



# Central England Co-operative Limited Pension Scheme 31 December 2024

# Background and Implementation Statement

## Background

In recent years the regulatory landscape has evolved 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 and regulatory guidance relating to voting and engagement policies and activities is now in place. 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 [https://www.centralcoop.co.uk/assets/documents/20240423\\_CEC\\_Scheme\\_SIP.pdf](https://www.centralcoop.co.uk/assets/documents/20240423_CEC_Scheme_SIP.pdf) changes to the SIP are detailed on the following pages.

The Implementation Report details:

- actions the Scheme 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
- as at 31 December 2024 the Scheme is no longer invested in funds containing listed equities therefore there are no voting records to provide

## Summary of key actions undertaken over the Scheme reporting year

The Scheme made a handful of strategic changes over the reporting year:

- Invested in Insight Liquid Asset-Backed Securities Fund, in addition to the existing Global Asset-Backed Securities Fund, as part of the Bespoke QAIF mandate to increase collateral resilience and enhance returns on excess collateral
- The Scheme revised its LDI collateral waterfall, topping up the ABS mandates, and documented this framework in IMA with Inisght
- The Alcentra Direct Lending mandates are in their harvesting phase and continue to pay back capital, including Fund I which has fully matured making its final payment on 26 September 2024.

The Trustee last reviewed the SIP in November 2023 (updated online in March 2024). The Trustee made no changes to the SIP over the 2024 Scheme year.

### **Implementation Statement**

This report demonstrates that Central England Co-operative Limited Pension 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.80% of the interest rate and inflation risks, respectively, on a gilts +0.5% basis via a bespoke LDI arrangement with the LDI manager.	No actions to report.
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.	During the year, the Scheme invested in Liquid ABS assets that are daily liquid and included as part of the Scheme's collateral waterfall to increase liquidity and collateral resilience. No actions to report.
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.	No actions to report.
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 Scheme for the risk of default.	The Scheme's Direct Lending mandates are currently in their harvesting phase, with Alcentra Fund I paying back all capital and winding up in September 2024 reducing the Scheme's credit risk.  The Scheme's new investment in the Liquid ABS fund adds marginal credit risk, however the assets are very high credit quality which mitigates this risk.
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	Further detail provided later in this report.

		<ul style="list-style-type: none"> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI signatory</li> <li>6. UK Stewardship Code signatory</li> </ul> <p>The Trustee monitor the managers in this regard on an ongoing basis.</p>	
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge the currency risk on direct lending assets as much as practically possible given their highly contractual nature.	No actions to report.
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 to report.

# Current ESG policy and approach

## ESG as a financially material risk

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

<b>Risk Management</b>	<ol style="list-style-type: none"><li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme</li><li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee</li></ol>
<b>Approach / Framework</b>	<ol style="list-style-type: none"><li>3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li><li>4. ESG factors are relevant to investment decisions in all asset classes.</li><li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li></ol>
<b>Reporting &amp; Monitoring</b>	<ol style="list-style-type: none"><li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li><li>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge.</li><li>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.</li></ol>
<b>Voting &amp; Engagement</b>	<ol style="list-style-type: none"><li>9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li><li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li></ol>
<b>Collaboration</b>	<ol style="list-style-type: none"><li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li><li>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.</li></ol>

# 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 December 2024. All of the managers have provided engagement data for the 12-month period to 31 December 2024 except for Morgan Stanley who could provide fund-level data as at this date but could only provide firm-level data for the 12-months to 30 June 2023.

Fund name	Engagement summary	Commentary
Alcentra European Direct Lending Funds II & III	<p>Total engagements: 215</p> <p>Environmental: 42</p> <p>Social: 53</p> <p>Governance: 27</p> <p>Other: 49</p> <p>Number of entities engaged: 38</p>	<p>Alcentra engages with portfolio companies to promote their ESG expectations which they believe will support their objective of sustainable long-term investment returns. Some of Alcentra's engagement objectives include gathering company specific information on ESG risk exposures, addressing governance and management practise concerns, and promoting the adoption of sustainable business practises. An example of a significant engagement is:</p> <p><b>Consumer markets insight provider:</b> Since taking ownership of the company in 2020, Alcentra has been focused on making ESG a key pillar at the board, management and employee level. In terms of improving governance, Alcentra focused on cyber and digital areas given attempted cyber-attacks. Alcentra helped to significantly enhance the company's IT functions, and they are now ISO 9001 and 27001 certified. Alcentra discussed KPIs in terms of community service, employee diversity in addition to implementing a diversity and Inclusion policy. This has led to an increase of staff from</p>

		<p>minority groups to 31%, up from 24% in 2022 as well as increased the charitable community hours donated by employees to 432 hours in 2023 up from 315 hours in 2022. Additionally, the CFO ran free consumer research workshops for the charity Toys for Tots. Alcentra will continue to track progress against KPIs and drive progress via the Board.</p>
<p>Apollo Total Return Fund</p>	<p>Total engagements: 278</p> <p>Environmental: 258</p> <p>Social: 251</p> <p>Governance: 254</p> <p>Number of entities engaged: 192</p> <p>Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.</p>	<p>Apollo uses an ESG credit risk assessment process to identify any significant risks to a company's long-term financial performance, as well as identify any company with strong ESG practices which present the opportunity for positive outcomes.</p> <p>Examples of significant engagements include:</p> <p><b>American Electric Power Company, Inc. ("AEP")</b>- Apollo collaborated with AEP to discuss their sustainability strategy, initiatives, and plans for 2025. AEP reported that they are ahead of schedule in meeting their Scope 1 emissions reduction targets and will be reassessing their carbon emissions reduction goal this year. AEP is working with regulators and policymakers, primarily at the state level, to ensure they provide affordable and reliable power to customers amidst the evolving load dynamics.</p> <p><b>AP Grange Holdings, LLC</b> – During the year, Apollo-managed funds invested c.\$1bn to acquire a 49% interest in a joint venture relating to Intel's Fab 34 which is a semiconductor wafer fabrication manufacturing facility based in Ireland. Through their due diligence process, Apollo engaged with the company to determine how Fab 34 contributes to Intel's decarbonisation goals. This provided insights into the use of</p>

	<p>extreme ultraviolet (EUV) lithography technology to enhance power efficiency. Additionally, this improved the Fab's heat recovery, renewable energy, waste recycling, and water restoration/conservation to minimise their environmental footprint. Intel has already established a track record of voluntary sustainability-related disclosures and Apollo will continue to engage on an ongoing basis with the company to request additional information.</p>
<p>IFM Infrastructure Investments Fund</p>	<p>Due to the nature of the Fund, IFM are unable to provide quantitative engagement data.</p> <p>IFM engage through board representation in both their private equity and public market portfolio holdings. IFM will only invest in companies which have appropriate governance structures in place. IFM bring together key executives of their portfolio companies to help spread good ESG practices and objectives across the portfolio.</p> <p>Examples of significant engagements include:</p> <p><b>Aleatica</b> - IFM collaborate with investee companies including Aleatica, to consistently enhance their safety performance. IFM's methodology has significantly influenced this effort, as incident data generally show a trend of overall improvement following the acquisition of each asset. Aleatica has become the first company to achieve the International Road Assessment Program (iRAP) Road Safety Certification for multiple assets in various countries, with eight of its concessions now certified by iRAP in Europe and Latin America. Additionally, Aleatica has committed to the #SaferRoadsPledge, an initiative by iRAP, aimed at improving safety on high-risk roads globally.</p> <p><b>Sydney Airport</b> - IFM participated in a workshop with Sydney Airport to explore opportunities for implementing electric Ground Service</p>

		<p>Equipment (eGSE), smart pilot-controlled pre-conditioned air terminals (PCA), and low-emission ground taxiing support vehicles.</p>
<p>Insight Bespoke Pooled LDI</p>	<p>Insight have provided the following engagement data in terms of the Scheme's counterparty panel:</p> <p>Number of engagements: 3</p>	<p>ESG integration is limited to Insight's engagement with underlying counterparty banks. Therefore, the engagements provided by Insight cover their general approach to engagement with counterparty banks and some specific examples of engagements with wider market stakeholders.</p> <p>Examples of significant engagements include:</p> <p>Barclays PLC – Insight engaged with Barclays, one of the counterparties on the Scheme's LDI panel, on climate change matters. Insight noted that Barclays were yet to set accredited science-based targets and the banks revenue threshold on arctic drilling is high. Following Insight's recommendations, Barclays have improved their oil sands policy and have introduced a Client Transition Framework, which aims to show how the bank evaluates its clients progress towards low-carbon business models. Additionally, Insight encouraged the Bank to consider setting science-based targets in order to improve transparency and comparability with peers.</p>
<p>Insight Global + Liquid Asset-Backed Securities Fund</p>	<p>Total engagements: 40</p> <p>Number of entities engaged: 30</p>	<p>Insights stewardship programme includes their prioritised engagement themes, which are climate change, water management, and diversity and inclusion for this year. Insight uses an approach to identify companies which have areas for improvement in order to launch targeted engagements.</p> <p>Examples of significant engagements include:</p>

		<p><b>Rockford Towers ("RFTE"):</b> Insight engaged with the CLO manager on the reset of an existing CLO issue, as its ESG portfolio limit score was one of the weakest compared to its peers. According to Insight's proprietary CLO ESG framework, RFTE were rated within the lowest 10% of their investment universe. Therefore, Insight viewed this an opportune time to engage with the originator, to encourage them to amend the deal terms of the reset. RFTE agreed to these changes, which resulted in implementing formal ESG Conduce Based Exclusions as well as introducing updates to their documentation. Under Insight's framework, the updated deal then scored within the top quartile for ESG. This engagement was successful, as it helped move RFTE in line with peers in terms of their rating for CLO restrictions.</p> <p><b>MSCI –</b> Insight engaged with the data provider as they state there are no reliable data providers for ESG and carbon metrics across ABS and secured finance. The initial engagement took place in 2023 where MSCI had only a small coverage of European and US non-agency ABS. From continued engagement, Insight state that MSCI have made efforts to improve this through engaging with industry participants to help guide their objectives and key focus. Insight is currently reviewing data quality and methodology and if they conclude the data is of sufficient quality, Insight may consider implementing external data for carbon metrics across their ABS assets.</p>
Insight Liquidity Fund	<p>Total Engagements: 3</p> <p>Number of entities engaged: 3</p>	<p>Insight Investment Management have a Counterparty engagement programme, where their core trading counterparties are benchmarked on their performance against environment, diversity,</p>

		<p>remuneration and cyber factors. Poor performers will be targeted for engagement and their progress will be tracked.</p> <p>An example of a significant engagement includes:</p> <p><b>Banco Santander, S.A.</b> – Insight engaged with the Spanish-based bank to better understand how ESG risks are managed by the organisation following their answers to Insight’s Counterparty Sustainability Assessment Questionnaire. Insight focused their engagement on climate, natural capital, and human rights. In terms of climate, Insight notes the bank performs well relative to peers as it reports on financed emissions for six sectors and has published a transition plan. However, it does not report on facilitated emissions. Insight noted this as an objective during engagement, and noted they will follow up with a feedback report on this area. Insight engaged with the bank on its human rights policy as it had not been updated since 2019. Insight have requested that the bank updates its human rights policy in line with the Bank Track assessment and will follow up in 2025. During the engagement, the bank was keen to know areas they could improve. Insight will share a feedback report in 2025 and will monitor its progress through the counterparty engagement programme.</p>
<p>JP Morgan Infrastructure Investments Fund</p>	<p>Due to the nature of the Fund, JP Morgan are unable to provide quantitative engagement data.</p>	<p>JP Morgan Infrastructure Investments Fund has implemented an ESG framework with each portfolio company with specific goals, training sessions, monitoring procedures, and implementation of best practices. The Fund aims to align portfolio companies’ management with their ESG objectives through a compensation structure. At each Board meeting, ESG is an</p>



agenda item and updates are given at each meeting. Additionally, every year each portfolio company participates in the GRESB assessment which benchmarks their ESG practices against industry standards whilst providing insights into areas of strength or areas with room for improvement.

Examples of significant engagements include:

**South Jersey Industries (SJI) -** JPM engaged with SJI, the energy services company that owns natural gas utility and non-utility companies. The engagement emphasised IIF's governance controls, proactive asset management, and investment in energy transition projects that support climate objectives and deliver more sustainable energy to customers. As the sole owner of SJI, IIF collaborates closely with SJI's management and board on specific energy projects, ensuring their integration into business plans and overall strategy. An example of an energy project developed by SJI is the Linden Renewable Energy Project, which is one of the biggest food waste-to-renewable natural gas projects in the US. This project aims to convert organic waste into pipeline-quality renewable natural gas that will displace fossil fuels.

**All IIF Holdings -** JPM conducted an annual board effectiveness survey involving all IIF portfolio holdings, with each portfolio company participating. The responses are compiled and presented at the IIF Investor Committee Meeting. As IIF holds full or majority ownership of its portfolio companies, understanding the Board's strengths and weaknesses is essential for executing business plans and long-term strategies.

Morgan Stanley AIP  
Phoenix Global Real  
Estate Secondaries  
Fund

No engagement data  
given.

Morgan Stanley's GRES Fund does not have any specific engagement policies as it held its final close in December 2014 and its investment period terminated in 2016. However, the Fund does consider ESG in the portfolios they manage as they believe ESG factors can lead to positive opportunities or significant risks.

The manager due diligence includes (but not limited to) the below themes:

ESG Integration

Engagement and Proxy Voting

Monitoring and Reporting

Impact

Climate Change

Diversity and Inclusion

