ASD PLC Retirement Benefits Scheme

Implementation Statement

August 2021

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation statement.

Statement of Investment Principles (SIP)

The Scheme updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address:

https://www.kloecknermetalsuk.com/wp-content/uploads/2020/10/ASD-RBS-SIP-2019.pdf

Implementation Statement

This implementation statement is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP, over the 12-month reporting period to 31 March 2021. This statement details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key actions undertaken over the Scheme reporting year

- Isio provided an update on the Scheme's funding position at the April 2020 Trustee meeting due to concerns about the impact of COVID-19 on the portfolio. As part of the discussion, Isio provided information on various investment opportunities following the heightened volatility and uncertainty within financial markets. It was agreed that the Scheme had already introduced some of the asset classes within the portfolio (e.g. Absolute Return Bonds and Semi-Liquid Credit) and were relatively well positioned for any further volatility.

- Isio revised down the rating of the Scheme's BlackRock Fixed Income Global Opportunities Fund, the details of which were set out in the H1 2020 Investment Performance Report. This was primarily due to concerns about the recent stability of the team and the ability of the Fund to meet its long-term return target. However, Isio noted to the Trustee that the BlackRock mandate remains in line with the Scheme's adopted prudent expected return assumptions - but the mandate should be closely monitored going forward to determine whether any action should be taken.

- At the November 2020 Trustee meeting, preliminary results were given for the Actuarial Valuation as at 1 April 2020. The Scheme completed and signed off the Actuarial Valuation in June 2021. At the same meeting, Isio provided their investment strategy paper, which reminded the Trustee that Isio believe it is an opportune time to revisit the investment strategy as the growth allocations at the overall portfolio level are underweight relative to target – largely due to a significant cash position. The increasing cash levels have largely been a result of:

- the Scheme's private market credit mandate with Partners Group distributing capital as investments have been harvested.

- the Scheme's LDI mandate with LGIM reaching its hedging multiple lower limits, which has resulted in the mandate distributing cash.

- Isio is currently working with the Trustee to revise the Scheme's strategy, with any changes being reflected in the next Scheme reporting year.

Implementation Statement

This statement demonstrates that ASD PLC Retirement Benefits Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

Managing Risks and policy actions

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	The Scheme hedges c.70% of the interest rate and inflation risk through using Liability Driven Investment ("LDI"). The Scheme's hedging assets are split between two managers, Legal and General Investment Management ("LGIM") and Aberdeen Standard. The latter manager operates a dual-purpose mandate covering both LDI and Diversified Growth exposure.	The Scheme signed off the Actuarial Valuation as at 1 April 2020 in June 2021. As such, the Trustee plans to update the Scheme's LDI mandates to reflect the latest available cashflows.
Liquidity	Difficulties in raising sufficient cash when needed without adversely impacting 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 to provide collateral to the LDI mandates.	At present, the Scheme has an elevated cash balance primarily due to distributions received from the private market credit and LDI mandates. The Trustee is currently assessing the Scheme's strategy, and as part of this will determine an appropriate cash allocation for the Scheme to hold going forwards.
Credit	Default on payments due as part of a financial security contract.	The Trustee diversifies this risk by investing in a range of credit opportunities. The Trustee appoints investment managers who actively manage this risk and seek to avoid defaults on any individual credits.	This will be considered as part of the investment strategy review.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To invest in GBP share classes where possible to eliminate direct currency risk. Also, to invest with managers that hedge	

		exposure to foreign currency risk in underlying holdings, except where active currency positions are held.	
Counterparty risk	A counterparty fails to meet its financial transaction obligations.	Daily collateral is posted by the counterparties to account for market movements in the value of derivatives held. Additionally, where possible the relevant mandates seek to have a wide array of counterparties to minimise risk.	
Concentration risk	Excessive exposure to a single issue/stock/sector etc. which has a potentially disproportionate impact on the Scheme's investments.	The Trustee has previously set an investment strategy that uses multiple asset types, strategies, regions and sectors to ensure sufficient diversification.	This will be considered as part of the investment strategy discussions going forwards.
Longevity risk	Members of the Scheme living longer than expected, leading to a larger than expected liability.	The Trustee considers the risks associated with longevity when implementing the investment policy.	
Reinvestment risk	Proceeds from the payment of principal and interest which may be reinvested at a lower rate than the original investment.	The Trustee considers the current market condition, with any advice from its advisors when reinvesting.	
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.	The Trustee considers environmental, social and corporate governance factors when selecting, monitoring and engaging in the investments.	The Trustee has updated the SIP to reflect the new ESG regulations. Further details are provided later in this statement.

Changes to the SIP

Over the 12-month period to 31 March 2021, there have been no changes to the Scheme's SIP.

The Scheme's latest SIP, applicable to this statement, was implemented on 26 September 2019. The SIP will be subsequently updated upon the finalisation of the Scheme's strategy review in 2021.

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 used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details Isio' view of the managers, 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 Trustee intends 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	• The investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustee receive information from their investment advisers on the investment managers' approaches to engagement.	• The manager has not acted in accordance with their policies and frameworks. • The manager's policies are not in line with the Trustee' policies in this area.

Areas of assessment by Isio for the Scheme's Investment Managers and ESG beliefs

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme. 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.
Approach / Framework	3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore, the Trustee will receive training as required to develop their knowledge. 8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

ESG summary and actions with investment managers

Manager/Fund	ESG Summary	Actions identified	Engagement with manager commentary
Apollo – Total Return Fund	Apollo integrate ESG considerations into the Fund's investment process and risk management framework. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.	Apollo is looking to incorporate a formal scoring system for each individual investment. Apollo also currently provides firm-level reporting on ESG activities, and it was proposed that this should be extended to quarterly fund-specific client reporting.	Following direct feedback, Apollo has now adopted an ESG scoring system. Apollo noted in the event of a breach to ESG guidelines, existing investments would be subjected to a detailed review to determine alignment the alignment with Fund ESG objectives. Apollo is now a UNPRI signatory. Apollo previously contemplated if the governance burden of signing up to the UNPRI was worth the benefit.
BlackRock – Fixed Income Global Opportunities	The Fund's approach to risk management and engagement is viewed by Isio to be satisfactory. BlackRock are proficient in articulating their views on ESG, but further tangible evidence at the Fund level is required.	BlackRock should consider creating a report that details the all the engagement activity with issuers and incorporate ESG metrics into regular quarterly reporting. BlackRock should develop measurable ESG objectives for FIGO specifically. This should go beyond considering ESG concerns when investing in a security.	Isio are currently in discussion with BlackRock on the actions identified.
Partners Group – Multi Asset Credit 2017	Partners Group has a specialist ESG and Sustainability team, who support the business in achieving their ESG objectives. At a Fund level they can demonstrate that ESG is a key aspect of the due diligence process and ongoing engagement	Partners Group should provide examples of how they have worked with portfolio companies to bring about a desired change. Partners Group could aim to provide more granular information/data on the	Partners Group have identified firm-wide priority areas such as climate change and diversity targets and have provided evidence of portfolio examples on how these have been applied.

	is apparent through an investment's lifecycle. Partners Group could improve the level of ESG reporting and we would like to see a clearer focus on diversity metrics in their ESG risk assessment at a Fund level.	diversity metrics in place, including ethnicity, LGBTQ+ and social mobility stats.	Despite difficulties in relation to data reporting and engagement in relation to private debt investments, Partners Group has evidenced an example of a constructive discussion on engagement which has driven some improvement.
Aberdeen Standard – Integrated Liability Plus Solutions ("ILPS") Fund	Aberdeen Standard ensure ESG risks are considered at various stages of the investment process, however there are no specific ESG objectives for the Fund. Additionally, as the Fund is derivative-heavy, the ability to benefit from voting and engagement is limited.	Aberdeen Standard should make ESG reports available to clients invested in the Fund. This should be available to clients within the next 6-12 months given the constantly evolving regulatory environment for pension schemes.	No reporting currently in place, however, Aberdeen Standard are currently in the process of developing a platform to produce client reports. We welcome Aberdeen Standard's proposals to improve reporting. We believe this is particularly important for this type of Fund, which lacks the ability to engage materially with companies to which it is exposed.
Legal and General Investment Management ("LGIM") – LDI Portfolio	LGIM have a team dedicated to understanding and assessing the impact of ESG factors for the wider business. LGIM use proprietary tools to quantify and monitor ESG risks. LGIM believe engaging with regulators, governments and other industry participants will help mitigate ESG risks. Isio believe LGIM have a very strong ESG framework relative to their competitors.	LGIM should include the ESG scoring of counterparties in regular client reporting.	LGIM noted a timeline for reporting ESG metrics and scoring, earmarking Q2 2021 for release of quarterly client ESG reports. We will monitor progress of the release of these documents and provide update.

Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 March 2021.

Fund name	Engagement summary	Commentary
Apollo – Total Return Fund	Total engagements: 32 Environmental: 7 Social: 5 Governance: 6 Human Capital: 3 All ESG: 11	Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and established key performance indicators (“KPIs”). As credit investors, Apollo’s voting rights are limited, making it harder to engage with portfolio companies in comparison to equity investors. Examples of significant engagements include: Clearway Energy - Apollo met with the firm’s CEO and CFO to discuss the efficiency of the company’s existing renewable wind farms, as well as the acquisition of new renewable wind and solar powered projects. Following this engagement, the company intend to invest at least $300m in renewable energy projects during 2020. Gannett Co. Inc. – Apollo has engaged with Gannett at multiple Board meetings; this included discussions around the overall health of the organization and its environmental footprint. Following the engagements, Gannett has set a goal of 50%+ of the workforce to consist of underrepresented groups by 2025 and has set a 1 million digital subscriber target by the end of 2020 to reduce newsprint usage.
BlackRock – Fixed Income Global Opportunities	Isio have contacted BlackRock regarding acquiring data on their engagements with portfolio companies and counterparties. BlackRock have been unable to provide specific examples of engagements as they only supply engagement data to funds with voting rights (e.g. equity funds).	See engagement summary.

	We are disappointed with BlackRock being unable to provide examples of their engagement and will provide direct feedback for this to be supplied going forward.	
Partners Group – Multi Asset Credit 2017	Total engagements: 4 Corporate: 4 *Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2020 calendar year.	Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as 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. Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. Examples of significant corporate governance activities within portfolio projects include: Gong Cha: Partners Group engaged with the company on their financial performance and the impact of COVID-19. Partners Group held monthly update calls with the company's CFO and management to discuss the FY20 performance overview, operations during the pandemic, FY21 expectations, reporting and covenant requirements. Partners Group established a line of communication for early intervention in case Covid-19 disrupts the business again.
Aberdeen Standard – Integrated Liability Plus Solutions ("ILPS") Fund	Isio have contacted Aberdeen Standard regarding acquiring data on their engagements with portfolio companies and counterparties. Aberdeen Standard have been unable to provide specific examples of engagements but have been able to provide commentary on their engagement policy which is provided to the right. We are disappointed with Aberdeen Standard being unable to provide	"*Aberdeen Standard Investments views ESG considerations as fundamental to how we invest. We believe that ESG factors are financially material and can meaningfully impact an asset's performance, and that an asset's ability to sustainably generate returns for investors is dependent on its ability to manage its relationship with the environment, its relationship with society and stakeholders, and on the way it is governed.* *It is our belief that a full and thorough understanding of ESG factors allows us to make better investment decisions, leading to better outcomes for our clients. This begins with rigorous research. We undertake thorough due diligence before we invest, considering material ESG risks and opportunities alongside other financial metrics. We seek to understand whether an asset is adequately managing those risks, and whether*

	examples of their engagement and will provide direct feedback for this to be supplied going forward.	*the market has understood and priced them accordingly.* *We also believe that it is our duty to be active and engaged owners of the assets in which we invest. As part of our regular interactions with the investments that we own, we seek to provide constructive challenge to management and boards, aiming to both preserve and enhance the value of our clients' investments. Through these discussions we seek to improve the financial resilience and performance of investments, sharing insights from our ownership experiences across geographies and asset classes. Where we believe we need to catalyse change we will endeavour to do so through our strong stewardship capabilities."*
LGIM – LDI Portfolio	LGIM currently do not provide details of their engagement activity for individual accounts. Isio are working with LGIM to find ways of improving their engagement reporting.	LGIM engage with regulators, governments, and other industry participants to address long-term structural issues. LGIM believe in an active ownership approach. Therefore, they aim to leverage the wider capabilities of the global firm, to actively engage with companies, to create positive change and value. Where engagements are unsuccessful, the team will assess where problems arose and new approaches to be employed.

Voting (for equity/multi asset funds only)

As the Scheme invests via a fund manager, the manager provides details on their voting actions including a summary of the activity covering the reporting year. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Aberdeen Standard – Integrated Liability Plus Solutions ("ILPS") Fund	Votable Proposals: 3365 For votes: 2890 Against votes: 414 Abstain votes: 61	Aberdeen Standard did not provide any examples of significant votes cast.	Aberdeen Standard use Institutional Shareholder Services (ISS) electronic platform to execute vote instructions.