July 2022

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Implementation Statement

CBI Retirement Benefits Plan
12 months to 31 December 2021

Document classification: Public

Background to the Implementation Statement

Background

The Department for Work and Pensions ("DWP") is increasing regulation in order to improve disclosure of financially material risks. These regulatory changes recognise Environmental, Social and Governance ("ESG") factors as financially material and requires UK pension schemes to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require schemes to detail their policies in their Statement of Investment Principles ("SIP") and demonstrate adherence to these policies in an implementation statement.

Statement of Investment Principles (SIP)

The Plan updated its SIP in response to the DWP regulations to cover:

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

The SIP can be found online at the web address https://www.cbi.org.uk/articles/cbi-retirement-benefits-plan/ and recent changes to the SIP are detailed in this statement.

Implementation Statement

This implementation statement provides evidence that the Plan continues to follow and act on the principles outlined in the SIP. The statement details:

- Actions the Trustee has taken to manage financially material risks and implement the key policies in the Plan's SIP.
- The current policy and approach to ESG and the actions taken to manage ESG risks.
- The extent to which the Trustee has followed the Plan's policies on engagement, covering engagement actions with its investment managers and, in turn, the engagement activity of the investment managers with the companies in the investment mandates. The focus of the statement is engagement rather than voting, due to the fact there were no voting rights attached to the investments over the year to 31 December 2021 (as the assets are predominately credit based),.
- In H1 2022 the Trustee reviewed their investment beliefs and agreed a new ESG beliefs statement for the Plan. This will form the basis for ESG integration within Plan decision making going forwards. The statement is summarised in this implementation statement.

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Summary of key actions undertaken over the Plan's reporting year

The Trustee monitors the Plan's investments on an ongoing basis, including receiving regular reporting from the Plan's investment adviser and the investment managers.

Reporting includes monitoring the Plan's investment strategy versus the strategic target detailed in the SIP, reviewing the performance of the investment managers versus relevant benchmarks and/or their stated objectives, and monitoring investment risks.

There were no changes to the Plan's strategic asset allocation over the 12-month period to 31st December 2021.

Alongside traditional investment considerations, the Trustee receives regular reporting on ESG considerations. The Trustee reviews the Plan's investment managers from an ESG perspective on an annual basis and the Plan's investment adviser regularly meets with the investment managers to review their ESG policies and practices. The Trustee met with Schroders, who manages the majority of the Scheme assets, in May 2021, to review Schroders investment approach, risk management, and approach to ESG integration.

During the year, the Trustee received training from and had ongoing discussion with the investment adviser on ESG considerations with respect to the Plan. This includes an initial discussion on potential ESG actions with the investment adviser in August 2021, and then a further discussion in H1 2022 to revisit the Trustee's investment beliefs. The Trustee also meets with the Company to understand its approach to ESG but recognises that the Plan's approach is bespoke and focused on delivering the best outcome for members.

The Trustee keeps the Plan's SIP under ongoing review. There were no changes made to the SIP during the 12-month period to 31st December 2021 due to no strategic changes being made.

Implementation Statement

This report demonstrates that the CBI Retirement Benefits Plan has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

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Risk management policies and implementation

As outlined in the SIP, the Trustee adopts an integrated risk management approach. The three key risks associated with this framework and how they are managed are stated below.

Further, a summary of the actions the Trustee has taken to implement this framework over the 12-month period to 31st December 2021 is included.

Risk	Definition	Policy	Actions taken in implementing the policy
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	The Trustee's policy is to select an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsor's covenant strength. The Trustee also aims to mitigate this risk by investing in a diversified portfolio of assets.	The Trustee monitors the performance of the Plan's assets versus the investment objective on an ongoing basis.
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cashflows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	The Trustee receives regular funding updates. As part of the 31/12/2020 Actuarial Valuation process the Trustee received funding advice from the Scheme Actuary and an appropriate funding basis and schedule of contributions was agreed.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	When developing the Plan's investment and funding objective, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.	The Trustee receives regular updates on the financial performance of the sponsoring company. The Trustee assessed the sponsor covenant strength as part of the 31/12/2020 Actuarial Valuation.

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Risk management policies and implementation: continued

As outlined in the SIP, the Plan is exposed to a number of underlying risks and financially material considerations relating to the Plan's investment strategy.

The Trustee's policies in respect of these issues, including how financially material considerations are taken into account in the selection, retention and realisation of investments are summarised below. **A summary of the actions the Trustee has taken to implement the policies over the 12-month period to 31st December 2021 is also included. The Trustee also retains and updates a risk register on at least an annual basis, covering investment, funding, administration, and other risks.**

The individual risks noted are all relevant to the core risks outlined in the IRM framework: Investment, Funding and Covenant. Risks such as concentration risk are a subset of Investment risk, whilst Hedge mismatch risk is a subset of both Investment risk and Funding risk. Sponsor risk is the key risk associated with the Covenant.

Risk	Definition	Policy	Actions taken in implementing the policy
Administrative risk	Risks relating to the operational management of the Plan's assets.	The day-to-day management of the Plan's assets is delegated to professional asset managers under FCA regulation.	The Trustee keeps a risk register under review, including administrative risks. The Trustee meets with the investment managers on a regular basis.
Concentration risk	The risk of an adverse influence on investment values from the poor performance of a small number of individual investments.	Diversification of the assets: • by asset class (property, bonds, etc.) • region (UK, overseas, etc.) • within each asset class.	The Trustee maintained a diversified portfolio over the 12 months to 31st December 2021.
Currency risk	The potential for adverse currency movements to have an impact on the Plan's investments.	To invest in funds that hedge all or the majority of currency risk.	The vast majority of the Plan's assets were held in sterling denominated assets over the period.
Custodian risk	The creditworthiness of the custodian bank and the ability of organisations to settle trades on time and provide secure safekeeping of assets under custody.	To monitor the custodian's activities and reviewing the performance of the custodian.	The Plan's selected investment managers use well established and FCA regulated custodians.

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Default risk	The risk that the issuers of corporate credit are unable to meet their obligations.	To diversify this risk by investing in a range of credit markets across different geographies and sectors.	The Trustee reviews default risk on a regular basis through reporting from the investment adviser. The investment managers use tools such as diversification, credit analysis and, in the case of the Direct Lending mandate, covenants to mitigate default risk. A large proportion of the assets are held in either government or investment grade bonds reducing potential default risk.
Environmental, Social and Governance ("ESG") risks	This is the risk that ESG factors, including but not limited to climate change, can impact the performance of the Plan's investments.	The Trustee mitigates this risk by appointing managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy: **1.** The existence of a clear responsible Investment ("RI") Policy/Framework. **2.** This Policy/Framework is implemented via a defined investment process. **3.** The manager has a track record of using engagement and any voting rights to manage ESG factors. **4.** The manager provides ESG specific reporting. **5.** The manager is a signatory of the UN Principles of Responsible Investment ("PRI") and UK Stewardship Code (or equivalent). Furthermore, the Trustee appoints an investment adviser, who is a signatory of the PRI and UK Stewardship Code and is expected to provide the necessary support to the Trustee on ESG matters. The Trustee monitors the managers on an ongoing basis against the above criteria. Going forwards the Trustee will also be reviewing the investment managers against the ESG beliefs established in H1 2022.	The Trustee carried out an in-depth review of the investment managers' ESG policies and practices during 2021. The Trustee agreed that the performance of all of the investment managers was satisfactory and will continue to engage with the managers to seek improvement. The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies. The Trustee met Schroders in person over the reporting year to further understand its ESG approach, monitoring and engagement. Further details are explained later in this statement.

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Hedge mismatch risk	The risk that over time as the shape of the Plan's liability cashflows evolve, a level of mismatch could develop between the LDI mandate, and the liabilities being hedged.	The mismatch is reduced through a review of the LDI mandate once a valuation takes place.	Liability hedge reviews are conducted regularly and typically on an annual basis. The Trustee refreshed the liability hedging portfolio after year-end, in April 2022, to ensure the portfolio remains well aligned to the target 100% hedge of Technical Provisions liabilities.
Leverage risk	Economic exposure arising from investing in a derivative that is greater than the capital committed to the investment.	Suitable levels of leverage are used for risk management purposes in reducing interest rate and inflation risk.	Leverage was maintained at an acceptable level over the period and is monitored by the LDI manager and investment adviser.
Liquidity risk	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	The Trustee has considered the benefit of the additional return offered over comparable liquid investments and sized the allocation to illiquid assets appropriately to ensure that it should not impact the Plan's ability to meet its liquidity requirements.	The Trustee receives monthly updates from its investment adviser on liquidity and collateral management. The Trustee's annual cashflow management policy sets out guidelines for managing liquidity in an effective way.
Reinvestment risk	The risk that the return gained when reinvesting in new bonds varies dependent on market conditions.	The Trustee makes a prudent allowance for reinvestment risk when setting return assumptions.	The Trustee reviews reinvestment risk on a regular basis through reporting from the investment adviser.
Sponsor risk	The risk that the sponsor company may be unwilling or unable to maintain the necessary level of contributions in future.	The Trustee considers the covenant as part of an integrated risk management approach.	The Trustee receives regular updates on the financial performance of the sponsoring company. The Trustee assessed the sponsor covenant as part of the 31/12/2020 Actuarial Valuation process.
Regulatory and Political risk	Risk arising from investing in a market environment where the regulatory regime may change.	The Trustee monitors regulatory and political risk with the assistance of the investment adviser and investment managers. The Trustee also has access to the Sponsor's expertise in this area.	The Trustee met regulatory requirements for the Plan over the period including publishing the SIP and Implementation Statement. The investment managers monitor regulatory and political risk related to the Plan's assets as part of the broader risk management process.

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Changes to the SIP

There were no changes to the Trustee's Statement of Investment Principles ("SIP") over the 12-month period to 31st December 2021. This was because there were no changes in the Plan's strategic asset allocation or policies over the period. The Trustee keeps the SIP under ongoing review.

The most recent changes to the Plan's SIP were made during September 2019, which reflected changes to the investment strategy including the implementation of the low-risk Cashflow Driven Investment ("CDI") strategy.

The September 2019 SIP update also included adding further policies on how the Trustee considers financially material matters such as ESG factors and how the Trustee incentivises the investment managers to align with its polices.

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Current approach and implementation of ESG and stewardship policies

The "Responsible Investment and Corporate Governance" section of the SIP outlines the Trustee's policies in relation to stewardship of the investments, including ESG factors.

Stewardship

The Trustee has given the investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Plan's investments. All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention, and realisation of investments including taking into account all financially material considerations in making these decisions.
- The exercise of rights (including voting rights) attached to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

To ensure the investment managers' stewardship of the Plan's assets is in line with the Trustee's policies, the Trustee meets with the investment managers and receives regular reports from the Plan's investment adviser.

The Trustee expects that the investment adviser, Isio Group Limited, will provide the necessary support and expertise regarding ESG & stewardship, and the Trustee reviews the investment adviser on a periodic basis. Isio's sustainable investment policy is available via the following link Isio's Sustainable Investment Policy.

Environmental, Social and Governance ("ESG") factors

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within the SIP, so far as is reasonably practicable.

Below is a summary of how the Trustee seeks to engage on these matters with investment managers:

- The Trustee's investment managers provide periodic reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.
- The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.

Circumstances for additional monitoring and engagement include but are not limited to the following:

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- The manager has not acted in accordance with their policies and frameworks.
- The manager's policies are not in line with the Trustee's policies in this area.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

As outlined on the following page, the Trustee undertook a detailed review of the investment managers from an ESG perspective during 2021 and has met with the investment managers to discuss their ESG policies and practices. The Trustee is comfortable that the investment managers' ESG policies and practices satisfy its requirements.

The Plan's investment adviser engages with the investment managers on a regular basis including regarding ESG factors.

The Trustee expects that the Plan's investment managers will engage with investee companies, including on ESG factors. A summary of the investment managers' engagement activity over the year to 31st December 2021 is outlined later in this statement.

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ESG summary

The Trustee's investment adviser carried out a review of the Plan's investment managers from an ESG perspective during 2021, with the results presented to the Trustee in February 2022. The review was a refresh of reviews carried out in 2020 and 2019.

The key findings of the review are summarised below:

- Each of the managers have demonstrated that ESG factors are being given significant parity at a business level, highlighted by increasingly large in-house ESG teams, ESG policies and engaging with third parties on ESG issues. All of the managers are now rated by Isio as "Above Satisfactory" with regards to their ESG practices, as the M&G and Partners Group mandates were upgraded by Isio over the year.
- For the Plan's credit mandates (Schroders, M&G, Partners Group), ESG analysis forms part of the overall credit analysis, and factors such as climate change are considered by the managers as part of their assessment of risk. This process is formalised through internal ESG score cards. Whilst the credit mandates do not typically have voting rights to manage, they can demonstrate a significant level of engagement with portfolio companies.
- The Plan's property mandates have bespoke ESG policies, and Schroders consider sustainability to be one of the Fund's key strategic objectives. Schroders have demonstrated relative successes including reducing energy usage and landfill waste in the Fund's properties.
- ESG practices are less established within Liability Driven Investment ("LDI") due to limitations present in the asset class. Schroders have however demonstrated an improvement over the year in terms of how they integrate ESG factors within their investment process.

A summary of the individual investment managers' ESG policies and practices is outlined below.

Manager /Mandate [1]	ESG Summary	Actions identified	Engagement with manager
Schroders LDI Mandate [2]	Schroders utilise their own information and external data for assessing ESG risks in derivative counterparties and their engagement record with counterparties and other market participants on a wide range of ESG issues.	Continue to monitor the counterparty survey responses and try to increase the number of respondents.	The investment adviser engages with Schroders on a regular basis.
Schroders Buy & Maintain Corporate Bonds Funds	Schroders placed an emphasis on ESG integration in portfolio construction and management and have evidenced how this influences their investment decisions.	Schroders should implement specific ESG policies for the funds.	The investment adviser engages with Schroders on a regular basis. Schroders are in the process of rolling out specific ESG reports the Buy & Maintain mandates.

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Schroders UK Real Estate Fund	Schroders demonstrated their ability in considering ESG factors in the investment process. As part of their active ownership, Schroders have detailed current and future plans to tackle a number of ESG risks.	Include ESG scores/metrics in annual (and/or quarterly) reports along with engagement activities.	The investment adviser engages with Schroders on a regular basis. Schroders are currently working on introducing scenario analysis in their energy and carbon performance analyses.
M&G Alpha Opportunities Fund	M&G evidenced a clear ability to consider ESG factors in this Fund. M&G are actively developing tools to improve ESG modelling and reporting and should continue to increase the number of ESG metrics available for reporting purposes.	M&G should consider measurable ESG objectives for the Fund as well as a framework to reach net zero by 2050.	The investment adviser engaged with M&G during 2021 and noted that they have developed their own proprietary scorecard which is used as part of the credit analysis for an investment.
Partners Group PMCS 2016 Fund	PG have an established ESG and Sustainability team and are able to clearly demonstrate the integration of ESG factors at a Fund level.	Partners Group should identify specific KPIs and targets for private debt portfolio companies.	The investment adviser engages with Partners Group on a regular basis. Previously Partners Group have been unable to demonstrate effective engagement with portfolio companies, however during the latest engagement showed significant evidence of effective engagement.

1. The Hermes and Threadneedle property mandates and AVC assets have not been included in the ESG summary as they are less than 1% of the Plan's assets.

2. Schroders cash funds are assumed to be part of the Schroders LDI mandate.

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ESG Beliefs

In H1 2022 the Trustee agreed to a set of ESG beliefs for the Plan, which are listed below.

1. Demonstrating action and engagement on ESG issues forms part of the fiduciary duty of the Trustee to its members.
2. The Trustee seeks positive alignment with ESG factors in the Plan's investment strategy which are expected to lead to better long-term risk-adjusted returns.
3. ESG considerations will be included in the Trustee's investment decisions, including when selecting and monitoring appointed investment managers.
4. The Trustee believes engagement with appointed investment managers is more effective than termination in the first instance.
5. The Trustee favours investment managers with a strong track record of voting, engagement and corporate behaviour that addresses ESG issues.
6. The Trustee will require reporting of high quality ESG metrics from its investment managers and advisers, to improve investment decision making and demonstrate improvement against these metrics over time.
7. The Trustee will consider the ESG views of the Confederation of British Industry ("CBI", the Plan sponsor) and other relevant stakeholders when making investment decisions.

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Voting and engagement

There were no voting rights attached to the Plan's investments over the 12-month period to 31st December 2021. The majority of the Plan's assets are credit based where there are no voting rights attached.

The Trustee delegates the day-to-day management of the Scheme's assets to investment managers. Details of the investment managers' engagement actions, including a summary of the engagements for the 12-month period to 31st December 2021, are included below.

Manager/Mandate	Engagement summary	Commentary
Schroders LDI Mandate	Total engagements: 36	Schroders have a firm-wide ESG policy and have shown evidence of regular engagement with the relevant public bodies over the period. This includes attending working groups on issues surrounding reforming LIBOR, issues with gilt and repo markets, and derivatives. Schroders sustainability policy can be found here Sustainable investing at Schroders: Beyond Profit - Schroders global - Schroders. An example of a significant engagement includes: **Debt Management Office, HM Treasury** Schroders had multiple engagements with the Debt Management Office and HM Treasury to discuss Green Gilts and the UK Green Finance Initiative. This has led to a better understanding of the Green Gilt framework for Schroders.
Schroders Buy & Maintain Corporate Bonds Funds	Total engagements: 259 Environmental: 108 Social: 79 Governance: 122 (some engagements covered multiple ESG factors)	Schroders' engagement activities are undertaken by their portfolio managers, analysts, and their sustainable investment team. Engagement methods include one-to-one meetings with company representatives, written and phone correspondence, and discussions with various company advisers and stakeholders. An example of a significant engagement includes: **Royal Dutch Shell plc (global oil and gas firm)** Schroders engaged with Royal Dutch Shell by writing a letter to the CEO discussing the firm's ambitions with regards to achieving net zero carbon emissions.
Schroders UK Real Estate Fund	Schroders currently does not share a log of real estate engagements but have shared qualitative	Schroders consider sustainability risks within its overall risk management process and throughout an investment's life cycle. An example of a significant engagement includes: **Occupier at Davidson House, Reading**

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	information on their approach.	Schroders engaged with CBRE, who are responsible for managing the property, where it was agreed that all stakeholders of the property should work together to reach the goal of having zero waste to landfill. To help monitor the progress, CBRE were to receive quarterly reports on waste collections from tenants. It has shown that there has been a reduction in waste to landfill, as well as increased awareness of waste products.
M&G Alpha Opportunities Fund	Total engagements: 14 Environmental: 5 Social: 1 Governance: 8	M&G typically engage with issuers through their credit analyst teams. The manager will engage directly with senior management on ESG issues, but also with external parties including regulators, policy makers and governments. M&G's responsible investment policy can be found here Responsible Investing at M&G Investments – M&G plc (mandgplc.com). An example of a significant engagement includes: **HSBC (a global financial services company)** M&G engaged with HSBC to achieve a single climate resolution across both HSBC global bank and NGO ShareAction. Both had proposed separate resolutions regarding fossil fuels and Net Zero targets. M&G met with both firms separately to discuss their resolutions, making it clear that it would be better for all parties if a single resolution could be negotiated. The outcome of these discussions was the agreement of suitable single resolution. Going forward, HSBC plan to put climate transition plans to a shareholder vote.
Partners Group PMCS 2016 Fund	Total engagements: 5	Partners Group have a publicly accessible responsible investment policy which sets out their engagement priorities. The policy can be found here Responsible investment (partnersgroup.com). An example of a significant engagement includes: **Advania (an information technology service company)** Partners Group met with company management in order to receive a trading update, as well as discuss the potential acquisition of C&C by the company. As a result, Partners Group gained comfort with the C&C acquisition and provided £50m in incremental financing in order to support the company in the acquisition.

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Some of the information provided in this report is provided by the Plan's investment managers, and so we are reliant on these third parties for the accuracy of these data sets. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the situation

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