***

- **Significant company engagements that were successful over the past 12 months:**
  - As an example, the Manager has recently engaged with a German hybrid insurer/reinsurer on its strength of their ESG support by each pillar as part of its Operational Due Diligence process.
    - On an environmental standing it was particularly sound; its parent group majority investor is a signatory to the UN PRI. Their investment screening process removes the risk of investments that they may make falling afoul of shared environmental goals. They also have an active disclosure of the carbon footprint in their financials and extensive section of their website describing their underwriting and investment policies with regard to sustainability.
    - Life insurance in general is a socially beneficial service so the Firm has a particular interest in seeing that their investments stand up to scrutiny here. The firm in particular queried turnover and training policies and the hybrid insurer/reinsurer invests heavily in people resources with training officers an important part of development, maintaining a high employee retention as a result (<20% turnover per annum). They also reviewed the company's corporate volunteering commitment to establish that this was part of their corporate culture. This also related to a high degree of commitment to the arts and culture.

## IMPLEMENTATION STATEMENT (continued)

### *Leadenhall Life (continued)*

- **Significant company engagements that were successful over the past 12 months (continued):**
  - Insurance is a highly regulated business and Leadenhall reviewed the parties' regulatory framework for both prudential and behavioural oversight. The hybrid insurer/reinsurer is regulated for behaviour but not prudential oversight and in this case had minimal regulatory findings under their last regulatory audit which was shared with Leadenhall. A further detailed review of the decision-making authority, organisation chart, and framework for operational risk governance and internal audit was conducted. They also shared their own internal audit findings. Leadenhall concluded the firm had solid risk accountability.
- **Example of a company engagement that stalled or did not work out as expected over the past 12-months, and how the firm was able to respond to this:**
  - In one instance Leadenhall were offered the opportunity to lend to a vehicle against the Embedded Value of a targeted insurance acquisition. The deal team brought the proposition to internal committee for discussion and was rejected in part because of potential governance issues. (One of the Principals in the vehicle had been previously involved in a failed entity.)
- **How the Firm's ESG process has evolved over the past 12 months:**
  - All EU-based open ended funds managed by Leadenhall Capital Partners ("Leadenhall") have been categorised as being investment products which promote environmental and social characteristics in accordance with the criteria recently set out in Article 8 of the Sustainable Finance Disclosure Regulation ("SFDR") in the EU.

## Cash

### ***BlackRock – ICS Institutional Sterling Liquidity Fund***

Due to the nature of this Fund's investments it does not utilise vote proxies.

## Liability hedging & structured equity

Engagement is relevant when considering trading counterparties and RAMIL regularly monitors counterparty ESG scores. At an industry level, RAMIL engages with relevant industry consultations (for example RPI reform and LIBOR reform).