Sainsbury's Pension Scheme (“the Scheme”)

Implementation Statement covering the Scheme year from 1 October 2023 to 30 September 2024 (forming part of the Trustee’s report)

1. Introduction

This Statement covers the Scheme year ending 30 September 2024. The purpose of this Statement is to:

- outline any changes that have been made to the Statement of Investment Principles ('SIP') over the period (set out below); and
- provide details of how the Trustee’s policies on environmental, social, and corporate governance (ESG) issues, including climate change risks, and policies on engagement and voting have been adhered to.

This Statement has been produced in accordance with the regulatory requirements and the guidance published by the Pensions Regulator. The investment managers have been assessed according to the policies set out in the SIP. This Statement does not cover the Additional Voluntary Contributions.

The Scheme has two Sections, the Sainsbury’s Section and the Argos Section. The Scheme is well funded and has adopted a relatively low risk investment policy.

The Scheme has implemented several key changes over the Scheme year, outlined in Section 3 under Investment Objectives and Investment Strategy.

The Scheme had no allocation to listed equity mandates over the year and there was no voting data to report on behalf of the Scheme.

The Trustee’s focus for some time has been on engagement activity. The Trustee has set engagement priorities which have been shared with all the investment managers. Day-to-day engagement is delegated to the Scheme’s investment managers. The Trustee delegates the monitoring of managers to the Investment Committee, which meets with key managers at least annually, to actively challenge them on their engagements.

The Trustee has, in its opinion, followed the Scheme’s ESG and engagement policies during the Scheme year by continuing to delegate to its investment managers the exercise of rights and engagement activities in relation to investments and by monitoring and challenging the activities undertaken by its investment managers. The Trustee is satisfied that the investment managers are adhering to the Trustee’s policies on ESG and engagement.

2. Review and changes to the Statement of Investment Principles

The May 2023 SIP was reviewed in July 2024 by the Trustee’s previous investment adviser, who confirmed that no changes were necessary.

There were several changes implemented over the Scheme year, as described overleaf.

3. Investment Objectives and Investment Strategy

The Trustee's primary responsibility in respect of investments is to ensure, for the lifetime of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. The Trustee seeks to achieve this objective by investing in a portfolio of assets that generate sufficient expected return and sufficient liquidity to meet this objective. The investment strategy is diversified across a range of asset classes, in both public and private markets, and is implemented using several investment managers.

The investment objective for the Sainsbury's Section is to achieve 100% funding on a gilts + 0.50% basis.

At the end of the Scheme year, the Argos Section reached its target of 100% funding on a gilts + 0.50% basis. Consequently, the investment objective was updated to be to achieve 100% funding on the Gilts + 0.25% basis shortly after Scheme year-end.

The investment strategy is kept under regular review to ensure it is aligned with the Trustee's objectives. There were several changes to the investment strategy over the year, which have been summarised below:

Transfer of assets to Insight for the Argos Section

At the start of the Scheme-year, the liability and currency hedging arrangements, as well as the CDS overlay, for the Argos Section (previously managed by Legal and General Investment Management), were transferred on an in-specie basis to Insight Investment.

Index-Linked Corporate Bonds

During the Scheme year, the Index-Linked Corporate Bonds managed by LGIM as part of the Care & Maintenance portfolio were transferred on an in-specie basis to Insight, with a mandate to sell down the assets over time.

At the end of the Scheme year, most of the portfolio had been successfully sold-down, with only three remaining assets held in the portfolio (representing c.18% of the portfolios that were originally transferred to Insight).

Deploying Surplus Collateral

In March, the Trustee agreed to transfer £160m of surplus collateral held in the Argos Section's LDI portfolio into the High-Grade and Global ABS funds managed by Insight, and a new segregated buy-and-maintain credit mandate, also managed by Insight.

Allocations to the Global ABS fund and a segregated buy-and-maintain credit portfolio managed by Insight were also introduced for the Sainsbury's Section.

Change in Investment Adviser

At the end of the Scheme year, the Trustee appointed a new investment adviser, Redington Ltd.

Redington have supported the Trustee in reviewing its strategy, including its approach to risk and wider objectives. The Trustee is planning a review of its ESG strategy in 2025.

4. Environmental, Social, Governance (ESG) Risks

The Trustee believes that environmental, social, and corporate governance ("ESG") factors, including the impact of climate change risks, can be financially material. They should therefore be considered as part of the Scheme's investment process. Based on the responses and information provided by the Scheme's investment managers, the Trustee was comfortable that all of the managers are acting in accordance with the SIP with respect to the Scheme's ESG, stewardship and engagement policies.

Outlined below are the SIP policies that relate to ESG risks along with an explanation of how these have been implemented for the year to 30 September 2024.

Policy

"The Trustee believes that environmental, social and corporate governance (ESG) issues including the impact of and potential policy responses to climate change can be financially material to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process.

The Trustee delegates responsibility for the Scheme's policy on ESG risks to the Investment Committee.

The Investment Committee has given their investment managers full discretion to evaluate ESG issues in the selection, retention and realisation of investments. The Investment Committee believes that good active managers consider how to best account for ESG factors, including climate change risks, in their investment process. The evaluation of how the Investment Committee's active managers identify and manage material ESG risks including climate change, along with the quality of their stewardship activities, forms part of the Investment Committee's ongoing appraisal of the manager's appointment.

It is accepted that pooled investments will be governed by the individual policies of the investment managers. The extent to which ESG and climate change risks are taken into account are left to the discretion of the investment manager and forms part of the Investment Committee's monitoring and ongoing assessment of these investments"

Implementation

The Investment Committee has assessed the investment managers' engagement activity and ESG policies, as well as their implementation over the year. This was summarised by the previous investment adviser in the annual ESG, Stewardship & Engagement Report. The Committee noted that reporting for the non-corporate mandates was often incomplete, although some managers had made significant progress relative to the previous year.

In October 2023, Insight and PIMCO were invited to present to the Investment Committee. During the meeting, the committee emphasised the importance of ongoing engagement and the ability to track actions that had resulted from the engagements.

The Trustee has prepared the third Climate report for the Scheme. As part of this, it has improved its methodology for calculating climate metrics, reviewed the metrics themselves (including updating one of the metrics from "data coverage" to "data quality"), and updated the target to be more aligned with the Trustee's net zero target. The new target will be communicated with managers and used to hold managers to account on their own engagements.

5. Stewardship & Engagement activity

The Scheme has had no allocation to physical equity mandates since February 2021 and terminated the synthetic equity overlay (with no voting rights) in May 2023. As such, there was no voting data to report over the 12 months to 30 September 2024. This report does not seek to cover equity holdings that may arise in pooled funds which are not intended to hold equity but may be permitted to do so if required (e.g. as part of a corporate restructuring).

Outlined below are the SIP policies that relate to Stewardship and Engagement along with an explanation of how these have been implemented for the year to 30 September 2024.

Policy

"The Trustee believes that good stewardship can enhance long-term portfolio performance and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty.

The Trustee delegates responsibility for the Scheme's policy on stewardship, including engagement activities, to the Investment Committee.

Investment managers are given full discretion in exercising stewardship obligations relating to the Scheme's investments. All investment managers are expected to engage with issuers on all relevant stewardship matters including performance, strategy, risks, social and environmental impact and corporate governance. Furthermore, the Investment Committee encourages its fund managers to work collectively with other managers when practical.

The Investment Committee may engage with its investment managers as part of its stewardship monitoring process or, potentially, as a particular stewardship matter is brought to its attention.

Monitoring will be focused on the investment managers' engagement activities since the Scheme has no exposure to listed equities with voting rights. The Investment Committee has not had, and does not expect, direct engagement with the issuers or other holders of debt or equity."

Implementation

The Trustee considers the investment managers' approach to stewardship on ESG matters as part of any appointment and as part of ongoing monitoring through meetings with the Scheme's key investment managers.

There is a Terms of Reference for the Investment Committee which sets out the delegations from the Trustee including oversight of stewardship and engagement activities and the Investment Committee reviews the stewardship activity annually.

The Trustee has continued to delegate to its investment managers the exercise of rights and engagement activities in relation to investments.

The Investment Committee reviewed the engagement activities across the Scheme's managers as part of its review of the ESG, Stewardship and Engagement report prepared by the Scheme's previous investment adviser. The key takeaways from the report were:

- Over the calendar year 2023, there were 639 and 778 engagements in respect of the Sainsbury's and Argos Sections respectively.
- For managers that were able to provide sufficient data, engagement generally covered a meaningful proportion of the portfolio.
- The key areas of engagement were in relation to climate change, shareholder rights and remuneration. However, there was room for improvement with engagement on human and labour rights, as well as diversity and inclusion.

Policy

"The Investment Committee encourages best practice in terms of engagement with investee companies and expects the Scheme's investment managers to discharge their responsibilities in accordance with the principles of the Financial Reporting Council's UK Stewardship Code ("the Code") as far as it is able. The managers are required to report on the extent of their adherence to the Code, alongside their broader stewardship activities on an annual basis."

Implementation

8 out of 17 of the Sainsbury's Section's investment managers and 7 out of 9 of the Argos Section's investment managers have confirmed their adherence to the UK Stewardship Code. These managers cover the vast majority of the Scheme's assets by value. Where managers are not signatories to the Code, the Investment Committee is satisfied that this is limited to private market and property strategies where the Code has less relevance.

The stewardship priorities set by the Trustee have been communicated to all the Scheme's investment managers. The Trustee understands that the investment managers have their own stewardship policies but expects its investment managers to report clearly on engagements that have been undertaken and any resulting actions in respect of the Trustee's priorities.

The Investment Committee also hold the Scheme's managers to account on ESG and Stewardship activities, by inviting managers to present at Investment Committee meetings. As previously noted, during the October 2023 Investment Committee meeting, the committee emphasised the importance of ongoing engagement and the ability to track actions that had resulted from the engagements to two of the Scheme's managers; Insight and PIMCO.