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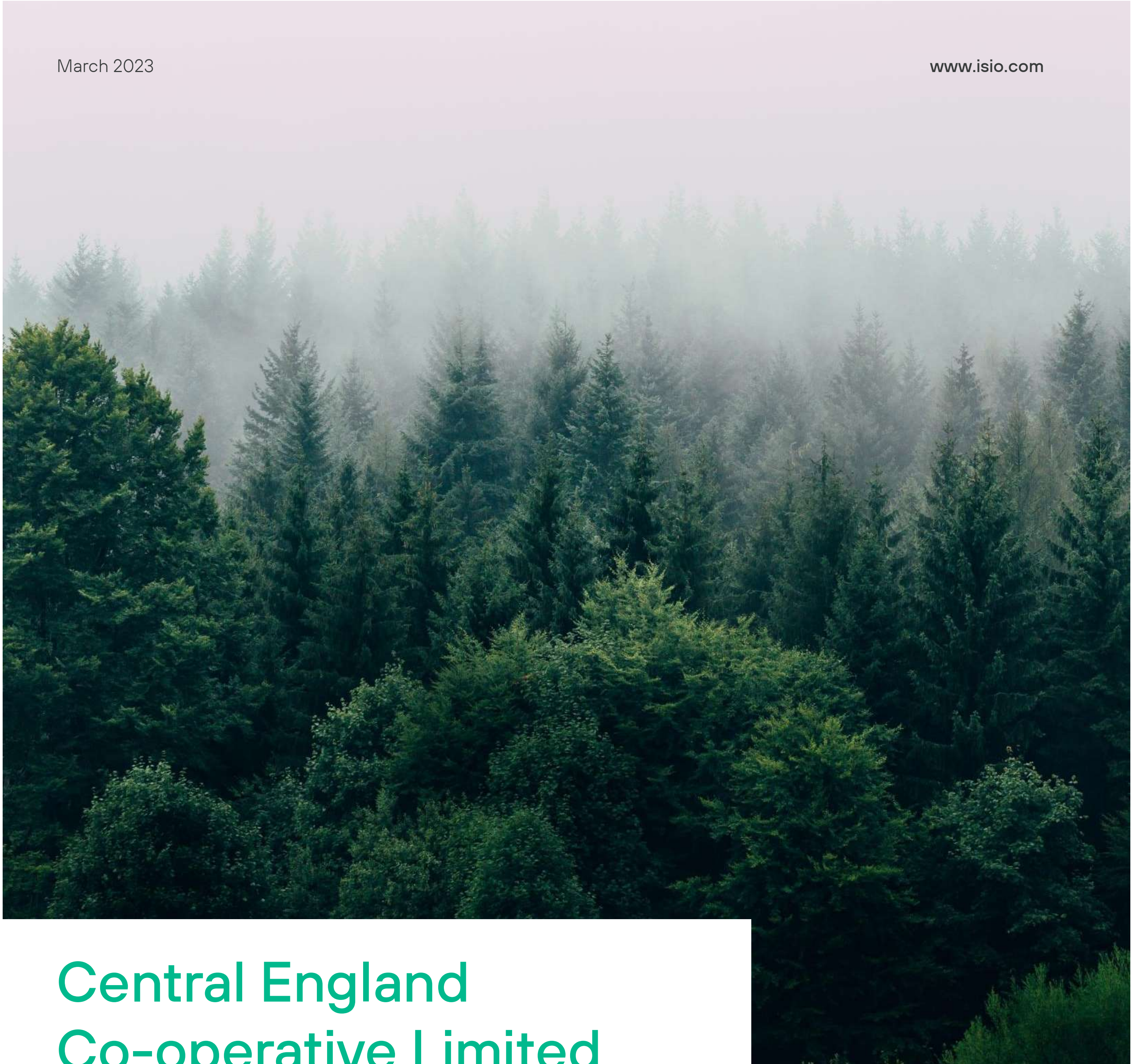

Central England Co-operative Limited Pension Scheme 31 December 2022

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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 20231010_CEC_Scheme_SIP_-_March_2023_(signed).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
- voting behaviour covering the reporting year up to 31 December 2022 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 Scheme made several strategic changes over the reporting year:

- Funded its investment with IFM who manage an infrastructure equity mandate;
- Topped up its M&G short credit allocation but subsequently reduced it later in the year due to ongoing liquidity requirements;
- Disinvested fully from its Abrdn and Baillie Gifford Diversified Growth Fund allocations;
- Fully redeemed from its M&G Inflation Opportunities investment, taking around half of the proceeds as long lease property fund units; and
- Increased its allocation to Liability Driven Investment ("LDI") in order to maintain the existing interest rate and inflation hedge ratios as far as possible, as well as increase the collateral position following the gilt market volatility experienced over the 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	Naomi L'Estrange
Position	Trustee Chair of The Central England Co-operative Limited Pension Scheme and Managing Director at Vidett Trustees Limited
Date	August 2023

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.70% of the interest rate and inflation risks, respectively, on a gilts +0.5% basis via a bespoke LDI arrangement with the LDI manager.	The Scheme moved from a pooled LDI fund into a bespoke LDI arrangement with Insight. The hedge ratios were reduced in October to 61%/66% due to collateral requirements within the LDI funds. The Trustee has since agreed to increase this to 70% following a top up of assets within the mandate and is expected to be implemented in Q2 2023.
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/synthetic equity manager.	The Scheme disinvested from less liquid assets in order to increase its allocation to daily dealt assets. This was determined in conjunction with wider strategic discussions.
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 Scheme derisked over the year following a reduction in the deficit.
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.	Reduced due to sales from the M&G Short Credit mandate.

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 6. UK Stewardship Code signatory The Trustee monitor the managers in this regard on an ongoing basis.	Further detail provided later in this report.
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 changes.
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 changes.

Changes to the SIP

The Trustee made changes to the SIP over the year to reflect the strategic changes made to the Scheme as well as to meet new regulatory requirements.

Policies added to the SIP	
Dates updated: November 2022 and March 2023	
Voting Policy - How the Trustees expect investment managers to vote on their behalf	• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'	• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
	• The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
	• Example stewardship activities that the Trustee has considered are listed below.
	    o Selecting and appointing asset and fiduciary managers – the Trustee will consider potential managers' stewardship policies and activities
	    o On an adhoc basis, the Trustee assesses the voting and engagement activity of their asset managers. The results of this analysis may feed into the Trustee's investment decision making
	• Collaborative investor initiatives – the Trustee will consider joining/supporting collaborative investor initiatives

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 polices. 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.

Risk Management	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	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 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	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 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 2022.

Fund name	Engagement summary	Commentary
Alcentra European Direct Lending Funds I, II & IIII	Total engagements: 40 Environmental: 11 Social: 9 Governance: 8 Financial: 12	Alcentra have improved on their Fund-level engagement reporting to provide a number of engagements for specific topics. An example of a significant engagement is: **Consumer Markets Insights Provider**: Alcentra took ownership of the company and made ESG a key pillar to the company's strategy. Alcentra has helped to improve governance by ensuring an independent external non-executive director was appointed as the Chairman of the Board to help with better decision making. Alcentra has also implemented a new diversity and inclusion policy, and has set key performance indicators ("KPIs") based on community service, employee diversity and satisfaction. Alcentra will continue to monitor the progress against the set KPIs and continue improvements with the company's Board.
Apollo Total Return Fund	Total engagements: 54 Environmental: 47Social: 33 Governance: 25	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

	Number of entities engaged: 47 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.	opportunity for positive outcomes. Examples of significant engagements include: **Kiwi Holding IV S.A.R.L:** Apollo actively engaged with the company to include 2 sustainability-linked targets within the deal structure. The company's scope 1 and 2 emissions will be measured in line with the Greenhouse Gas ("GHG") Protocol and International Standards in relation to quantifying and reporting on emissions. It will have emissions targets of a 5% annual reduction flatlining at 20% from the end of 2025. The company will continue to provide Apollo with information and progress on GHG emissions and management diversity. **Air France-KLM**: Apollo engaged with the company to gather data on a project to show whether the engines included will contribute to the sustainability and decarbonisation goals. Air France will keep Apollo updated on their fuel use and emissions.
IFM Infrastructure Investments Fund	Due to the nature of the Fund, IFM are unable to provide quantitative engagement data.	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 practice and objectives across the portfolio. Examples of significant engagements include: **Buckeye Partners**: Buckeye and IFM have begun looking for Merger & Acquisition opportunities to acquire renewable development projects as well as currently developing solar projects. Both of these projects together may generate enough renewable power to offset over 200% of

		Buckeye's 2019 electricity consumption. **Indiana Toll Road (ITR)**: With the assistance of IFM's 2021 Community Grants Program, ITR collaborated with the organisation TradeWinds to fund a project that seeks to improve toll road customer experience and support employment pathways for deaf and hard of hearing people in the community.
Insight Bespoke Pooled LDI	Insight have provided the following engagement data in terms of policy level lobbying given the nature of the Scheme's investment: Number of engagements: 24 Environmental: 11 Governance: 24	Given the synthetic nature of the Scheme's exposure to equity, 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. Examples of significant engagements include: **Derivative counterparty banks**: Insight continue to engage with all counterparties on ESG integration and the integration of ESG factors into assessment of credit risk, noting that if they become uncomfortable with the level of ESG risk present this could lead to a pause in trading with that bank or decreasing their exposure. **Debt Management Office (DMO):** Insight engaged with the DMO to encourage them to increase impact reporting of green gilts from every two years to once a year, however the DMO's response suggests this will be unlikely in the short-term. Insight also pointed out to the DMO that an increase in relevant emissions data from the government would help investors decision-making.
JP Morgan Infrastructure Investments Fund	Due to the nature of the Fund, JP Morgan are unable to provide quantitative engagement data.	JP Morgan Infrastructure Investments Fund has implemented a 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. Examples of significant engagements include: **Onward Energy**: The Fund has full ownership in Onward, a company focused on energy transition to a lower carbon environment. During the year, the company closed on an acquisition to double the size of Onwards solar portfolio. The Fund and Onward will now focus on integrating the new assets, onboarding new solar plant staff, engage with customers and update their reporting to include the new solar assets. **El Paso Electric**: The Fund worked with the company's management to set and implement specific goals and action plans to achieve them. The following goals have been set and published: 80% carbon-free energy by 2035 100% pursuit of decarbonisation of generation portfolio by 2045 The Fund and company recognise that climate risks will be best mitigated through long-term strategies, but shorter-term projects are needed to help reduce impacts.
M&G Secured Property Income Fund	Total engagements: 67 Number of entities engaged: 22	The M&G Secured Property Income Fund is a property fund which invests in properties to let to tenants on long leases. As such, M&G engage with the tenants in a landlord capacity therefore have no direct influence on their corporate strategy on ESG but have regular contact regarding the assets the tenants occupy.

		Examples of significant engagements include: **Dalata**: M&G have held discussions with Dalata focusing on energy usage reduction and waste reduction. Both companies wish to work together under a joint initiative (e.g. working with a partner charity) on environmental and social initiatives. **Sainsbury's**: M&G have engaged with Sainsbury's to determine their ESG goals and net zero aspiration, as well as requesting information on technology used in their stores such as methods to decrease energy use in certain store areas. M&G would potentially fund initiatives for some of Sainsbury's sites after they have been reviewed.
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

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