Sainsbury's Pension Scheme ("the Scheme")

Implementation Statement covering the Scheme year from 1 October 2022 to 30 September 2023 (forming part of the Trustee's report)

1. Introduction

This Statement covers the Scheme year ending 30 September 2023. 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 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 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.

There were several changes implemented over the Scheme year, largely in response to the gilt crisis, as described in Section 3.

2. Review and changes to the Statement of Investment Principles

The SIP was reviewed and updated in February and May during the Scheme year. The key changes were:

Stewardship Priorities – the Trustee agreed stewardship priorities in line with the guidance from the Department for Work and Pensions (DWP) and will report on the impact of engagement activity in respect of these priorities going forward. The revised policies in the SIP in relation to Stewardship and Engagement are set out in Section 5.

Investment Objectives – the objectives in the SIP and the timeframe for achieving these were based on the position following the 2018 Valuation. Following the conclusion of the latest Valuation and the gilt crisis that followed, the investment objective continues to be to achieve full funding on a low risk (gilts + 0.5% p.a.) basis, and the Trustee is giving further consideration to a low reliance objective. As at 31 December 2022, using the best estimate investment returns of the portfolio over time, there would be a 50% or better chance of being fully funded on a gilts + 0.5% p.a. basis by the end of 2024 for the Argos Section, and by the end of 2028 for the Sainsbury's Section. This takes into account the funding framework agreed with the sponsoring employer as part of the 2018 Valuation process.

3. Investment Objectives and Investment Strategy

The Trustee's primary responsibility in respect of investments is to ensure, for the duration 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 diversified portfolio of assets. 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 continues to be to achieve full funding on a low risk (gilts + 0.5% p.a.) basis.

The investment strategy is kept under regular review to consider opportunities to rebalance or de-risk the policy. There were several changes to the investment strategy over the year, which are summarised below.

Collateral resilience and liquidity requirements

The sudden rise in gilt yields in Q3 2022 led to significant liquidity requirements in order to maintain control of the Scheme's liability hedging mandates. To ensure collateral requirements could be met, the majority of the liquid credit assets (asset backed securities (ABS), investment grade bonds and Emerging Market Debt) held by the Sections were sold down. This continued into the recent Scheme year, with the Multi-Asset Credit mandates managed by OakHill, GSAM and CQS being fully redeemed for both Sections.

The Trustee agreed a revised collateral resilience framework during the year, incorporating the Pension Regulator's guidance. This framework has been used to guide decisions while ensuring sufficient collateral is maintained for both Sections to withstand a sizeable increase in gilt yields.

The Trustee also set up an uncommitted credit facility with the Scheme's custodian during the Scheme year, which added an extra layer of resilience against rapid increases in gilt yields.

Rebalancing and de-risking

As capital was returned from redemptions from semi-liquid assets and distributions from illiquid investments, the Trustee took opportunities to increase the level of liability hedging. Having re-instated a high level of hedging, the Trustee has also taken steps to add back to investment grade credit by topping up the existing mandate with PIMCO.

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 to long-term investment portfolios and should therefore be considered as part of the Scheme's investment process. The Scheme's investment managers are required to complete an annual questionnaire of ESG metrics and engagement data based on the template established by the Investment Consultants Sustainability Working Group. The Investment Committee also meets at least annually with key investment managers. 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.

The table below outlines the policies in the SIP in relation to ESG risks and explains how these have been implemented for the year to 30 September 2023.

Policy	Implementation
"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 is left to the discretion of the investment manager and forms part of the Investment Committee's monitoring and ongoing assessment of these investments.* *The Trustee and Investment Committee do not require their investment managers to take non-financial matters into account in their selection, retention and realisation of investments."*	The evaluation of how the Scheme'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 and the investment adviser's ongoing appraisal of the managers' appointment. A detailed assessment of the investment manager's ESG credentials forms a key part of any decision to invest additional capital with an existing manager or in the selection of a new manager. The Investment Committee has assessed the investment managers' engagement activity and ESG policies, as well as how these have been implemented over the year. This is summarised by the investment adviser in an annual ESG, Stewardship & Engagement Report. As part of this review, the Investment Committee noted that managers had made further improvements to their processes and reporting on ESG matters. The Trustee has prepared the second Climate report for the Scheme. This detailed report covers five key areas: Governance, Strategy, Scenario Analysis, Risk Management, and Metrics & Targets. As part of the data collection process for the report, a range of ESG metrics were collected across all of the Scheme's mandates. Shortly after the Scheme year-end, the Investment Committee met with key managers (the LDI and investment grade credit managers). The management of material ESG risks and engagement on ESG matters was a key topic in the manager assessment.

5. Stewardship & Engagement activity

The Scheme 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 2023. 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).

The table below outlines the policies in the SIP (as updated May 2023) in relation to Stewardship and Engagement. The page overleaf explains how these have been implemented for the year to 30 September 2023.

Policy	Implementation
"The Trustee believes that good stewardship practices, including monitoring and engaging with investee companies, 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.* *The Investment Committee seeks to appoint investment managers that have strong stewardship policies and processes and encourages best practice in terms of engagement with investee companies. The Investment Committee 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, or to explain why they believe it is appropriate not to do so. The investment managers are required to report on the extent of their adherence to the Code, alongside their broader stewardship activities on at least an annual basis.* *The Scheme's investment managers are given full discretion in exercising stewardship obligations relating to the Scheme's investments in line with their own stewardship policies. However, the Trustee has selected some priority ESG themes which will provide a focus for the monitoring of the investment managers' stewardship activities. The investment managers are expected to prioritise stewardship and engagement activities in relation to the following ESG themes, which represent the Trustee's priorities in relation to stewardship: Climate change (with focus on disclosures), Human and labour rights, and Diversity and Inclusion. The Investment Committee will review these themes regularly and will update them if appropriate."*	The Trustee considers the investment managers' approach to stewardship on ESG matters as part of any appointment and as part of ongoing monitoring. There is a Terms of Reference for the Investment Committee which sets out the delegations from the Trustee including with respect to stewardship and engagement activities. The Investment Committee's business plan includes an annual review of stewardship activity. The Investment Committee reviews the engagement activities across the Scheme's managers as part of its review of the Annual ESG, Stewardship and Engagement report prepared by its investment adviser. This review covers calendar years as most of the underlying managers are able to report on this basis. The majority of each Section's managers have confirmed their adherence to the UK Stewardship Code. 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 Trustee has continued to delegate to its investment managers the exercise of rights and engagement activities in relation to investments. 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.

Policy

"The Trustee delegates monitoring of the managers activities to the Investment Committee which is supported by its Investment Adviser. The Investment Committee monitors the investment managers engagement activities in relation to ESG factors on a regular basis and seeks to understand how managers are implementing their stewardship policies in practice to check that these activities are effective and aligned with the Trustee's expectations.

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 focussed on the investment managers' engagement activities since the Scheme has no exposure to listed equities with voting rights. If a manager's level of engagement was viewed to be unsatisfactory, the Investment Committee would escalate this to the investment manager. If the Committee's engagement with the investment manager did not result in any improvement over a reasonable period of time, the Investment Committee would consider whether the specific circumstances justified the termination of the mandate."

Implementation

The Investment Committee meets with the Scheme's key, strategic investment managers (the LDI and fixed income managers) on at least an annual basis. When reviewing the managers, the Investment Committee has focussed on the quality and impact of the managers' stewardship and engagement activity.

The Investment Committee reviews the engagement activity undertaken by all the Scheme's investment managers as part of the annual Stewardship and Engagement report. Over the calendar year 2022, there were 839 and 719 engagements in respect of the Sainsbury's and Argos Sections respectively.

The key areas of engagement were in relation to climate change, remuneration, human capital management (e.g. inclusion & diversity, employee terms, safety) and pollution and waste.

The investment adviser reviews engagement activity as part of their regular monitoring of the Scheme's managers and reports any notable updates to the Investment Committee as part of their quarterly reporting.