

**ABERDEEN HARBOUR BOARD RETIREMENT BENEFITS SCHEME
TRUSTEES' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2021**

Appendix to the Accounts - Implementation Statement

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 in an Implementation Report.

Statement of Investment Principles (SIP)

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:

https://www.aberdeen-harbour.co.uk/images/uploads/SIP_2019_initialled_for_website.pdf

Changes to the SIP are detailed within this report.

Implementation Report

This Implementation Report is 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 2021 (noting the Trustees' delegation of Scheme voting rights to the investment managers through its investment via pooled fund arrangements).

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

- The Trustees completed a rebalancing exercise for the Scheme's investment strategy over the reporting period. This activity took place following the Trustees' decision to disinvest from the BlackRock Fixed Income Global Opportunities ("FIGO") Fund, brought about by Isio's decision to downgrade the Fund to 'Partially Meets Criteria' and the decision from BlackRock to close the share class of FIGO in which the Scheme was invested in. The disinvestment from FIGO took place in June 2020 and resulted in c.£8.5m being made available for use elsewhere in the Scheme's investment strategy. The proceeds were reallocated as follows:
 - c.£3.7m to the BlackRock ICS Sterling Fund (cash),
 - c.£1.9m to the BlackRock Emerging Market Equity Fund and,
 - the residual balance c.£2.9m to the BlackRock Over 5 Year Index Linked Gilts Fund.
- Prior to the reporting period, the Trustees agreed to commit 10% (c.£7m) of the Scheme's assets to a long lease property mandate with BlackRock. Due to concerns around the impact of COVID-19 on the UK property market, the Trustees attempted to halve their original £7.0m commitment to £3.5m (c. 5% of Scheme assets) over the reporting period, with formal notice of the decision being submitted to BlackRock on 25 June. Due to the terms set out in the fund documentation, the Scheme was required to provide BlackRock with 6-months advanced notice to withdraw their commitment with BlackRock retaining the right to draw down the original commitment amount over this period. In Q4 2020, BlackRock issued a capital call for the Scheme's full commitment. As the date of the capital call was within the specified 6-month notice period, the Scheme was required to fulfil its previously agreed commitment. As a result, the Scheme's Long Lease Property mandate was funded in full.
- A review on the Scheme's liability hedge was conducted following receipt of the 2020 Actuarial Valuation cashflows to assess the alignment of the hedge, relative to the Scheme's agreed target – 80% of liability sensitivity to interest rate and inflation movements (on a gilts-flat basis). As the Scheme had drifted from its target hedge with respect to both interest rates and inflation, minor remedial actions were made by BlackRock to rebalance the hedge. This was completed in March 2021.
- The Trustees undertook a journey planning exercise, whereby they looked to review and agree a suitable long-term objective for the Scheme and review the Scheme's investment strategy to determine whether it remained suitably aligned with this objective. As part of these discussions, the Trustees agreed that the Scheme would look to target a fully funded position on a low risk self-sufficiency basis. At the Trustee meeting on 24 February, the Trustees agreed to de-risk the Scheme's investment strategy to better align it with the new long-term objective. These changes included:

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Summary of Key Actions Undertaken over the Scheme's Reporting Year (continued)

- Reducing the strategic allocation to equities from 12.5% to 10% of Scheme assets,
- Restructure the Diversified Credit mandate to introduce a new Absolute Return Bonds mandate – this decision served to both reduce risk and increase the Scheme's availability of daily liquid assets.
- Due to the strong recovery in global equity markets following the Q1 2020 COVID-19 induced sell-off, the Trustees agreed to action the reduction in equities immediately to crystallise some of the gains made. This disinvestment was completed on 4 March, with £3.1m being disinvested from the Developed Market Equity mandate and £1m being disinvested from the Emerging Market mandate.

Implementation Statement

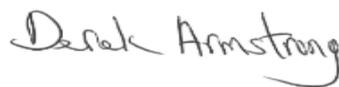
This report demonstrates that the Trustees of the Aberdeen Harbour Board Retirement Benefits Scheme have adhered to the Scheme's investment principles and their policies for managing financially material considerations, including ESG factors and climate change.

Scottish Pension Trustees Ltd.



Trustee

D. Armstrong



Trustee

9th September 2021

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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 Gilts flat liability basis. | The Scheme reviewed the position of its liability hedge following receipt of 2020 Actuarial Valuation cashflows. Minor remedial actions were taken to realign the liability hedge with the Scheme's agreed target. |
| 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. | The Trustees monitor the availability of daily liquid assets as part of the semi-annual investment reports. |
| 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. | The Trustees reviewed the Scheme's investment strategy, as part of the journey planning session, to determine whether the current investment strategy remained appropriate. As part of this activity, the Trustees agreed to de-risk the Scheme's investment strategy through a reduction in the strategic allocation to equities, and through the introduction of an absolute returns bond mandate. These changes to the investment strategy will be documented within the SIP accordingly. |

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Managing Risks and Policy Actions (continued)

| | | | |
|--|--|--|---|
| 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>The Trustees disinvested from the BlackRock FIGO Fund following Isio's decision to downgrade the Fund from 'Meets Criteria' to 'Partially Meets Criteria'. This decision was driven by a lack of confidence in the Fund's ability to deliver on its long-term return objective.</p> <p>As part of a de-risking exercise for the Scheme, the Trustees agreed to restructure the existing diversified credit mandate to implement a new absolute returns bond mandate. This action will serve to reduce the overall level of credit risk within the portfolio due to the lower risk/return characteristics of absolute return bonds as an asset class.</p> <p>This change will be documented within the SIP accordingly.</p> |
| Environmental, Social and Governance (ESG) | 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>To appoint managers who satisfy the following ESG criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 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 <p>The Trustees monitor the managers on an ongoing basis.</p> | <p>The Trustees agreed to formulate a formal ESG policy.</p> <p>An ESG beliefs session was scheduled in May 2021 (post-reporting period), where the Trustees' agreed a set of ESG beliefs that will be incorporated into an ESG policy, which will feed into the Scheme's investment strategy.</p> <p>The revised ESG policy will be included in the SIP accordingly. This ESG policy will be reviewed annually.</p> |

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Managing Risks and Policy Actions (continued)

| | | | |
|---------------|---|--|---|
| 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. | No additional action or change over the reporting period. |
| 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. | No additional action or change over the reporting period. |

Changes to the SIP

| |
|---|
| Policies added to the SIP over reporting period |
| Date updated: 30 September 2019 |
| <ul style="list-style-type: none"> • No new policies were added to the SIP over the reporting period. • As part of the latest SIP update (September 2019), the Trustees included details on how they recognise Environmental, Social, and Governance issues as a financially material risk, and how these concerns are integrated within the existing decision-making process, alongside details of the Scheme's Investment Management Arrangement Policies. • These changes were in anticipation of the new regulatory requirements which came into place from 1 October 2020. • As part of the latest update, the Trustees also carried out a full refresh of the Scheme's SIP to reflect the evolution of the investment strategy over the period since the previous review (March 2015), and to migrate the SIP to Isio's refreshed template. |

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Implementing the current ESG policy and approach

ESG as a Financially Material Risk

The SIP describes the Scheme's policy with regard 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, and which are in the process of being formally approved. The rest of this statement details Isio's view of the managers, the actions for engagement and an evaluation of the stewardship activity.

The below table 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"> • Through the manager selection process, ESG considerations will form part of the evaluation criteria • The Scheme's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis • 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; • 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. | <ul style="list-style-type: none"> • The investment manager has not acted in accordance with their policies and frameworks. • The investment managers' ability to abide by the Trustees' ESG policies ceases due to a change in the manager's ESG policies. |

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Areas of Assessment and ESG Beliefs

| | |
|------------------------|---|
| Risk management | <ol style="list-style-type: none"> 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. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy. |
| Approach / Framework | <ol style="list-style-type: none"> 3. The Trustees want to understand how investment managers integrate ESG within their investment process and in their stewardship activities. 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. |
| Voting & Engagement | <ol style="list-style-type: none"> 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. 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. 7. The Trustees want to understand the impact of voting & engagement activity within their investment mandates. |
| Reporting & Monitoring | <ol style="list-style-type: none"> 8. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 9. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments. |
| Collaboration | <ol style="list-style-type: none"> 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. |

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 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.

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ESG Approach (continued)

| | 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 | | |
| Governance Requirements | | | | | Seeks specific ESG targets | |
| | | 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 | | | | |

ESG summary and Engagement

Engagement with Investment Managers

To date, while the Trustees' consider a prospective manager's ESG credentials when appointing a manager, the Trustees have not yet carried out a detailed ESG 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 appropriateness of this position in 2021.