Implementation Statement

CBI Retirement Benefits Plan
12 months to 31 December 2020

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.

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 2020.

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 and M&G to discuss their ESG policies and actions over 2020 (covering the management of c.90% of total Plan assets).

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 2020 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.

Signed

Position

Date

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 2020 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 will receive funding advice from the Scheme Actuary. An appropriate funding basis will be agreed based on, amongst other considerations, the investment strategy.
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.

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 2020 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.**

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 2020.
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.
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 with 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 UN Principles of Responsible Investment ("PRI"). The Trustee monitors the managers on an ongoing basis against the above criteria.	The Trustee carried out an in-depth review of the investment managers' ESG policies and practices during 2020. The Trustee's investment adviser meets with the investment managers regularly to monitor their ESG policies. The Trustee met with Schroders and M&G directly to discuss ESG policies and actions taken during 2020. These managers are responsible for managing c.90% of total Plan assets. Further details are explained later in this statement.
Hedge mismatch risk	The risk that over time as the shape of the Plan's liability cashflows evolves, 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 on at least an annual basis. The Trustee carried out a review of the liability hedging in May 2020 to ensure the LDI portfolio remained fit for purpose.
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	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

		Plan's ability to meet its liquidity requirements.	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.
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 met regulatory requirements for the Plan over the period including publishing the SIP. The investment managers monitor regulatory and political risk related to the Plan's assets as part of the broader risk management process.

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 2020. Specifically, there were no changes in the Plan's strategic asset allocation over the period.

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.

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.

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:

- 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 2020 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 2020 is outlined later in this statement.

ESG summary

The Trustee carried out a review of the Plan's investment managers from an ESG perspective in December 2020 with the assistance of the Plan's investment adviser.

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.
- 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 greenhouse gas emissions and energy usage in the Fund's properties.
- ESG practices are less established within Liability Driven Investment ("LDI") due to limitations present in the asset class. However, Schroders have 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 have a strong team providing ESG support at a business level. Schroders use their own information and external data in detailed models to review counterparties within their LDI portfolio.	Engage with derivatives counterparties on ESG matters directly.	The investment adviser engaged with Schroders and noted an improvement in the manager's due-diligence and reviewing of LDI counterparties during 2020.
Schroders Buy & Maintain Corporate Bonds Funds	Schroders have a strong team providing ESG support at a business level. The firm also has extensive resources in credit research, which includes assessing companies on ESG factors.	Schroders could introduce ESG analysis within the Fund's regular reporting.	The investment adviser engaged with Schroders on a regular basis.
Schroders UK Real Estate Fund	Schroders have demonstrated that the Fund has strong ESG policies, that are implemented through a rigorous process, both in terms of initial due-diligence and ongoing asset management.	Schroders could introduce ESG analysis within the Fund's regular reporting.	The investment adviser engaged with Schroders on a regular basis.

M&G Alpha Opportunities Fund	M&G evidenced their ability to consider the significance of ESG factors in this Fund. M&G should consider measurable ESG goals for the Fund and increase the number of ESG risk metrics that are being monitored.	Although M&G are actively developing their integrated ESG approach in investment decisions, M&G should consider more in-depth reporting for clients and progress reports on ESG goals for the Fund.	The investment adviser engaged with M&G during 2020 and noted progress on the implementation of a formal ESG scorecard.
Partners Group PMCS 2016 Fund	Partner Group can demonstrate that ESG is a key aspect of the due diligence process and ongoing engagement is apparent through an investment's lifecycle.	Partners Group should aim to improve their ESG reporting covering diversity and inclusion, and ensure reports provided to clients are adequately focused on ESG.	The investment adviser engaged with Partners Group on a regular basis.

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.

Voting and engagement

There were no voting rights attached to the Plan's investments over the 12-month period to 31st December 2020. 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 2020, are included below.

Manager/Mandate	Engagement summary	Commentary
Schroders LDI Mandate	Total engagements: 86	Schroders have a firmwide 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. An example of a significant engagement includes: **Bank of England, HM Treasury** Schroders had a number of meetings representing their clients' interests over the year on the topics of LIBOR and RPI reform.
Schroders Buy & Maintain Corporate Bonds Funds	Total engagements: 187 Environmental: 34 Social: 46 Governance: 107	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: **The Kroger Company (a US-based food retailer)** Schroders engaged with the Kroger Company to learn about the firm's strategic approach to creating a lower environmental impact and more sustainable supply chain for its plant-based and alternative protein food.

Schroders UK Real Estate Fund	Schroders currently does not share a log of real estate engagements but have shared qualitative information on their approach.	Schroders consider sustainability risks within its overall risk management process and throughout an investment's life cycle. An example of a significant engagement: **Battersea Studios (a UK-based business accommodation locator)** Schroders completed a wellness gap analysis for occupiers of Battersea Studios to identify improvements that could be made. Schroders implemented the improvements with the building which was awarded a Fitwel certification (US-based health and wellbeing assessment).
M&G Alpha Opportunities Fund	Total engagements: 10 Environmental: 4 Social: 1 Governance: 5	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. An example of a significant engagement: **BP (a global oil and gas company)** M&G met with BP's CEO and other members of their management team to engage on the integration of climate change within the firm's business strategy.
Partners Group PMCS 2016 Fund	Total engagements: 6 Environmental: 0 Social: 1 Governance: 5	Partners Group have a publicly accessible responsible investment policy which sets out their engagement priorities. An example of a significant engagement: **SAI Global (a risk management and assurance company)** Partners Group engaged with SAI Global on their financial performance during the COVID-19 pandemic. Through constant engagement with SAI Global, they were able to eliminate short-term liquidity issues and achieve a stronger balance sheet by selling its property division.

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