

# **Aberdeen Harbour Board Retirement Benefits Scheme**

## **Statement of Investment Principles**

### **1. Background**

This Investment Statement sets out the principles governing decisions about investments for the Aberdeen Harbour Board Retirement Benefits Scheme (“the Scheme”) to meet the requirements of The Pensions Act 1995, as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every year, and without delay after any significant change in investment policy.

In preparing this Statement of Investment Principles, we, the Trustees, have obtained and considered written professional advice from Isio our investment consultant.

The Trustees’ investment responsibilities are governed by the Scheme’s Trust Deed: a copy of the relevant clauses, of which this Statement takes full regard, is available on request from the Trustees.

The Trustees are aware of the Myners principles, which set out a code of conduct for investment decision making and governance, and have reviewed their responsibilities and activities in the context of these principles.

### **2. Investment Objective**

The Trustees invest the assets of the Scheme with the aim of ensuring that all members’ accrued benefits can be paid.

The Scheme’s funding target is specified in the Statement of Funding Principles, and the Scheme’s funding position will be reviewed regularly to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme’s circumstances.

In setting the strategy, the Trustees pay due regard to requirements of Aberdeen Harbour Board with regards to the size and incidence of contributions payments.

### 3. Investment strategy

The Trustees have taken professional advice from Isio regarding setting the current investment strategy and manager structure. Isio is qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience.

The investment strategy was derived from careful consideration of the nature and duration of the Scheme's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Scheme, and also the strength of the sponsor's covenant. The Trustees considered the merits of a range of asset classes, in agreeing the target strategy.

Following the completion of an investment strategy review and further strategy discussions, the Trustees appointed M&G Investment Management, and BlackRock Investment Management, Partners Group, Apollo Global Management and Legal and General to implement the agreed strategy. The overall strategic benchmark allocation and the managers' specific performance benchmarks and targets, are set out in the table below:

<b>Manager - Asset Class</b>	<b>Benchmark (%)</b>	<b>Index</b>	<b>Target</b>
<b>BlackRock -</b> Global Developed Equities	4.0	MSCI World Net Total Returns (GBP) Index	Index tracking
<b>BlackRock -</b> Emerging Market Equities	1.0	MSCI Emerging Markets Index	Index tracking
<b>M&amp;G –</b> Diversified Credit	15.0	1 month SONIA	+3.0% to 5.0% p.a. (gross of fees)
<b>BlackRock –</b> Long Lease Property	10.0	IPD Long Income Property Funds Index	To deliver a distribution yield of 5.0% p.a. across the market cycle
<b>Partners Group –</b> Direct Lending	10.0	SONIA	+4.0% p.a. (net of fees)
<b>Apollo –</b> Semi-Liquid Credit	10.0	3 month LIBOR	+5.3% p.a. (net of fees)
<b>Legal and General</b> <b>(“LGIM”) –</b>	17.0	3 month SONIA	+ 1.5% p.a. (net of fees)

Absolute Return Bonds			
<b>BlackRock - Liability Driven Investment</b>	33.0	Liability benchmark based on Scheme cashflows	n/a
<b>Total</b>	<b>100</b>		

The Trustees are satisfied that the mandates awarded mean that sufficient assets will be realisable to provide cash to meet payments by the Scheme.

All decisions about the day-to-day management of the assets have been delegated to the investment managers (noted above) via a written agreement. This delegation includes decisions about:

- The realisation of investments;
- Social, environmental and ethical considerations in the selection, retention and realisation of investments; and
- The exercise of rights (including voting rights) attaching to the investments.

The day to day activities which the investment managers carry out are governed by agreements with the Trustees, which are reviewed from time to time to ensure that these remain appropriate.

The Trustees employ investment managers regulated by the Financial Conduct Authority (“FCA”) with whom day to day responsibility for the investment of the Scheme’s assets rests.

A summary of the policies the Trustees’ have in place in relation to the investment management arrangements for the Scheme are summarised in Appendix A.

A summary of the investment manager charges is given in Appendix B. and a summary of the Scheme’s cash flow policy is as stated in Appendix C.

The Trustees operate a bank account for daily cash flow needs.

#### 4. **The Trustees’ Policy with Regard to Risk**

The Trustees recognise that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by assessing the funding position and the characteristics of the assets and

liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. The assets of the Scheme consist predominantly of investments admitted to trading on regulated markets.

Further information on the risks, financially material considerations and non-financial matters that have been considered when deciding on the Scheme's investment strategy are set out in Appendix D.

5. **Environmental, socially Responsible Investment and Corporate Governance**

The Trustees recognise that social, environmental and governance ("ESG") considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have been delegated by the Trustees to act accordingly in this respect

The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding ESG considerations. The Trustees also receive information from their investment advisers on the investment manager's approach to engagement. In the case where managers have not acted in accordance with their policies and frameworks or if the manager's policies are not in line with the Trustees' policies with regards to ESG factors, there is scope for further monitoring and engagement by the Trustees beyond the annual reports and regular updates.

6. **Employer-related investments**

The Trustees' policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value.

7. **Direct investments**

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to a fund manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.

8. **Governance**

The Trustees of the Scheme make all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of fund managers.

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees' investment advisers, Isio, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustees in the interests of obtaining best value for the Scheme.

9. **Compliance with this Statement**

The Trustees and the investment managers (all of whom have been appointed by the Trustees) each have duties to perform to ensure compliance with this Statement. These are:

**The Trustees**, will review this Statement every year and will record compliance with it. The Trustees will take advice from and consult with such persons as they consider appropriate in this.

**The investment managers**, will prepare regular reports for the Trustees including:

- valuation of all investments held for the Scheme
- records of all transactions together with a cash reconciliation
- a review of recent actions (if any) undertaken on behalf of the Scheme together with their policies, and how they have engaged with issuers, regarding ESG considerations.



**For and on behalf of  
The Trustees of the Aberdeen Harbour Board Retirement Benefits Scheme**

1st Draft June 2000  
Revised September 2002  
Revised January 2006  
Revised March 2008  
Revised August 2013 Revised March 2015  
Revised August 2019  
Revised May 2022

## Appendix A – Risks, Financially Material Considerations and Non-Financial matters

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

The Trustees of the Scheme seek to adopt an integrated risk management approach. The three key risks associated in this framework and how they are managed are stated below:

<b>Risks</b>	<b>Definition</b>	<b>Policy</b>
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none"> <li>• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring employer's covenant strength.</li> <li>• Investing in a diversified portfolio of assets.</li> </ul>
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none"> <li>• Funding risk is considered as part of the investment strategy review and the actuarial valuation.</li> <li>• The Scheme's 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.</li> </ul>
Covenant	The risk that the sponsoring employer becomes unable to continue providing the required financial support to the Scheme	<ul style="list-style-type: none"> <li>• When developing the Scheme's investment and funding objectives, the Scheme's 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.</li> </ul>

The Scheme is exposed to a number of underlying risks relating to its investment strategy. These are summarised below:

<b>Risk</b>	<b>Definition</b>	<b>Policy</b>
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 hedge 80% of these risks on a Gilts flat liability basis.
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) and provide collateral to the LDI manager.

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.
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 geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme's investors for the risk of default.
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.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Allow the Scheme's active managers who invest in overseas securities the flexibility to hedge overseas currency exposure to manage risk.
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.

**Appendix B – Investment Management Charges**

<b><u>Manager</u></b>	<b><u>Fee Scale (% p.a.)</u></b>	
<i>BlackRock</i>	<i>Aquila Life MSCI World Index Fund</i>	<i>Tiered, c. 0.18%</i>
	<i>Emerging Market Index Sub Fund</i>	<i>0.23%</i>
	<i>Long Lease Property Fund</i>	<i>0.40%</i>
	<i>LDI Mandate</i>	<i>ILG:0.08%</i>
		<i>LDI funds: Tiered, c. 0.25%</i>
		<i>Blended fee: c. 0.24%</i>
<i>M&amp;G</i>	<i>Alpha Opportunities Fund</i>	<i>0.50%</i>
<i>Partners Group</i>	<i>Private Market Credit Solutions 2018</i>	<i>0.80% p.a. + 8% of profits, subject to a 4% preferred return p.a. (with catch up)</i>
<i>Apollo</i>	<i>Total Return Fund</i>	<i>0.68%</i>
<i>LGIM</i>	<i>Absolute Return Bonds</i>	<i>0.25%</i>



**Appendix C - Cash Flow Policy**

- The distributions are taken from the M&G Alpha Opportunities Fund on a quarterly basis in order to help meet the cashflow requirements.
- Any additional cash requirements are sourced by disinvestments from BlackRock. The BlackRock funds are a single priced and there is no spread cost incurred for disinvestments.
- The Trustees will monitor the Scheme's asset allocation position on a regular basis and seek to disinvest from other mandates to rebalance the assets if required.

## Appendix D – Investment Management Arrangement Policies

The Trustees have the following policies in relation to the investment management arrangements for the Scheme:

<p><b>How the investment managers are incentivised to align their investment strategy and decisions with the Trustees’ policies.</b></p>	<p>As the Scheme is invested in pooled funds, there is no 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.</p>
<p><b>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.</b></p>	<p>The Trustees’ review the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements.</p> <p>The Trustees monitor the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process.</p>
<p><b>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.</b></p>	<p>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.</p> <p>The Trustees evaluate performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years.</p>
<p><b>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</b></p>	<p>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.</p>
<p><b>The duration of the Scheme’s arrangements with the investment managers</b></p>	<p>The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.</p> <ul style="list-style-type: none"> <li>○ 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.</li> <li>○ 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.</li> </ul>

## Implementation Statement – *wording for accounts*

### Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. The regulatory changes recognise that Environmental, Social and Governance ("ESG") factors are financially material to the Scheme, stating that pension scheme trustees are required to consider how these factors are managed as part of their fiduciary duty.

The regulatory changes require that the Trustees detail the Scheme's policies in its Statement of Investment Principles ("SIP"), and to demonstrate their adherence to these policies on an ongoing basis in an annual Implementation Report.

### Statement of Investment Principles

The Trustees have updated the Scheme's SIP in response to the DWP regulation to cover:

- Policies for managing financially material considerations, including ESG factors and climate change; and
- Policies on the stewardship of the Scheme's investments.

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

[G:\Eworking\IC\Client\Aberdeen\\_Harbour\\_Board\Aberdeen\\_Harbour\\_Board\\_RBS\Client\\_Info\SIP\"OtAJS\\_Trustees\\_September\\_2002\\_SIPv2.doc".doc \(portofaberdeen.co.uk\)](G:\Eworking\IC\Client\Aberdeen_Harbour_Board\Aberdeen_Harbour_Board_RBS\Client_Info\SIP\)

Changes to the SIP are detailed within this report.

### Implementation Report

This Implementation Report is intended to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- Actions the Trustees have taken to manage financially material risks and implement the key policies outlined within the Scheme's SIP;
- The Trustees' current policies and approach to ESG considerations, and the actions taken with each of the Scheme's investment managers on managing ESG risks;
- The extent to which the Trustees have followed policies relating to engagement, covering both their engagement with the Scheme's investment managers and the engagement activity of each of the investment managers with the companies and counterparties in which they invest; and
- The voting behaviour of the Scheme's investment managers covering the reporting year to 31 March 2023 (noting the Trustees' delegation of Scheme voting rights to the investment managers through its investments via pooled fund arrangements).

### Summary of Key Actions Undertaken over the Scheme's Reporting Year

The Trustees agreed to a number of strategic and manager changes over the year to better align the strategy with the Scheme's agreed long-term objective, and in response to changing market conditions. These changes are summarised below:

- **Strategic De-risking:** Over the previous reporting period, the Trustees implemented a formal de-risking framework to progressively reduce the Scheme's investment risk as funding improved. In April 2022, the monthly monitoring process flagged that the Scheme had breached its next de-risking trigger. In response to this development, the Trustees de-risked the investment strategy by reducing the equity allocation to 5% of Scheme assets and increasing the allocation to the lower risk Absolute Return Bond mandate. This action was completed in May 2022.
- **Liability hedge reduction:** Volatility in UK government bond yield markets reached historic levels during H2 2022, with yield movements resulting in a significant amount of Scheme capital being transferred to the LDI portfolio to support the liability hedge. In response to a sharp spike in gilt yields, BlackRock undertook "exposure reduction" events across several of their LDI funds in late-September. This activity saw the Scheme's hedge reduce to 57% with respect to interest rates and 53% with respect to inflation (on a Gilts flat basis - previously 80% on both). BlackRock also increased the collateral requirements of their LDI funds in response to the "new" market environment. Due to the increased collateral requirements of the liability hedging arrangements the Trustees agreed to maintain the reduced liability hedge.
- **Restructuring the Diversified Credit mandate:** To improve the Scheme's liquidity profile, the Trustees agreed to redeem 50% of the monthly traded holdings in the M&G Alpha Opportunities Fund ("AOF"). Given the ongoing discussions regarding the future evolution of the Scheme's strategy, the Trustees agreed to hold these proceeds in cash in the short-term. The proceeds from this activity settled in the Trustee Bank Account January 2023.
- To further improve the Scheme's liquidity profile, the Trustees also agreed to switch the Scheme's remaining holdings in M&G AOF into the strategy's daily traded sister fund – the Total Return Credit Investment ("TRCI") Fund. This fund provided the Scheme with a broadly similar exposure alongside higher liquidity. This activity was completed in March 2023.
- **Replace the Scheme's Liability Driven Investment ("LDI") manager:** The Trustees received introductory training from Insight on their credit-enhanced LDI offering in July 2022 and agreed to switch the Scheme's LDI mandate to Insight. Following the events of September and October, and the actions taken by the Scheme's existing LDI manager, BlackRock, the Trustees reaffirmed their decision to move the Scheme's LDI mandate to Insight at the March 2023 Trustee meeting. However, given the ongoing Actuarial Valuation, as at 31 March 2023, the Trustees agreed that the initial switch to Insight should be done using their standard pooled LDI funds, rather than their credit-enhanced offering. The decision on whether to implement the Scheme's liability hedge via the credit-enhanced offering will be reviewed following the completion of the Actuarial Valuation. As part of the switch to Insight, the Trustees agreed to increase the liability hedge to 80% (on a Technical Provisions basis). The switch to Insight was completed post-reporting period.
- **Restructuring the Scheme's growth assets:** Due to the significantly off-benchmark position of the Scheme's asset allocation following the UK gilt market crisis, the Trustees agreed that the structure of the Scheme's growth assets should be reviewed with the primary objective being to achieve a comparable risk: return profile of the existing strategy benchmark but with higher liquidity. The Trustees agreed a new investment strategy for the Scheme at the Trustee meeting in March 2023. Amongst changes to existing mandates' strategic weightings, the new strategy included the introduction of a new Asset Backed Securities ("ABS") mandate (12% of Scheme assets), and the termination of the existing Global Equity mandate.

## Implementation Statement

This report demonstrates that the Trustees of the Aberdeen Harbour Board Retirement Benefits Scheme have adhered to the Scheme's investment principles and their policies for managing financially material considerations, including ESG factors and climate change.

Signed

Position

Date

## Managing Risks and Policy Actions

Risk/ Policy	Definition	Policy	Actions over reporting period
Interest Rates and Inflation	The risk of mismatch between the value of the Scheme's assets and present value of the liabilities from changes in interest rates and inflation expectations.	To hedge 80% of these risks on a Technical Provisions liability basis.	<p>The hedge was reduced by BlackRock in September following unprecedented gilt market volatility.</p> <p>As part of the review of the Scheme's strategy at the March Trustee meeting the Trustees agreed to increase the hedge to 80% on a Technical Provisions liability basis. This change was implemented post-reporting period as part of the switch of the liability hedging mandate from BlackRock to Insight.</p> <p>This change will be documented within the next SIP update.</p>
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investments.	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) and provide collateral to the LDI manager if required.	<p>The Trustees monitor the availability of daily liquid assets as part of the semi-annual investment reports.</p> <p>Following significant volatility in gilt markets over September and October 2022, the Trustees took action to increase the Scheme's liquidity and manage overall liquidity pressures.</p> <p>The Trustees redeemed 50% of the Scheme's monthly traded holdings in the M&amp;G Alpha Opportunities ("AOF") Fund, with the proceeds being held as cash. The remaining 50% was switched into the strategy's daily traded sister fund – the Total Return Credit Investment ("TRCI") Fund.</p> <p>As part of the review of the Scheme's strategy at the March Trustee meeting, the Trustees considered the liquidity profile of the</p>

			<p>strategy and agreed to implement a new, daily liquid asset backed securities allocation (12% of Scheme assets) to provide additional liquidity for the LDI portfolio, alongside a standalone allocation to Cash (5% of Scheme assets).</p> <p>This change will be documented within the next SIP update.</p>
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified across asset classes and hedge away any unrewarded risks, where practicable.	<p>The Trustees agreed to a number of strategic and manager changes over the year to better align the strategy with the Scheme's long-term objective, and in response to changing market conditions. These changes have been outlined in the previous section.</p> <p>Following the stabilisation of market conditions in Q4 2022, the Trustees reviewed the structure of the Scheme's growth assets at the Trustee meeting in March 2023. As part of these discussions, the Trustees agreed to adopt a new investment strategy.</p> <p>These changes will be documented within the next SIP update.</p>
Credit	Default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme's investors for the risk of default.</p>	<p>As part of the new investment strategy agreed at the March 2023 Trustee meeting, the Trustees agreed to implement a new asset backed securities mandate. The strategic weightings to diversified credit and absolute return bonds were reduced as part of the new strategy.</p> <p>These changes will be documented within the next SIP update.</p>
Environmental, Social and Governance (ESG)	Exposure to Environmental, Social and Governance factors, including but not limited to climate change,	To appoint managers who satisfy the following ESG criteria, unless there is a good reason why the	No additional action or change over the reporting period.

	<p>which can impact the performance of the Scheme's investments.</p>	<p>manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> </ol> <p>The Trustees monitor the managers from an ESG perspective on an ongoing basis.</p> <p>The Trustees have also agreed a formal ESG policy for the Scheme, which includes a formal set of ESG beliefs which guide decision making related to the Scheme's investments.</p>	
Currency	<p>The potential for adverse currency movements to have an impact on the Scheme's investments.</p>	<p>Allow the Scheme's active managers who invest in overseas securities the flexibility to hedge overseas currency exposure to manage risk.</p>	<p>No additional action or change over the reporting period.</p>
Non-financial	<p>Any factor that is not expected to have a financial impact on the Scheme's investments.</p>	<p>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</p>	<p>No additional action or change over the reporting period.</p>



## Changes to the SIP

Policies added to the SIP over reporting period

Date updated: May 2022 (The Trustees are in the process of updating the Scheme's SIP to reflect the changes noted on the previous pages. As part of this update the Trustees will also ensure that their approach to ESG, as set out in the Scheme's ESG Policy is formally recorded in the SIP.)

- No new policies were added to the SIP over the reporting period.
- The updates to the SIP carried out in May 2022 were to reflect the strategic de-risking activity in April 2022 following the continued improvement in the Scheme's funding position.

## Current ESG Policy and Approach

### ESG as a Financially Material Risk

The SIP describes the Scheme's policy with regards to 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 which were agreed by the Trustees as part of the May 2021 ESG Beliefs Session. The rest of this statement details Isio's view of the managers, the actions for engagement and an evaluation of each of the manager's stewardship activity.

The table below outlines the areas which the Scheme's investment managers are 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.

### Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none"><li>• Through the manager selection process, ESG considerations will form part of the evaluation criteria.</li><li>• The Scheme's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis.</li><li>• When attending Trustee meetings, investment managers will be asked to present to the Trustees on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity.</li><li>• The Trustees review the Scheme's investment managers' ESG policies at least on an annual basis to ensure they continue to operate in line with their ESG policies.</li></ul>	<ul style="list-style-type: none"><li>• The investment manager has not acted in accordance with their policies and frameworks.</li><li>• The investment managers' ability to abide by the Trustees' ESG policies ceases due to a change in the manager's ESG policies.</li></ul>

### Areas of Assessment and ESG Beliefs

Risk management	<ol style="list-style-type: none"> <li>1. ESG factors such as climate change are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees.</li> <li>2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.</li> </ol>
Approach / Framework	<ol style="list-style-type: none"> <li>3. The Trustees want to understand how investment managers integrate ESG within their investment process and in their stewardship activities.</li> <li>4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors.</li> </ol>
Voting & engagement	<ol style="list-style-type: none"> <li>5. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors.</li> <li>6. The Trustees believe that engaging with managers is more effective to initiate change than divesting but that divestment is an important tool where engagement fails to procure results.</li> <li>7. The Trustees want to understand the impact of voting &amp; engagement activity within their investment mandates.</li> </ol>
Reporting & monitoring	<ol style="list-style-type: none"> <li>8. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge.</li> <li>9. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.</li> </ol>
Collaboration	<ol style="list-style-type: none"> <li>10. Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD.</li> </ol>

## ESG Approach

As per the spectrum of ESG approaches chart presented on the following page, the Trustees wish to pursue a “sustainable” investment approach for the Scheme that integrates ESG risk analysis into investment decision-making, whilst pursuing certain “impact” opportunities that generate competitive financial returns, and whilst also providing positive and measurable environmental or societal impact. The Trustees will seek clear financial rationale in any investment decision, and also consider in balance all financial and non-financial considerations. The Trustees’ position is indicated on the spectrum chart on the following page.



	Traditional ESG factors not considered.	Fully Delegated "Light Touch" Approach  Reliance on investment managers' RI Policies.	Values-based/ Exclusionary/ Ethical Investing  Reflect core values of an investor. Avoids sectors that are controversial.	Sustainable Investing "Integrated Approach"  Manages ESG risks whilst seeking positive ESG outcomes.	Impact Investing  Investing in companies, funds or infrastructure that provide solutions to social and environmental issues that look to deliver market rate financial returns.	Impact Only/ Philanthropic Investing  Impact investing, but market returns are a lower priority.
ESG Impact						
Financial Impact		Focus on delivering long-term returns				Below market returns
Objectives		ESG risks managed				
				Pursues positive ESG outcomes		
					Seeks specific ESG targets	
Governance Requirements		Regular training to review ESG beliefs, set objectives and integrate ESG policy				
		Manager monitoring and engagement		ESG Reporting	ESG targets set and impact measured	
			Review of strategy and allocation to funds aligned with ESG policy			

## Engagement with Investment Managers

To date, while the Trustees consider a prospective manager's ESG credentials when appointing a manager and evaluate managers on this criteria, the Trustees have not yet carried out a detailed ESG

specific review of the Scheme’s investment managers. A high-level overview of the Scheme’s managers’ approach to ESG was carried out as part of a wider ESG training exercise in 2019.

The Trustees’ plan to carry out a review and engage with the Scheme’s investment managers on their ESG policies, either directly or indirectly via Isio as the Scheme’s investment adviser.

More broadly, Isio has engaged with all the Scheme’s investment managers on their ESG policies to ensure they meet a set of minimum criteria.

The Trustees will look to review the ongoing appropriateness of this position in 2023.

#### Investment Managers’ Engagement Activity

As the Scheme invests via pooled funds managed by various investment managers, each manager has provided details on their engagement activities, including a summary of the engagements by category over the Scheme’s reporting year.

Fund name	Engagement summary <sup>1</sup>	Commentary
M&G Total Return Credit Investment Fund	<p>Total Engagements: 11</p> <p>Environment: 5</p> <p>Social: 4</p> <p>Governance: 2</p>	<p>M&amp;G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements.</p> <p>M&amp;G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&amp;G’s Sustainability and Stewardship Team, allowing them to leverage their expertise and sustainability themes. M&amp;G monitor the success of engagement by assessing whether they have met their objective and log this in a central system.</p> <p>Marks &amp; Spencer - M&amp;G reached out to the British retailer to explore their plans to become Real Living Wage accredited. Following this, M&amp;S confirmed that they have no plans to pursue accreditation as a Living Wage Employer. M&amp;S confirmed that their employees’ rates currently exceed the real living wage and external factors such as the living wage rate are considered when setting their hourly rates. In addition, M&amp;S provide employees with a reward package, including pensions, and company wide discounts. M&amp;G were comfortable with the company’s rationale and their efforts to ensure their employees were being fairly paid.</p> <p>ArcelorMittal – M&amp;G met with the CFO and Head of Investor Relations at the company to encourage them to implement a short-term carbon reduction target, such as 2025. ArcelorMittal have already made a commitment to carbon reduction targets by 2030 and to become carbon neutral by 2050. Given these commitments and the progress started to achieve these, the company felt this target would be unrealistic and therefore, could not commit to a shorter-term target than those already in place.</p>

<p>Apollo Total Return Fund</p>	<p>Total Engagements: 36</p> <p>Environmental: 10</p> <p>Social: 3</p> <p>Broad-based ESG: 23</p>	<p>Apollo has a firm wide stewardship policy. However, the policy doesn't specify any priority areas or ESG themes. The link between the policy and Apollo's engagement could also be clearer.</p> <p>ESG engagements are managed by the portfolio management team, with "Green teams" in each asset class responsible for escalating ESG issues to the ESG Steering Committee.</p> <p>Examples of significant engagements include:</p> <p>Garda World Security Corporation – Apollo met with the company on the underlying theme of "Social" in December 2022. During the engagement, Garda's views on the current safety measurements in the middle east were discussed and Apollo questioned how they planned to mitigate risks facing their employees. The company confirmed that they have increased their compliance training.</p> <p>Ampol Limited – Apollo engaged with the company to help them implement sustainability-performance targets into the deals structure. The following targets were agreed;</p> <ul style="list-style-type: none"> <li>• A 5% reduction in carbon emissions relating to refining business and terminals business by 2050</li> <li>• A 25% reduction in scope 1 &amp; 2 emissions for the retail convenience business by 2050</li> <li>• The installation of 500 EV charging points to be supplied by renewable energy</li> </ul>
<p>Partners Group Private Market Credit Strategies (2018) Fund</p>	<p>Total engagements: 3</p> <p>Corporate: 3</p> <p>*Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2022 calendar year.</p>	<p>Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as debt lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks.</p> <p>Partners Group have engaged solely on governance related issues over the period, rather than environmental or social considerations. Examples of significant corporate governance activities within portfolio projects include:</p> <p>Azets – Partners Group had several engagements with the sponsor on the refinancing of the capital structure of the company. Following the engagement, Azets confirmed that the original debt exposure was fully repaid.</p> <p>Galderma – Partners Group engaged with the company's management to receive a trading and performance update. Company performance continues to be strong with revenues above those of the previous year. The key driver of this performance was volume</p>

		<p>growth within the aesthetics and consumer segments. The company confirmed that they have managed to mitigate inflationary pressures through brand mix improvements, life cycle management and cost cutting programs.</p>
<p>LGIM Absolute Return Bond Fund</p>	<p>Total Engagements: 133</p> <p>Environmental: 64</p> <p>Social: 22</p> <p>Governance: 40</p> <p>Other: 7</p>	<p>LGIM’s engagement policies are developed by the Investment Stewardship team with feedback from other teams across the business. Engagement is done at a firm wide level rather than at a Fund specific level – this approach helps LGIM leverage its size when engaging with companies.</p> <p>LGIM do not currently provide detailed engagement examples for the Absolute Return Bond Fund. As part of their response, LGIM noted the following as their Top 5 Engagement Topics:</p> <ul style="list-style-type: none"> <li>• Climate change</li> <li>• Remuneration</li> <li>• Board Composition</li> <li>• Climate Impact Pledge</li> <li>• Energy</li> </ul>
<p>BlackRock UK Long Lease Property Fund</p>	<p>BlackRock currently do not provide details of their engagement activities for this investment due to the nature of the Fund(s).</p> <p>Isio will work with BlackRock on behalf of the Scheme to develop BlackRock’s engagement reporting going forward.</p>	<p>BlackRock’s Investment Stewardship Team (“BIS”) is responsible for and carry out all voting and engagement activities.</p> <p>BlackRock lease on full repairing and insuring (“FRI”) terms, which means that whilst a tenant is in a property BlackRock have limited control over that property.</p> <p>BlackRock does recognise the importance of engaging with tenants and other stakeholders to gain insight into their ESG practices and key performance indicators. Engagement activity varies from asset to asset, but often includes a combination of campaigns, activities and events to address sustainable best practice, particularly in relation to energy and resource efficiency, which is a key priority area for BlackRock and the wider industry.</p>
<p>BlackRock Gilts &amp; Liability Driven Investment Portfolio</p>		<p>Within LDI, BlackRock has started to engage with derivative counterparties on governance issues and is currently developing an Environmental screen for assessing banking counterparties.</p>
<p>BlackRock Cash Fund</p>		<p>BlackRock currently do not collect engagement data for the underlying LDI and cash funds.</p>

Notes: <sup>1</sup>For some managers, total engagements do not sum up, as a number of single engagements are related to a combination of E, S, and G issues.