

Implementation Statement, covering the Scheme Year from 6 April 2022 to 5 April 2023

The Trustee of the Selfridges Pension Scheme (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the year to 5 April 2023 (the “Scheme Year”), as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-9 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, Trustees (including the most significant votes cast by Trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 9 below.

In preparing the Statement, the Trustee has had regard to the guidance on Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement, issued by the Department for Work and Pensions (“DWP’s guidance”) in June 2022.

This Statement is based on, and should be read in conjunction with, the SIP dated July 2020, which was in place for the Scheme Year. The SIP is available here: <http://selfridges.pensioncharges.com/documents/>

1. Introduction

No review of the SIP was undertaken during the Scheme Year. The last time the SIP was formally reviewed was July 2020. The Trustees are currently in the process of consulting with the Sponsor on some changes to the strategy, and it is expected that the SIP will be updated during the Scheme Year to 31 March 2024. The Trustee has, in its opinion, followed all of the policies in the Scheme’s SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

2. Investment objectives

Progress against the Scheme’s technical provisions funding basis and the long-term journey plan is reviewed as part of the quarterly performance monitoring reports. The Trustee is also able to view the progress on an ongoing basis using LCP Visualise online (a tool provided by the Scheme’s investment adviser which show key metrics and information on the Scheme including expected return and risks of the investment strategy).

As at 5 April 2023 the Scheme was fully funded on a technical provisions basis and on track to achieve full funding on a stronger funding basis, close to gilts flat, by 2028 to 2030. The Trustee’s actual long-term funding objective in place to reach full funding on a gilts + 0.5% basis by April 2040, which the Scheme was close to achieving, or achieved, at various points during the Scheme Year. In addition, the Trustee remains comfortable that the level of risk and expected returns remains appropriate.

The investment objective for the DC Section is to provide members with access to an appropriate range of investment options, reflecting the membership profile of those in the DC policy and the variety of ways that members are likely to draw their benefits in retirement.

The Trustee will monitor the relevant members’ behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

3. Investment strategy

The Trustee, with the help of its advisers undertook a review of the Scheme’s LDI portfolio in July 2021, in light of the finalised 5 April 2020 actuarial valuation basis. As part of this review, the Trustee agreed to implement the following changes to the Scheme’s LDI portfolio:

- To move from a dynamic strategy to a passive strategy;
- To move from comingled pooled funds to a bespoke pooled fund; and
- To adjust the hedge to better reflect the funding basis.

The changes were implemented in July 2022.

The Trustee, with the help of its advisers reviewed the strategy in December 2022 following the market turmoil caused by the UK government's September 2022 mini budget and concluded that it should improve the Scheme's liquidity profile and to explore de-risking the strategy. As part of this review, the Trustee made sure the Scheme's assets were adequately and appropriately diversified between different asset classes. The Trustee is currently in consultation with the Sponsor in relation to the proposed new strategy.

The Trustee monitored the asset allocation on a quarterly basis and compared this to the strategic asset allocation. In August 2022 the Trustee transferred surplus cash from the Trustee bank account to the Columbia Threadneedle Bespoke Pooled Fund to bring the portfolio closer to the strategic allocation as it had deviated from the strategic allocation.

4. Considerations in setting the investment arrangements

When the Trustee reviewed the DB investment strategy in December 2022, it considered the investment risks set out in the SIP. It also considered a wide range of asset classes for investment, considering the expected returns and risks associated with those asset classes as well as how these risks can be mitigated. The Trustee also considered the need for diversification and specific circumstances of the Scheme (eg the investment objectives, funding position, level of contributions and strength of the sponsoring employer's covenant).

The Trustee last reviewed its investment beliefs in August 2019. As part of this, the investment adviser held a training session which gathered the opinions of the Trustee directors. Following this, the Trustee updated the investment beliefs in the SIP. It added two new investment beliefs to the SIP, namely:

- environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors; and
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions.

Over the Scheme Year, the Trustee continued to monitor the sustainability characteristics of its holdings and considered options for more sustainable investment within specific asset classes.

In October 2022, it was announced that Alcentra and JP Morgan (two of the Trustee's investment managers) had successfully achieved signatory status to the UK Stewardship Code. In April 2023 the Trustee communicated with investment managers that are yet to sign up to gain a clear view of their intentions.

When JP Morgan presented to the Trustee during the previous Scheme year, the Trustee focused on responsible investment within its infrastructure fund, over concerns that its approach to sustainability was not in line with the sustainability policy of the sponsoring employer. The Trustee engaged directly with JP Morgan to establish their progress during the Scheme Year, finding that JP Morgan is yet to set a credible emission reductions target covering the infrastructure fund. The Trustee will continue to monitor the position, having received training on alternative, sustainable infrastructure fund options.

The Trustee invests for the long term, to provide for the Scheme's members and beneficiaries. To achieve good outcomes for members and beneficiaries over this investment horizon, the Trustee therefore seeks to appoint managers whose stewardship² activities are aligned to the creation of long-term value and the management of long-run systemic risks.

The Trustee's investment adviser monitors the Scheme's investment managers on an ongoing basis, through regular research meetings. The investment adviser monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of regarding the Scheme's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Scheme invests in, or any material change in the level of diversification in the fund.

The Trustee monitors the performance of the Scheme's investment managers on a quarterly basis, using a monitoring report prepared by the investment adviser. The report shows the performance of each fund over the quarter, one year and three years. Performance is considered in the context of the manager's benchmark and objectives. The Trustee also monitors its managers' responsible investment capabilities using scores provided by its investment adviser, on a quarterly basis as part of the standard monitoring reports.

² The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

4.1 Policy towards risk

Risks are monitored on an ongoing basis with the help of the investment adviser. The Trustee maintains a risk register and this is discussed at quarterly meetings.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the Scheme's investment adviser or information provided to the Trustee by the Scheme's investment managers. These include the risk of inadequate returns, credit risk, equity risk, currency risk, collateral adequacy risk and ESG (including climate) risks. The Trustee's implementation of its policy for these risks during the Scheme Year is summarised below.

The Trustee invests the assets of the DB Section of the Scheme to produce a sufficient long-term return to meet the DB Section liabilities. There is a risk that the performance of the Scheme's assets and liabilities diverges in certain financial and economic conditions in the short term. This risk has been considered in setting the investment strategy and has been monitored by the Trustee throughout the Scheme Year.

The Scheme's interest and inflation hedging levels are monitored on an ongoing basis in the quarterly monitoring report. Over the Scheme Year the Scheme's hedging levels were broadly in line with the target levels.

With regard to collateral adequacy risk, the Trustee holds money market investments alongside the LDI portfolio, to be used should the LDI manager require cash to be posted for a deleverage event. As at Scheme year end, the Scheme held more than enough liquid assets to meet the next capital call on the LDI funds.

Together, the investment and non-investment risks give rise generally to funding risk. During the year, the Trustee formally reviewed the Scheme's funding position as at 5 April 2022 as part of its annual actuarial report. At the time it was concluded that no further action was required on the funding basis. The Trustee also informally monitors the funding position more regularly, on a quarterly basis at Trustee meetings, and the Trustee has the ability to monitor this daily on LCP Visualise.

With regard to the risk of inadequate returns in the DC section, the Trustee makes available a range of funds that are expected to provide positive returns above inflation over the long term, for example equity funds and multi-asset funds. The Trustee's view on this does not change during the Scheme Year; these funds are expected to produce adequate real returns over the longer term. Some funds may be subject to interest rate risk, for example bond funds.

The following risks are covered elsewhere in this Statement: strategic risk in Section 4, inadequate long-term returns in Section 4.1, investment manager risk in Section 5, risk from lack of diversification in Section 5, liquidity risk in Section 6 and ESG risks in Section 7.

5. Implementation of the investment arrangements

The Trustee agreed to appoint one new investment manager over the Scheme Year. Before appointing the manager, the Trustee received information on the investment process and philosophy, the investment team and past performance. The Trustee also considered the manager's approach to responsible investment, net zero alignment and stewardship. The Trustee obtained formal written advice from its investment adviser, before agreeing to invest in the fund and made sure the investment portfolio of the fund chosen was adequately and appropriately diversified. The Trustee, with the help of its investment adviser, then negotiated a lower fee for the mandate than the original fee offered. The implementation of the new investment took place after the end of the Scheme Year. The Trustee relies on its investment adviser's research to understand managers' investment approaches, and ensure they are consistent with the Trustee's policies prior to any new appointment.

The Trustee evaluates manager performance over both shorter and longer periods, encourages managers to improve practices and considers alternative arrangements where managers are not meeting performance objectives. Section 8 provides more detail on the activities carried out over the year.

The Trustee undertook a "value for members" assessment in September 2022 for the Scheme Year to 5 April 2022 which assessed a range of factors, including the fees payable to managers in respect of the DC section which were found to be reasonable when compared against pension schemes with similar sizes of mandates. The review was carried out as part of the production of the DC Chair's statement. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The next review is due in September 2023.

6. Realisation of investments

The Trustee reviews the Scheme's net current and future cashflow requirements on a regular basis in conjunction with its investment advisors. The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows whilst maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets.

Over the Scheme Year, the Scheme's illiquid fund managers made several capital calls, which were all funded from the Scheme's money market holdings which either sat within or alongside the LDI arrangements, managed by Columbia Threadneedle. The Trustee monitors the Scheme's liquidity on a quarterly basis, as part of the monitoring reports that it receives.

For the DC section, it is the Trustee's policy to invest in funds that offer daily dealing to enable members to readily realise and change their investments. All of the DC section funds which the Trustee offered during the Scheme Year are daily priced.

7. Financially material considerations, non-financial matters

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations).

In March 2023, the Trustee reviewed LCP's responsible investment (RI) scores for the Scheme's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme, and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2022.

The highest score available is 4 (strong) and the lowest is 1 (weak). The Trustee's investment advisor, LCP, wrote to investment managers that received a "red flag" to request they improve their RI practices. The Trustee is yet to remove any red flags but continues to monitor the investment managers engagement with responsible investment principles. Further details of the Trustee's monitoring of and engagement with managers to improve ESG practices is included in Section 8 below.

The Trustee also received training covering options for stewardship priorities and a plan for stewardship activity, background on net zero and considerations for setting a net zero target, as well as an update on manager engagement over the 6 months prior.

As a result, the Trustee adopted three sustainability priorities that closely align with the sponsoring employer's own sustainability priorities, namely;

- Climate Change,
- Human Rights, and;
- Biodiversity Loss.

The Trustee agreed to invest in a new pooled fund, the LGIM Future World Net Zero Buy and Maintain Fund in early 2023. In selecting and appointing this manager, the Trustee reviewed LCP's RI assessments of the shortlisted managers. When the manager presented to the Trustee, ESG factors and voting and engagement were discussed. The implementation of new mandate took place shortly after the Scheme Year.

No specific actions have been taken in relation to the selection, retention, and realisation of managers as a result of member and beneficiary views.

Within the DC Section the Trustee recognises that some members may wish for ethical matters to be taken into account in their investments. However, an ethical investment fund is not currently part of the Utmost range.

8. Voting and engagement

Trustee has delegated to the investment managers the exercise of rights attaching to investments, including voting rights, and engagement. However, the Trustee takes ownership of the Scheme's stewardship by monitoring and engaging with managers as detailed below.

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

Following the introduction of DWP's guidance, the Trustee agreed to set stewardship priorities to focus monitoring and engagement with their investment managers on specific ESG factors. At the March 2023 meeting, where the Scheme's existing managers were rated on their approach to voting and engagement, the Trustee also discussed and agreed stewardship priorities for the Scheme which were: Climate Change, Human Rights and Biodiversity Loss.

These priorities were selected because they align with the sponsoring employer's own sustainability priorities. The Trustee communicated these priorities to its managers after the Scheme Year, in April 2023. The communication noted that the priorities were selected as they are key market-wide risks and areas where the Trustee believed that good stewardship and engagement can improve long-term financial outcomes for the Scheme's members. In relation to climate change, the communication endorsed the expectations that the Trustee's investment adviser, LCP, had set for investment managers in relation to net zero emissions in asset management – i.e. setting net zero targets and working to achieving that in various ways. The Trustee will report further on this in next year's Statement.

The Trustee is conscious that responsible investment, including voting and engagement, is rapidly evolving and therefore expects most managers will have areas where they could improve. Therefore, the Trustee aims to have an ongoing dialogue with managers to clarify expectations and encourage improvements.

9. Description of voting behaviour during the Scheme Year

The SIP notes that the Scheme's DB investments are all units of pooled funds and therefore the Trustee does not have any direct voting rights and has not used proxy voting services during the Scheme Year; the voting rights are indirect as they pertain to the underlying investments within the pooled funds. Hence, in effect the Trustee has delegated the voting rights to the investment managers of the pooled funds.

Over the Scheme year, the Trustee communicated its stewardship priorities to its asset managers and had ongoing discussions with the managers on these. The Trustee informed its managers that the areas it deemed to be most significant to vote and engage on were those areas that related to the stewardship priorities or were otherwise expected to be financially material. The Trustee expects its managers to decide which votes are deemed to be most significant in line with these ongoing discussions.

As at 5 April 2023, the Scheme did not invest in any funds that held listed equities within its DB holdings. In August 2018, the Trustee fully disinvested from funds that held listed equities.

The Scheme also holds Defined Contribution (DC) and Additional Voluntary Contribution (AVC) policies, which are invested in some listed equity assets. Whilst the underlying investments of the DC and AVC policies are also held in pooled funds and so the Trustee does not have any direct voting rights, voting opportunities over the Scheme Year, were delegated to the investment managers of the pooled funds within these policies. We have not been able to obtain information from the Scheme's investment managers for its DC and AVC policies with Aviva and Utmost Life. The Trustee requested and engaged with the Scheme's DC providers, Aviva and Utmost Life, to obtain voting data and commentary on significant votes, but the DC providers were unable to provide this data to the Trustee. The Trustee continues to engage with the providers on an ongoing basis to obtain this information.

The following comments were provided by the Scheme's asset managers who don't hold listed equities, but invest in assets that had voting opportunities during the period:

Alcentra European Direct Lending Fund III:

Loan and bond investments generally do not confer creditors voting rights. Where Alcentra has minority equity interests in deals, corporate documents are typically set-up so that the sponsor can pass any shareholder resolutions needed without Alcentra's participation. Alcentra's rights are also usually limited to certain minority protections.

Where Alcentra owns companies, it exercises control by including language in the deal documentation requiring the board to seek investor consent for matters that it wants to approve as the manager. This is usually done via the Alcentra investor representative on the board (where relevant) rather than having a formal shareholder vote. Where voting rights exist, Alcentra will utilise these to demonstrate its support for initiatives that benefit its end investors in accordance with a firm-wide commitment to furthering the development of ESG and honouring its position as signatories to bodies such as UN PRI and TCFD.

Alcentra has engaged with each of its borrowers on a full range of ESG topics. We send out an annual engagement questionnaire which allows us to understand our borrowers' approach to managing ESG risk (policies in place, priorities, initiatives, etc.) and measure engagement and progress through qualitative and quantitative metrics. Our response rate to date to the questionnaire has been 90% (100% when excluding those borrowers going through a sale or refinancing process) and we look to use these responses to further engage with borrowers. Where we can, we utilise our strong relationships with management teams and shareholders to ask questions, make recommendations and share our experiences around ESG in the private debt market. It is well documented that the shift towards ESG integration in private markets is not without its challenges, including issues around access to data and data standardisation. Through the questionnaire, we hope to overcome some of these data barriers. Further, we work with the ELFA Private Debt Committee to advance ESG engagement and the unification of data standards across the market more generally.

In addition to the above, Alcentra continually evaluates the application of ESG incentive mechanisms within credit documentation. We have completed several transactions of this kind whereby we closely engage with a borrower management team and owners on multiple criteria relating to ESG advancement which, if achieved in total, will trigger an interest rate reduction. Such criteria advance overall ESG considerations of the business with goals that may include obtaining and maintain a B Corporation certification, social themes such as gender diversity and employee satisfaction, and other targets germane to a given borrower.

IFM Global Infrastructure Fund:

With regards to the voting and engagement activities between GIF and the underlying portfolio companies, the underlying holdings of GIF are private equity investments rather than public market listed equities. Our influence on such investments is made directly by IFM through IFM's Board representation on the underlying portfolio companies rather than through any form of proxy voting.

While the primary focus of the IFM Global Infrastructure Fund (GIF) is to provide investors with exposure to a diversified portfolio of unlisted infrastructure assets, there are times where an opportunistic hold of a listed entity is an attractive complement to the unlisted portfolio. The acquisition of listed positions is generally motivated by gaining long-term strategic positions, with significant equity ownership, in attractive core infrastructure assets.

Even for the listed assets in GIF, we hold board seats. Consequently, we do not need to vote our shares to influence the board; a senior executive in IFM's Infrastructure Team is on the board. This ensures we follow an active ownership style.

Apollo Total Return Fund:

Under its investment philosophy, Apollo Global Management, LLC's affiliated registered investment advisers (the "Firm's" or "Apollo's") generally invests in a company only if Apollo believes that the company's management seeks to serve shareholders' best interests. As a result, Apollo believes that management decisions and recommendations with respect to solicited issues generally are likely to be in the shareholders' and its client's best interests.

The Chief Compliance Officer or designee shall determine whether a material conflict of interest exists between Apollo and the interests of its clients or between Apollo and its clients and portfolio company shareholders when an Apollo representative sits on the board of directors of the portfolio company that is the subject of a proxy.

If no material conflict of interest is identified, the Chief Compliance Officer or designee shall provide clearance to the proxy recipient who will coordinate with the PM or a member of the Deal Team responsible for the portfolio company issuing the proxy. The PM or a member of the Deal Team shall instruct the proxy recipient how to vote the proxy and the proxy recipient shall retain such direction. The PM or a member of the Deal Team shall instruct that all proxies be voted in the best interests of Apollo's clients pursuant to the goals of the client's investment strategy, which is generally to achieve significant capital appreciation through investments in private companies. This may result in a decision to abstain from voting when such decision is in the best interests of Apollo's clients.

In the event that a material conflict of interest is identified, the Chief Compliance Officer or designee shall take such actions as he or she deems necessary to determine how to vote the proxy in the best interests of Apollo's clients. Depending upon the specific facts and circumstances associated with a given proxy, such actions may include

consulting with: (1) Legal, (2) outside counsel, (3) a proxy consultant, or (4) PMs or Deal Team members. After such consultation, the Chief Compliance Officer or designee together with the PM or a Deal Team member shall instruct the proxy recipient how to vote the proxy and the proxy recipient shall retain such direction.

The Chief Compliance Officer or designee shall make and maintain a record describing the steps taken to address a potential material conflict of interest and the proxy recipient shall maintain records disclosing the date all proxies were voted and how they were voted.

RLAM UK Corporate Bond Fund:

To ensure consistency, all voting decisions on actively held stocks are implemented centrally by RLAM's Responsible Investment Team. The Responsible Investment Team interprets RLAM's policy and implement its voting decisions using a third-party web platform. All decisions are made in consultation and collaboration with RLAM's fund managers, who are notified of all final voting decisions made for stocks held within their funds. Fund managers have the opportunity to raise questions or challenge votes before they are dispatched. Contentious votes are escalated to RLAM's Head of Equities or Chief Investment Officer who makes the final voting decision.