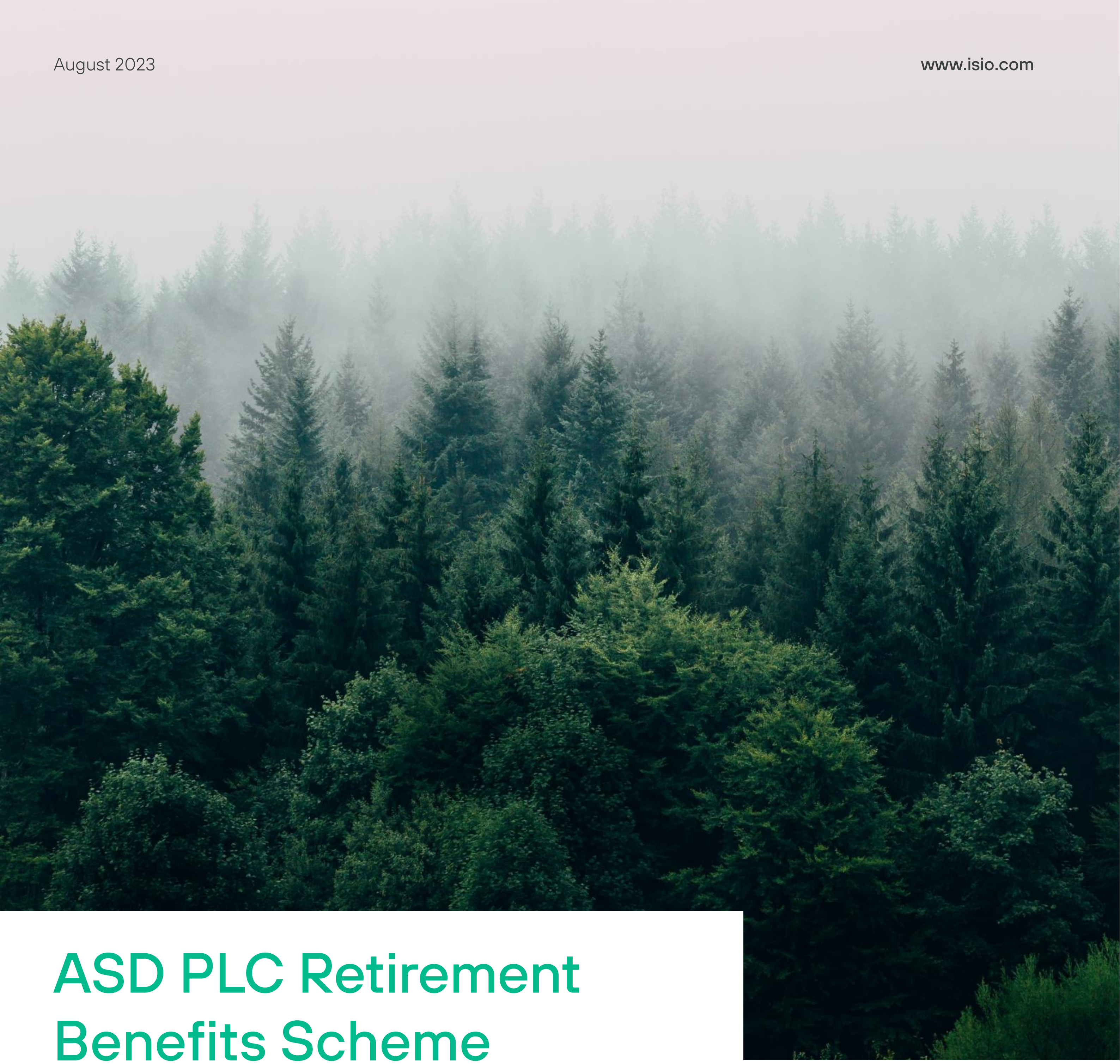

ASD PLC Retirement Benefits Scheme

August 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Statement of Investment Principles (SIP)

This implementation report is to provide evidence that the ASD PLC Retirement Benefits Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address https://www.kloecknermetalsuk.com/wp-content/uploads/2020/10/ASD-RBS-SIP-2019.pdf.

The Implementation Report details:

- Actions the ASD PLC Retirement Benefits Scheme 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 ASD PLC Retirement Benefits 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 up to March 2023 for and on behalf of the ASD PLC Retirement Benefits Scheme including the most significant votes cast by the ASD PLC Retirement Benefits Scheme or on its behalf

Summary of key actions undertaken over the ASD PLC Retirement Benefits Scheme reporting year

The Trustee monitors the Scheme's investments on an ongoing basis, including receiving regular reporting from the Scheme's investment adviser and the investment managers, which covers environmental, social and governance (ESG) matters.

Reporting includes monitoring the Scheme's investment strategy versus the strategic target detailed in the SIP, reviewing the performance of the investment managers versus relevant benchmarks and/or their stated objectives, and monitoring investment risks.

Due to significant market volatility impacting gilt yields in H2 2022, the Scheme redeemed a portion of assets from the Apollo Total Return Fund and fully redeemed from the abrdn Integrated Liability Aware Fund and BlackRock Fixed Income Global Opportunities Fund. The proceeds from the asset sale were used to meet recapitalisation events from the Scheme's LDI mandate, and to top-up the LDI liquidity buffer. This was required in order to assist with maintaining the Scheme's interest rate and inflation hedging. In addition to the asset sales, the Scheme received an £10m inflow from the ASD Scottish Limited Partnership to support the Scheme's LDI mandate.

Implementation Statement

This report demonstrates that the ASD PLC Retirement Benefit 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 and details on changes to policy
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.	As at 31 March 2023, the Scheme hedges c.80% of the interest rate and c.106% inflation risk on a technical provisions (TP) basis through using Liability Driven Investment ("LDI"). The Scheme's hedging assets are held solely with Legal and General Investment Management ("LGIM").	The Scheme's hedging level was increased prior to the onset of the LDI crisis. The hedge level was reduced over Q4 2022 as a result of collateral calls. The hedge level is now being maintained at hedging c.80% of interest rate and c.106% of inflation risk on a TP basis. Despite being over-hedged on inflation on a TP basis, the Scheme is underhedged on a buy-out basis.
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.	
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.	
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.	

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.
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.
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.	

Changes to the SIP

Over the 12-month period to 31 March 2023, 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, which is expected to be completed in H2 2023.

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 the investment managers

Manager/Fund	ESG Summary	Actions identified	Engagement with manager commentary
Apollo – Total Return Fund	Apollo have successfully expanded within their ESG team and provide good evidence for integrating ESG into the Fund's risk management framework.	Apollo should begin establishing a stewardship policy and outline priorities which will help improve boost engagement coverage. Apollo could also begin developing climate objectives which align with ESG objectives.	Whilst ESG risks are assessed in initial due diligence, it is not clear how Apollo maintains ESG oversight of each credit throughout the holding period, and there are no priority areas identified for each holding. Reporting on ESG lags behind peers, however we note that Apollo are actively working to improve reporting through engagement and Isio will monitor progress on this.
Partners Group – Multi Asset Credit 2017	Partners Group now consider 12 key ESG metrics within their reporting, covering a wide range of topics and ESG-relate objectives. Measures have successfully been imposed when ensuring ESG due diligence is carried out with the involvement from other parties.	Partners Group continue to expand their ESG reporting by providing targets at Fund level and evidence of successful engagements. Partners Group could aim to provide diversity metrics and specific climate change targets and should provide regular quarterly reporting on ESG metrics.	Partners Group have identified firm-wide priority areas such as climate change, TCFD reporting and diversity targets and have provided evidence of portfolio examples on how these have been applied.
Legal and General Investment Management ("LGIM")	LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. Isio believe LGIM have a very strong ESG framework relative to their competitors. Example of this include strong commitments to decarbonisation strategies. LGIM currently do not provide details of their	LGIM should include the ESG scoring of counterparties in regular client reporting.	LGIM has successfully enhanced ESG counterparty reporting of funds and is conducted quarterly for their LDI clients.

	engagement activity for individual accounts. Isio are working with LGIM to find ways of improving their engagement reporting.

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 2023.

Fund name	Engagement summary	Commentary
Apollo – Total Return Fund	Total Engagements: 36 Environmental: 31 Social: 19 Governance: 7	Apollo's activities are consistent with their ESG policies. 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. Apollo provided detailed examples whereby they engaged on both climate change policies and diversity issues with holdings in the portfolio. Over time there could be more clarity given how these link with the ESG risks identified with each issuer in the due diligence phase. Ampol Limited – Apollo worked with Ampol to incorporate sustainability-performance targets into the deal structure. Sustainability targets are (a) 5% reduction in carbon emissions relating to refining business and terminals business by 2025 (scope 1) (b) 25% reduction in scope 1 and scope 2 emissions for the retail convenience business by 2025 (c) 500 EV charging points installed, to be supplied by renewable energy.
Partners Group – Multi Asset Credit 2017	Total engagements: 2 Corporate: 2 *Note that Partners Group provide data semi-annually, and as such the engagement data shown reflects their activity over the 2022 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 only on corporate governance related issues over the period, rather than environmental or social considerations. Examples of significant corporate governance activities within portfolio projects include: **Galderma:** Partners Group engaged with the company and the company managed to mitigate raw material and freight cost inflation by brand mix improvements, life cycle management and cost cutting programs.

LGIM – LDI Portfolio		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 fund managers, the managers provide details on their voting actions including a summary of the activity covering the reporting year. The managers also provided examples of any significant votes.

There is no voting data applicable for the ASD PLC Retirement Benefits Scheme as at 31 March 2023.

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