

June 2024



# CFAO UK Staff Pension Fund: Implementation Report

June 2024

# 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 Fund updated its SIP in response to the DWP regulation 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 ([CFAO-UK-Staff-Pension-Fund-SIP-2023.docx \(live.com\)](#)).

## Implementation Report

This implementation report is to provide evidence that the Fund continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustee 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 Trustee 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

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

- In January 2023, the Trustee agreed a new investment strategy, which materially reduced risk to secure the strong funding position, with the view to transacting an insurance buy-in over the short term.
- The new strategy was implemented in February 2023 which invested in physical gilt and cash mandates with Legal and General Investment Management ("LGIM") via the Mobius Life investment platform.
- The strategy invests in a low-risk, liability matching portfolio to minimise funding risk relative to the Fund's buy-out target measure. The LGIM physical gilt portfolio aims to hedge 100% of the liabilities of the Fund, on a solvency basis, with the remaining assets held in cash. The Trustee's cash holdings are invested in an institutional money market fund, which invests in a wide range of low risk, investment grade money market instruments.

### Implementation Statement

This report demonstrates that the CFAO UK Staff Pension Fund has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed: **Andrew McIlhinney**

Position: Trustee Director

Date: 25 June 2024

# Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Fund assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 100% of these risks on a solvency basis.	The liability hedging arrangement was implemented in February 2023 to minimise funding risk.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	The Trustee, with support of the Principal Employer, has agreed to maintain a large cash holding in order to meet ongoing Fund cashflows and manage risk as a full member buy-in is targeted over the short term.	The Trustee regularly monitors the cash position within its ongoing monitoring reporting.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To hedge away any unrewarded risks, where practicable.	
Credit	Default on payments due as part of a financial security contract.	Beyond the Fund's gilt investments, the Trustee's cash holdings are invested in an institutional money market fund, which invests in a wide range of low risk, investment grade money market instruments.	
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 Fund'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 monitors the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Fund's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.
Non-financial	Any factor that is not expected to have a financial impact on the Fund's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

# Current ESG policy and approach

## ESG as a financially material risk

The SIP describes the Fund's policy with regarding to ESG as a financially material risk. This page details how the Fund's ESG policy is implemented.

The below table outlines the areas which the Fund's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to review the Fund's ESG policies and engagements periodically to ensure they remain fit for purpose.

### 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	<p>The Trustee's investment managers provide an annual report on how they have engaged with issuers regarding social, environmental and corporate governance issues.</p> <p>The Trustee receives information from the investment advisers on the investment managers' approaches to engagement.</p>	The manager has not acted in accordance with their policies and frameworks (including stewardship priorities).

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# ESG summary and engagement with the investment managers

The Trustee, via its investment advisers, engages with the Fund's managers about ongoing engagement activities.

Voting policies do not apply to the Fund as the investment strategy is invested in physical gilts and cash with LGIM. Voting rights do not apply to these asset classes.

# Engagement

As the Fund invests via a fund manager (LGIM), the manager provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 December 2023.

Fund name	Engagement summary (at strategy level unless stated otherwise)	Commentary
Various LGIM Gilts, Index-Linked Gilts funds	Detailed activity unavailable however the manager's general approach to engagement is set out opposite.	LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.
LGIM Cash Fund	Total engagements: 25	Engagement activity is guided by their global stewardship themes (climate, nature, people, governance, health and digitisation).



