



High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme

September 2024

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as Environmental, Social and Governance issues ('ESG') become increasingly important to regulators and the broader investment community. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustees' fiduciary duty. These ESG issues are specifically addressed in this Statement.

Implementation Statement

This implementation statement provides evidence that the High Commission of Canada in the United Kingdom Locally Engaged Staff Pension Scheme continues to follow and act on the principles outlined in the Statement of Investment Principles ('SIP').

The SIP can be found online at the web address [Canadian-High-Commission-Statement-Investment-Principles2023.pdf \(highcommissionofcanada-pensions.co.uk\)](https://www.highcommissionofcanada-pensions.co.uk/Canadian-High-Commission-Statement-Investment-Principles2023.pdf). The statement includes:

- actions the Trustees have 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 Trustees have followed 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.
- voting information covering the reporting year up to the 30th of June 2024, including the most significant votes cast by the investment managers on the Scheme's behalf.

Summary of key actions undertaken over the reporting year.

At the beginning of the year, the Scheme's SIP was updated to reflect the new investment strategy and to account for new DWP regulations. The Trustees and their investment advisors continued implementing the new investment strategy and the final transition was completed in Q4 2023 with an investment into the Fiera Infrastructure Fund. In Q2 2024, it was decided that the LDI portfolio would target a 100% hedge on the Technical Provisions liabilities (TPs) basis, to further reduce funding risk.

After the end of the reporting year, redemption requests were submitted to the Federated Hermes and Columbia Threadneedle property funds to further de-risk the Scheme following concerns around the outlook for property markets. The Trustee will seek to further align the investments with the Scheme's objectives when investing the proceeds of the property sales.

Further the Trustees continued to review their investment managers on an ongoing basis, including from a sustainability perspective, with the assistance of its investment adviser. This includes understanding whether the investment managers are signed up to common codes such as the UK Stewardship Code, and if not, engaging with the managers to understand why.

Implementation Statement

This report demonstrates that the 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

Approach to managing and monitoring investment risks

The Trustees consider that there are several different types of investment risk that are important for the Scheme. These include, but are not limited to:

Risk of inadequate returns

A key objective of the Trustees is that, over the long-term, the Scheme should have adequate assets to meet its liabilities as they fall due. The Trustees therefore invest the assets of the Scheme to produce a sufficient long-term return in excess of the liabilities. There is also 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 is monitored by the Trustees on a regular basis. The Trustees maintain a significant proportion of liability matching assets to manage this risk.

Risk from lack of diversification

This is the risk that failure of a particular investment, or the general poor performance of a given investment type, could materially adversely affect the Scheme's assets. The Trustees believe that the Scheme's assets are adequately diversified between different asset classes and within each asset class. This was a key consideration when determining the Scheme's investment arrangements and is monitored by the Trustees on a regular basis. Over the reporting year, the Trustees have undertaken an investment strategy review to target a greater level of diversification.

Investment manager risk

This is the risk that an investment manager fails to meet its investment objectives. Prior to appointing an investment manager, the Trustees receive written advice from a suitably qualified individual and will typically undertake an investment manager selection exercise. The Trustees monitor the investment managers on a regular basis to ensure they remain appropriate for their selected mandates. The Trustees' investment adviser typically holds quarterly calls with the investment managers or more frequently where required.

Liquidity/marketability risk

This is the risk that the Scheme is unable to realise assets to meet benefit cash flows as they fall due or that the Scheme will become a forced seller of assets in order to meet benefit payments. The Trustees are aware of the Scheme's cash flow requirements and believe that this risk is managed by maintaining an appropriate degree of liquidity across the Scheme's investments.

Environmental, social and governance (ESG) risks

Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustees seek to appoint investment managers who will manage

these risks appropriately on their behalf and from time-to-time review how these risks are being managed in practice. As part of the Trustees' investment strategy reviews, the Trustees have reviewed sustainable mandates in each of the areas reviewed, including an equity portfolio with a specific ESG focus.

Collateral adequacy risk

The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection ("hedging") against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Trustees when requested to do so will not be able to post additional cash to the LDI fund within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer subsequently as a result. In order to manage this risk, the Trustees ensure that the Scheme has a sufficient allocation to highly liquid assets which can be readily realised, so that cash can be posted to the LDI manager at short notice.

Legal and General Investment Management (LGIM) has been selected as the LDI manager. LGIM sets a minimum collateral requirement to be held within its LDI funds, taking into account regulatory guidance and its own risk management framework. The Trustees hold additional liquid collateral with LGIM in order to reduce collateral adequacy risk including liquid Cash funds, Credit funds and equities. Further liquid assets are held with M&G in order to further reduce collateral adequacy risk.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme is subject to credit risk because it invests in bonds via pooled funds. The Trustees manage their exposure to credit risk by only investing in pooled funds that have a diversified exposure to different credit issuers, and predominately invests in bonds that are classified as "investment grade".

Currency risk

Whilst most of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees consider the overseas currency exposure in the context of the overall investment strategy and believe that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustees manage the amount of currency risk by investing in pooled funds that hedge some of the currency exposure.

Interest rate and inflation risk

The Scheme's assets are subject to interest rate and inflation risk because some of the Scheme's assets are held in bonds via pooled funds. However, the interest rate and inflation exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and so the Trustees believe that it is appropriate to have exposures to these risks in this manner and to review them on a regular basis. The Scheme's LDI investments aim to hedge c.100% of these risks on a Technical Provision basis.

Other non-investment risks

The Trustees recognise that there are other, non-investment, risks faced by the Scheme, and takes these into consideration as far as practical in setting the Scheme's investment arrangements.

Examples include:

- longevity risk (the risk that members live on average, longer than expected); and
- sponsor covenant risk (the risk that, for whatever reason, the sponsoring employer is unable to support the Scheme as anticipated).

Together, the investment and non-investment risks give rise generally to funding risk. This is the risk that the Scheme's funding position falls below what is considered an appropriate level. By understanding and considering the key risks that contribute to funding risk, the Trustees believe that they have appropriately addressed and are positioned to manage this general risk.

Changes to the SIP

The SIP was updated and signed in July 2023 to reflect the new investment strategy and to account for new DWP regulations.

Policies added to the SIP during the reporting period

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.

- As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective. The Scheme's Infrastructure and Private Credit mandates are subjected to a performance related fee.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustees monitor the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.
- The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.

- The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.
 - For closed ended funds or funds with a lock-in period the Trustees ensure the timeframe of the investment or lock-in is in line with the Trustees' objectives and Scheme's liquidity requirements.
 - For open ended funds, the duration is flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

Voting Policy - How the Trustees expect investment managers to vote on their behalf

- The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'

- The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
 - The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
 - Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees' investment decision making.
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Current ESG policy and approach

ESG policy

The SIP describes the Scheme's policy with regards to ESG, which is as follows.

Consideration of financially material and non-financial matters

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time-to-time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate. The Trustees do not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

Implementing the current ESG policy

In line with the policy above, the Trustees will review its managers from an ESG perspective. The Trustees will review all investment managers from an ESG perspective when making new appointments.

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

Areas for monitoring engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of Rights	• The Trustees' investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustees receive information from their investment advisers on the investment managers' approaches to engagement. • The Trustees will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters (including the Scheme's stewardship priorities) at least annually.	• The manager has not acted in accordance with their policies and frameworks (including stewardship priorities).

ESG summary and actions with the investment managers

Manager, fund	ESG Summary
Legal & General Investment Management – Future World Equity Index Fund	Within LGIM's Future World Index, a set of exclusions are applied, alongside enhancements based on the comprehensive evaluation of ESG factors. Climate considerations are a key priority for the Fund, and LGIM are continually improving their capabilities in the space. In 2023, LGIM introduced Scope 3 and GHG emissions data in regular reporting for the Fund. LGIM are currently members of 50+ initiatives and networks, covering climate change, net zero transition, health, diversity and inclusion and corporate governance around the world.
Legal & General Investment Management – Absolute Return Bonds Funds	LGIM provides ESG scores for all assets within the portfolio and can provide the required TCFD Scope 1 and 2 metrics. LGIM also encourages investee companies to align sustainability reporting with best-practice frameworks. LGIM collaborates with a range of industry participants to monitor and influence a broad range of ESG topics. The funds have decarbonisation targets aligned with guidance such as the IPCC special report on global warming and the Net Zero Investment Framework.
Legal and General Investment Management – Matching Core LDI Fund Range	LGIM is actively committed to integrating ESG considerations into LDI funds. Their dedicated ESG team plays a crucial role in stewardship and responsible investment, ensuring strong risk management through their proprietary tools. LGIM produce a quarterly fund-specific ESG report which details an ESG score, several ESG metrics including carbon footprint and carbon reserves.
Federated Hermes Property	The level of reporting and disclosure from Hermes is significantly ahead of peers with very clearly defined targets and progress reports against those targets ESG reporting is regular and provides a good blend of tangible and quantitative data, alongside case studies and examples of Hermes ESG process and practices.
Threadneedle Property	The Threadneedle Property Fund is tracking ESG objectives and has shown case study examples of engagements made with tenants of underlying assets within the Fund to improve its ESG attributes. CT participates in a wide range of organisations at a firm level, including UNPRI, UKSIF, NZAMI as well as IIGCC Real Estate Working Group. CT has a Net Zero target of 2050 for real estate with a clear pathway in place and quantitative interim targets
Fiera Infrastructure	The Fiera Infrastructure Fund successfully integrates its firmwide ESG policy into the Fund and is committed to proactively working towards a net zero pathway as a firm. ESG factors are integrated into the investment deal sourcing process, which uses an ESG analysis scorecard and goes through an ESG committee for approval.

	Fiera is able to report on a broad range of climate metrics that feed into quarterly investor reports and the annual ESG report.
M&G – Total Return Credit Investment Fund	M&G boasts a robust company-wide ESG strategy, illustrating their competency in managing ESG risks within the Fund. M&G are a signatory to the 2020 UK stewardship code and the NAZMI. The manager can clearly evidence engagements with the wider industry in line with the firm level ESG policy.
Permira – Direct Lending	Given this fund vintage is fully deployed, the scope for fund-level improvements is limited. Future improvements are therefore likely to focus on enhancing engagement and reporting capabilities. Permira are signatories of several organisations including Principles for Responsible Investment and the ILPA ESG Data Convergence Initiative.

Engagement

As the Scheme invests via pooled funds managed by investment managers, the managers are responsible for engaging with investee companies as and when required. The investment managers have provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 30th of June 2024.

Fund name	Engagement summary	Commentary
Legal & General Investment Management – Future World Equity Index Fund	Total Engagements: 1951 Engagements fell into the following categories: Environmental: 1637 Governance: 498 Social: 239 Other: 204 (includes financial and strategy) Please note that the sum of the above categories is greater than the number of total engagements, as some engagements cover more than one of the topics listed.	LGIM have a firmwide ESG policy implemented through identifying, engaging and escalating key ESG issues. LGIM employs a dedicated and experienced ESG team to assess and engage with companies on key ESG issues. Within LGIM's Future World Index, there is an exclusion criterion in place, combined with tilting according to the consideration of all the E, S and G factors. LGIM has firm wide stewardship priorities with a current priority focus on inequality, ethnic diversity, and tax transparency. The manager takes a holistic approach to voting and engagement across all of its portfolio companies, within which LGIM's Investment Stewardship team and all investment teams collaborate to ensure they are using a common framework. This strengthens and streamlines engagement and voting activities, allowing the manager to maximise effectiveness by leveraging its position as a large, influential investor. LGIM produces an annual Active Ownership report which summarises the actions taken on behalf of clients.
Legal & General Investment Management – Absolute Return Bonds Funds	Total Engagements: 357 Engagements fell into the following categories: Environmental: 298 Governance: 112 Social: 44 Other: 72 (includes financial and strategy)	LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness. LGIM share their finalised ESG ratings/scorecards with companies, identifying which metrics are used, LGIM's key focus areas and suggestions to companies that could improve their score.

	Please note that the sum of the above categories is greater than the number of total engagements, as some engagements cover more than one of the topics listed.	
Legal and General Investment Management – Matching Core LDI Fund Range	LGIM currently has not yet provided numerical data of engagement activity within the Matching Core LDI Funds. LGIM do however engage regularly with the counterparty banks involved in their LDI strategies.	LGIM believe effective stewardship involves working with companies, regulators, policymakers, peers, and other stakeholders around the world to tackle systemic issues, material risks and opportunities as well as collaboration with industry experts to identify future challenges.
Federated Hermes Property	Various Engagements Due to the nature of the fund, which owns properties, there are no companies with which to engage. However, they do engage with occupiers of the properties.	The Federated Hermes Property is a pooled UK property investment fund that invests 100% directly into real estate properties and, as such, there are no companies with which to engage. However, they engage with a number of industry and government bodies. Furthermore, they also take time to regularly engage with occupiers of the properties, usually through managing agents and leasing agents, to encourage them to be more energy efficient, and have been looking into wellbeing for occupiers as a way to better their engagement efforts. The manager has very clearly defined and objective ESG targets which it is able to report the progress on regularly through the fund's reporting, including meeting net zero emissions across the managed assets in their real estate portfolio by 2035.
Threadneedle Property	Various Engagements Due to the nature of the fund, which owns properties, there are no companies with which to engage. However, they do engage with occupiers of the properties.	The firm sets ESG standards and KPIs for all contractors and property managers to adhere to which ensures ESG factors are adhered to from external parties. The firm also actively engages with tenants to make them aware of ESG priorities and is even encouraging ESG stipulations and requirements to share ESG data be written into new leases. The firm also sets ESG standards for the refurbishment of their assets through their refurbishment guide to ensure properties are fit for the future and refurbished with sustainability in mind.
Fiera Infrastructure	Various Engagements As the fund manager, they communicate directly with the ESG lead of the portfolio companies. They focus on seeking positive change within their portfolio	The firm has an ESG policy that sets out guiding principles, commitments, and implementation for responsible investment, and how to integrate environmental, social and governance ("ESG") risk and value creation opportunities into their investment decision-making process and ownership practices.

	companies and improving market-wide/system risks.	An example of significant engagement is: Inalan The annual Global Real Estate Sustainability Benchmark (GRESB) Infrastructure Assessment is the most substantial engagement Fiera has on ESG topics. Fiera engaged with Inalan in October 2023 to improve their GRESB score by setting them ESG objectives, such as: • Conduct materiality assessment to identify material ESG topics. • Develop ESG risk register – identify risks and opportunities that are material to the business. • Develop ESG policy – formalize objectives and procedures for material topics Inalan actioned all items discussed and are awaiting their GRESB score which will be announced on 1st October. They have already scheduled a call with Fiera to discuss their scores and areas for continued improvement.
M&G – Total Return Credit Investment Fund	Total engagements: 9 Environmental: 6 Social: 2 Governance: 1	M&G has a well integrated sustainable investment policy to ensure ESG considerations are incorporated across all stages of the investment process. An example of significant engagements is: Westlake Corp M&G engaged with Westlake Corp, a North American chemical company, to request the company set a Net Zero target for Scope 1, 2 and 3 emissions verified by SBTi, increase its scope 1 & 2 reduction targets for 2030 from 20% to 30%, disclose scope 3 emissions and decarbonisation strategy and report under TCFD. Westlake was receptive to M&G's recommendations but explained that the company does not want to commit to a Net Zero target until it has a clear pathway to get there. They are currently in talks with SBTi and, as they approach the 20% reduction for scope 1 & 2, are considering what the next steps will be. The next sustainability report is expected to be published soon and the company is working on TCFD and Scope 3 emission disclosures, M&G plan to review the report and continue to follow up with the company next year.
Permira – Direct Lending	Total engagements: 34	Permira is committed to improving its approach to ESG engagement and monitoring post-investment, reflecting the continual evolution of its approach to ESG. Permira has developed its approach to ESG margin ratchets and attempted to integrate the mechanism to offer margin ratchets into

		deal documentation for all new commitments and refinances. An example of significant engagement is: ITG Permira engaged with ITG about their ESG strategy and how Permira could help them to improve. Permira encouraged the firm to discuss the possibility of including an ESG margin ratchet in their loan agreement, which would link a margin reduction to ITG meeting ESG KPIs. There has been an improvement across the portfolio following the engagement. These improvements include their EcoVadis score increasing from 71 to 75.
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Voting (for equity asset funds only)

The Trustees note the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's investment managers have provided details on their voting actions including a summary of the activity covering the reporting year up to the 30th of June 2024. The managers also provided examples of significant votes. Note this only includes the equity manager, as the only fund with voting rights attached to the investment.

Fund Name	Voting Summary	Commentary
Legal & General Investment Management – Future World Equity Index Fund	Resolutions eligible to vote for: 54,867 Resolutions voted for: 54,741 Resolutions voted with management: 44,032 Resolutions voted against management: 10,380 Resolutions abstained from: 329	LGIM's Investment Stewardship team uses International Shareholder Services' (ISS) 'Proxy Exchange' electronic voting platform to electronically vote in line with LGIM's policies. All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with LGIM's position on ESG, they put in place a custom voting policy with specific voting instructions. Examples of Significant Votes: Microsoft Corporation: LGIM voted against the resolution to elect a new Director as they expect companies to separate the roles of Chair and CEO due to risk management and oversight concerns. Bank of America Corporation: LGIM voted for a resolution that would require Bank of America to report on clean energy supply financing ratio. LGIM believe that banks and financial institutions have a significant role to play in shifting financing towards funding the transition to a greener future.

