



# Jungheinrich UK Limited Retirement Benefit Scheme Implementation Report

September 2023

# 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.

## Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the Statement of Investment Principles, (the SIP).

The latest SIP can be found online at the web address:

<https://www.jungheinrich.co.uk/modern-slavery-act-policies-112428>

This Implementation Report details:

- actions the Scheme 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 Scheme 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;
- voting behaviour covering the reporting year up to 5 April 2023 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

There were no major strategic changes made to the Scheme over the year.

## Implementation Statement

This report demonstrates that Jungheinrich UK Limited Retirement Benefit Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

# Managing risks and policy actions DB

A non-exhaustive list of risks and financially-material considerations that the Trustee has considered and sought to manage is shown below.

The Trustees adopt an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated in the table below.

Risk / Policy	Definition	Policy	Actions
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<p>Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength.</p> <p>Investing c.70% of the Scheme's assets in UK government bonds.</p>	There have been no changes to the policy over the reporting year.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<p>Funding risk is considered as part of the investment strategy review and the actuarial valuation.</p> <p>The Trustees 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.</p>	There have been no changes to the policy over the reporting year.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	When developing the Scheme's investment and funding objectives, the Trustees take account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.	There have been no changes to the policy over the reporting year.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy. The key risks and how they are managed are stated in the table below.

Risk / Policy	Definition	Policy	Actions taken over the period
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations.	To target an investment of 70% of the Scheme's assets in long dated UK government bonds (both fixed and index-linked 50/50).	No actions were taken as the Scheme's target allocations to fixed interest and index-linked gilts were maintained within a suitable tolerance during the year.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values). The Scheme invests in weekly dealt funds.	No rebalancing was required for liquidity purposes as the Scheme is invested entirely in weekly dealt funds.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.  Limited allocation to equity markets (20% target of total Scheme assets).	No action was required as the Scheme remained suitably diversified to manage this risk.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different sectors.	No action required as the LGIM Investment Grade Corporate Bond All Stocks Index Fund provides exposure to a sufficiently diversified range of bond issuers.

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 Scheme's investments.	<p>Receive updates from investment advisors regarding ESG factor risk, noting that all of the Scheme's assets are invested in index-tracking funds.</p> <p>A target of 70% of Scheme assets are invested in UK government bonds where ESG factors are not applicable.</p>	The extent to which ESG and ethical considerations are taken into account in these decisions is delegated to the investment managers. The Trustees have very limited scope to influence this decision making as the Scheme's investments are in index-tracking funds.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Exchange rate risk is hedged on the Scheme's European equities.	There have been no changes to the policy over the reporting year.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	There have been no changes to the policy over the reporting year.

# Changes to the SIP

There have been no changes to the SIP over the 12-month period to 5 April 2023, however, post year-end the Trustees are reviewing an updated SIP to include additional detail around the ESG and Stewardship policies.

# Current ESG policy and approach

## ESG as a financially material risk

The SIP describes the Scheme's policy regarding ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's manager's ESG policies and procedures. The rest of this statement details Isio's view of LGIM, our actions for engagement and an evaluation of the stewardship activity.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none"><li>• The Trustees' investment manager provides annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.</li><li>• The Trustees receive information from their investment advisers on the investment managers approaches to engagement.</li></ul>	<ul style="list-style-type: none"><li>• The manager has not acted in accordance with their policies and frameworks.</li><li>• The manager's policies are not in line with the Trustees' policies in this area.</li></ul>

## Implementing the Current ESG Policy

The below table outlines the areas which the Scheme's investment manager is assessed on when evaluating their ESG policies and engagements. The Trustees intend to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Risk Management	<ol style="list-style-type: none"> <li>1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme</li> <li>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees</li> </ol>
Approach / Framework	<ol style="list-style-type: none"> <li>3. The Trustees should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.</li> <li>4. ESG factors are relevant to investment decisions in all asset classes.</li> <li>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.</li> </ol>
Reporting & Monitoring	<ol style="list-style-type: none"> <li>6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.</li> <li>7. ESG factors are dynamic and continually evolving; therefore, the Trustees will receive training as required to develop their knowledge.</li> <li>8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.</li> </ol>
Voting & Engagement	<ol style="list-style-type: none"> <li>9. The Trustees will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.</li> <li>10. Engaging is more effective in seeking to initiate change than disinvesting.</li> </ol>
Collaboration	<ol style="list-style-type: none"> <li>11. Asset managers should sign up and comply with common codes and practices such as the UNPRI &amp; Stewardship code. If they do not sign up, they should have a valid reason why.</li> <li>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.</li> </ol>

# Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 March 2023. The engagement data is available on a quarterly basis so LGIM cannot provide engagement data to the reporting year end of 5 April 2023.

Fund name	Engagement summary	Commentary
LGIM UK Equity Index Fund	<p>Total engagements: 328</p> <p>Environmental: 96 Social: 115 Governance: 242 Other: 59</p> <p>Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area.</p>	<p>LGIM's engagement with companies is done at a firm wide level rather than on a fund basis. This is spearheaded by the central Investment Stewardship Team. We believe that this is a sensible approach as it helps leverage on the size of total holdings to help drive change on any ESG issues.</p>
LGIM Europe (ex-UK) Equity Index GBP Hedged Fund	<p>Total engagements: 106</p> <p>Environmental: 62 Social: 30 Governance: 74 Other: 14</p> <p>Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area</p>	
LGIM Investment Grade Corporate Bonds All Stock Index	<p>Total engagements: 192</p> <p>Environmental: 110 Social: 67 Governance: 153 Other: 53</p> <p>Please note that the sum of the above categories is greater than the number of total engagements, as some engagements covered more than one ESG area</p>	

# Voting

The Trustees have acknowledged responsibility for the voting policies that are implemented by LGIM on their behalf.

LGIM have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2023. The Trustees have adopted the managers definition of significant votes and have not set stewardship priorities. The managers have provided examples of votes they deem to be significant, and the Trustees have shown the votes relating to the greatest exposure within the Scheme's investment. When requesting data annually, via their investment consultant, the Trustees inform their managers what they deem most significant. The voting data is available on a quarterly basis so LGIM cannot provide voting data to the reporting year end of 5 April 2023.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM UK Equity Index Fund	Meetings eligible to vote for: 733	Spirax-Sarco Engineering Plc – LGIM put forward a proposal against the resolution to re-elect Jamie Pike as Director as the company has an all-male Executive Committee. The outcome of this vote was 87.3% voting in favour of re-electing.	LGIM’s Investment Stewardship team are responsible for managing voting activities across all funds. LGIM’s passive equity funds do not have a negative selection or disinvestment option in relation to ESG issues, therefore voting is a key method for LGIM to address ESG issues that have been identified.
	Resolutions eligible to vote on: 10,870		
	Resolutions voted on: 99.9%		
	Resolutions voted with management: 94.5%	Royal Dutch Shell Plc – LGIM voted against a resolution to approve the Shell Energy Transition Progress Update, as LGIM were concerned of the disclosed plans for oil and gas production. The resolution was unsuccessful with 79.9% voting to approve.	
	Resolutions voted against management: 5.5%		
	Resolutions abstained from: 0.0%		
LGIM Europe (ex-UK) Equity Index GBP Hedged Fund	Meetings eligible to vote for: 618	LVMH Moët Hennessy Louis Vuitton SE – LGIM voted against a resolution to re-elect Bernard Arnault as joint Board Chair and CEO, as the roles are different and require differing responsibilities and authority. The outcome of the vote was 92% in favour of re-electing.	
	Resolutions eligible to vote on: 10,391		
	Resolutions voted on: 99.9%		
	Resolutions voted with management: 81.0%	Argenx SE – LGIM voted against the resolution to re-elect Peter K.M. Verhaeghe as Non-Executive Director over diversity and remuneration concerns. Overall, 66.0% of shareholders supported the resolution.	
	Resolutions voted against management: 18.5%		
	Resolutions abstained from: 0.5%		