www.isio.com

J Barbour & Sons Limited 2015 Pension Scheme – Implementation Statement

Year to 30 April 2023

isio.

Document classification: Public

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.

Statement of Investment Principles (SIP)

The Scheme updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change; and
- policies on the stewardship of the investments.

The SIP can be found online at the web address:

https://www.barbour.com/media/wysiwyg/PDF/02_SIP_Draft_Sept2019_Clean_.pdf

There were no changes to the SIP over the year to 30 April 2023.

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This 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; and
- voting behaviour covering the reporting year up to 30 April 2023 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

There were no changes to the Scheme's strategy over the year.

Implementation Statement

This report demonstrates that J Barbour & Sons Limited 2015 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 100% of these risks on a Technical Provisions basis,	The Scheme has an LDI mandate in place to manage these risks. This mandate should be reviewed periodically to ensure it appropriately matches the Scheme's liabilities.
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.	The Scheme holds collateral with LGIM to cover any potential recapitalisation events.
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 employs an investment strategy which is diversified across asset classes and hedges out unrewarded investment risk (i.e. the Scheme's LDI mandate hedging interest rate and inflation risk).
Credit	Default on payments due as part of a financial security contract.	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.	Credit risk is minimised by the Scheme's exposure across a range of different sectors and geographies.
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 The Trustees monitor the mangers 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 all currency risk on all assets that deliver a return through contractual income.	The Scheme's investment managers hedge currency risk where appropriate, within the funds which the Scheme invests in.
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.	There is no policy related to this factor at this time.

Changes to the SIP

There were no changes to the SIP over the 12-month period to 30 April 2023. However, following the 30 April 2023 the Trustee made changes to the SIP to reflect recent regulatory requirements.

Policies added to the SIP	
Date updated: September 2023	
Voting Policy - How the Trustees expect investment managers to vote on their behalf	• The Trustees have 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 Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf. • The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regarding to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	The Trustees investment managers provide reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.	The manager has not acted in accordance with their policies and frameworks. The manager's policies are not in line with the Trustees policies in this area.

Areas of assessment and ESG beliefs

Risk Management	1. ESG factors are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Reporting & Monitoring	6. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 7. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Voting & Engagement	9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD. 12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

ESG summary and actions with the investment managers

The Trustees are satisfied with the current process for ESG considerations and have additionally received and reviewed Mobius Life's ESG policy. Isio conducted an impact assessment in 2022 which reviews the ESG credentials of the Scheme's managers on behalf of the Trustees. The assessment reviewed each manager's investment philosophy and approach to incorporating ESG factors and assessed whether these approaches are in line with that of the Trustees. In the table below Isio have included an updated summary of each manager's ESG credentials and priorities. Via Isio, the Trustees continue to engage with the Scheme's investment managers on both their ESG approach and engagement.

Manager and Fund	ESG Summary	Key Actions identified
LGIM Buy & Maintain Credit	LGIM has 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 Fund. However, there remains a lack of explicit fund-level ESG objectives. At an overall level, 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.	Investment Approach – Develop specific ESG / Climate objectives for the Fund, with quantifiable and tangible targets. Risk Management – Create plans to support the reduction in its carbon weighted temperature alignment and set specific KPIs. Reporting - Include fund specific engagement activity and coverage of GHG emissions data. Collaboration – Look to push towards "impact" attributes and accreditation if practicably viable.
M&G Total Return Credit Investment	M&G have a strong firm wide ESG approach and have evidenced their ability to manage ESG risks in this Fund. However, we note reporting is a slightly weaker area due to data reporting issues in certain areas of the portfolio, which M&G are working to address. While the Fund scores well on ESG integration, M&G are developing a 'sustainable' version of the Fund with a greater focus on impact investments for clients with stronger ESG goals.	Investment Approach – Introduce KPIs to track the Fund's alignment with the firm-wide ESG policy. Risk Management – M&G to continue to develop temperature scenario modelling. Voting & Engagement – M&G should increase the number of portfolio issuers they are actively engaging with on ESG specific issues, Reporting – M&G should continue to improve data coverage and reporting metrics, with a particular focus on social and engagement reporting.

LGIM LDI	LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. LGIM's ESG approach brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. LGIM are working to improve their reporting processes and are looking to provide more granularity on ESG metrics in their standard reporting across all their funds. LGIM have strong commitments to net zero and the decarbonisation framework.	Reporting – LGIM should enhance ESG counterparty reporting in regular client reporting of LDI Funds.

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 30 April 2023. Some managers have provided details on their engagement actions for the 12 months to 31 March 2023 (rather than 30 April 2023 due to availability of data).

Fund name	Engagement summary	Commentary
LGIM Buy & Maintain Credit	Total Engagements: 161 Environmental: 76 Social: 59 Governance: 76 Other: 26 Individual engagements may cover multiple engagement pillars.	LGIM have a strong and integrated ESG approach for pooled funds which follows a robust framework. At a firm level, LGIM regularly monitor companies and where engagements are unsuccessful, the team will assess where problems arose and new approaches to be employed. LGIM engage with regulators, governments, and other industry participants to address long-term structural issues. LGIM have not provided company names, however the top five engagement topics are: Climate Change (with 52 engagements), Remuneration (44), Corporate Strategy (24), Board Composition (21) and Nominations & Successions (19). LGIM have engaged with 86 unique companies and 23% of eligible fund value has been engaged.
M&G Total Return Credit Investment	Total Engagements: 11 Environmental: 5 Social: 4 Governance: 2	Examples of significant engagement include: **BASF –** M&G engaged with the company to push for the inclusion of scope 3 emissions to the existing scope 1 & 2 carbon emission reduction targets and to commit to decarbonising its feedstock by 2050. M&G held a call with the CEO, Head of Corporate Sustainability and Head of IR at BASF. The company explained that it is making good progress with its suppliers in terms of upstream emissions but that there is still a gap for downstream emissions due to a lack of methodology and a lack of end-of-life data for the thousands of applications which BASF products are used for. BASF is now part of the SBTi expert group working on a sector-specific methodology for the chemical industry and hopes to be in a position to get good enough data to set a scope 3 target by the end of 2023. No promise was made on decarbonising feedstock. The company explained that the majority of its products will always be carbon-based. However, in future, carbon from CCU (carbon capture and utilisation), recycling or bio-based feedstocks such as biomethane will increasing replace fossil-based feedstocks. M&G will continue to engage with BASF and follow up in due course.

		Duke Energy Corp – As part of M&G's ongoing Coal Engagements, it has discussed with the North American electric power and natural gas holding company to disclose a phase out plan to exit coal by 2030 (currently 2035). The company confirmed that as they go through the IRP process (which follow a 3-yearly cycle) they always consider ways in which they can move the retirement dates for the remaining coal plants forward. For example, the upcoming Ohio-Kentucky IRP contains a proposal to shorten the depreciable life of the plants from 2041 to 2035 and as part of the Carolina carbon plan the company filed adjusted (i.e. shortened) timelines for 4 of the portfolios for consideration by the North Carolina commission. The company confirmed that post-2030 the plants will be primarily for the capacity back up to ensure reliability of the system. The company continues to demonstrate positive progress and the intent is clearly there, however, the 2030 date is understandably not achievable. As such, M&G will need to decide whether it is comfortable with an overshoot of 2030. The decision around next steps will be determined by M&G when the Coal Appeals Committee next meets.
LGIM Matching Core LDI Range	Total Engagements: 33 Environmental: 23 Social: 1 Governance: 8Other: 1	LGIM have engaged with LDI counterparties throughout the previous 12 months. LGIM's top five engagement topics are: Climate Change (with 27 engagements), Remuneration (8), Capital Management (3), Board Composition (2) and Nominations & Successions (2).
LGIM Sterling Liquidity Fund	Total Engagements: 5 Environmental: 3 Social: 1 Governance: 1 Other: 0	LGIM have engaged with the Fund's counterparties throughout the previous 12 months. LGIM's top engagement topics are: Climate Change (with 3 engagements), Board Composition (2) and Culture (1).

Voting (for equity/multi asset funds only)

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Please note, this section does not apply to the Scheme's current holdings as the funds held do not have shareholder voting rights.

www.isio.com