Drake & Scull Retirement Benefits Plan ("the Plan") Implementation Statement Report

March 2023

isio.

Background and Implementation Statement

Background

The Department for Work and Pensions (DWP) continues to seek improved disclosure of financially material risks in pension schemes. 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 report.

Statement of Investment Principles (SIP)

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

- policies for how the Trustees expect managers to vote on their behalf
- policies for how the Trustees will engage with investment managers, direct assets and others about 'relevant matters' on the stewardship of the investments

The SIP can be found online at the web address: Drake_ Scull SIP - Publish Version.pdf (emcoruk.com). Changes to the SIP are detailed on the following pages.

Implementation Report

This implementation report is to provide evidence that the Plan continues to follow and act on the principles outlined in the SIP.

The Implementation Report details:

- actions the Trustees have taken to manage financially material risks and implement the key policies in the 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 Trustees have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest in
- voting behaviour covering the reporting year up to 31 March 2023 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

This report demonstrates that the Drake & Scull Retirement Benefits Plan has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change, over the year to 31 March 2023.

Summary of key actions undertaken over the Plan reporting year

- As part of reviewing the Plan's investment strategy and journey plan, in June 2022 the Trustees, acting under advice, instructed the interest rate and inflation hedge to be increased to c.90% on a Technical Provisions basis.

- Following the gilt crisis in Q3 2022, the Plan decreased the target hedge level on a Technical Provisions basis due to the directions of yields and pressure on LDI funds operationally. This was decreased first to c.70% in October and then again to c.60% in November. The Synthetic Equity exposure was also removed in October to reduce pressure on the Plan's collateral.
- During the gilt crisis, the Plan partially disinvested from the M&G Total Return Credit Investment 'TRCI' Fund to meet collateral calls from the LDI portfolio with BlackRock.
- At the end of 2022, the Plan partially disinvested from the Apollo Total Return Fund 'TRF' to top-up the M&G TRCI Fund, as this is the Plan's liquid source of capital.
- The M&G TRCI Fund was also partially disinvested to meet drawdowns for the BlackRock Diversified Private Debt 'DPD' Fund.
- Once the proceeds of the Apollo TRF disinvestment landed in February 2023, the Trustees decided to increase the target hedge up to c.70% from c.60% on a Technical Provisions basis.
- Since year end, the Trustees have agreed to a target allocation with the expected return on the Plan's assets of gilts +2.25% p.a. (down from gilts +2.7%), in line with the de-risking strategy.

Implementation Statement

This report demonstrates that Drake & Scull 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 DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge c.70% of interest rate and c.70% of inflation risk on the 2021 Technical Provisions basis.	Previously the hedge was c.76% of interest rate and c.79% of inflation risk on the 2018 Technical Provisions basis. (During 2022, the interest rate and inflation rate hedge was increase to c.90% as part of strategy review. Hedge ratios were reduced to c.60% in November 2023 due to pressure on LDI funds. Hedge ratios were revised back up to c.70% in February 2023).
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 to provide collateral to the LDI mandate. The Trustees use the Plan's Diversified Credit allocation (the daily trading M&G Total Return Credit Investment Fund) for liquidity management purposes, and receive regular, ongoing advice from their investment advisers on whether the level of liquidity in the Plan's portfolio remains appropriate.	There is no longer a Synthetic Equity mandate to provide collateral for.
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.	No changes to the policy were made over the year.
Credit	Default on payments due as part of a financial security contract.	To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently	No changes to the policy were made over the year.

		compensates the Plan 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 Plan's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion: 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 6. UK Stewardship Code signatory The Trustees monitor the mangers on an ongoing basis.	Addition of point 6. UK Stewardship Code signatory Further detail provided later in this report.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Currency risk is mitigated for the Plan's pooled fund holdings by investing via Sterling-hedged share classes, with any underlying exposure to non-Sterling currencies being active positions taken by the investment managers for the purpose of return generation.	Wording relating to the Synthetic Equity Portfolio has been removed following the removal of the exposure in Q3 2022.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No changes to the policy were made over the year.

Changes to the SIP

Over the period to 31 March 2023 the Trustee made the following changes to the SIP:

Policies added to the SIP	
Date updated: March 2023	
Voting Policy - How the Trustees expect investment managers to vote on their behalf	• The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
Engagement Policy - How the Trustees will engage with investment managers, direct assets and others about 'relevant matters'	• The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf. • The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
Interest Rates and Inflation	• Adjusted Hedge Ratios. Previously the hedge was c.76% of interest rate and c.79% of inflation risk on 2018 Provisions basis. (During 2022, the interest rate and inflation rate hedge was increase to c.90% as part of strategy review. Hedge ratios were reduced to c.60% in November 2023 due to pressure on LDI funds. Hedge ratios were revised back up to c.70% in February 2023).
Liquidity	• Adjusted wording. There is no longer a Synthetic Equity mandate to provide collateral for.
Environmental, Social and Governance	• Addition of point 6. UK Stewardship Code signatory
Currency	• Wording relating to the Synthetic Equity Portfolio has been removed following the removal of the exposure in Q3 2022.

Current ESG policy and approach

ESG as a financially material risk

This page details how the Plan's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Plan's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The Trustees intend to review the Plan's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Risk / Policy	Definition	Policy	Action
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 Plan's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion: 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 6. UK Stewardship Code signatory The Trustees monitor the managers on an ongoing basis.	ESG actions undertaken: The Trustees review the manager's ESG policies on an annual basis through a Progress report. This report summarises the managers' progress on addressing the actions raised within the ESG Manager Summary report.

Areas of assessment and ESG beliefs

These are the implicit Trustees' investment beliefs which we have derived from the criterion used by Isio to assess the investment managers' ESG policies:

Risk Management	1. ESG factors 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	3. The Trustees want to understand how asset 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. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Voting & Engagement	6. 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. 7. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 8. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 10. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Collaboration	11. Asset 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. 12. The Trustees should seek to sign up to a recognised ESG framework to collaborate with other investors on key issues.

ESG summary and engagement with the investment managers

The Funds below are funds that the Plan was invested in as at 31 March 2023.

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
Apollo Total Return Fund	Apollo have expanded their ESG team, who work in partnership with credit investment professionals. ESG considerations are integrated into the Fund's risk management framework and due diligence process. Their internal ESG ratings system has been improved to incorporate sector-specific scoring. The Fund doesn't currently have a clear stewardship policy or priorities. However, Apollo added a sleeve for 'impact' investments to the Fund in July 2022.	Isio has proposed the following actions: The manager should undertake scenario analysis and understand the Fund's portfolio alignment with explicit climate scenario outcomes. The manager should establish a stewardship policy and priorities to improve engagement coverage. The manager should aim to become a signatory to the 2020 UK Stewardship Code	Isio engaged with Apollo in Q3 2022 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the Apollo engagements.
Partners Group PMCS 2016	Partners Group have a firm wide ESG policy that includes ESG targets that focus on climate change, diversity & inclusion, and corporate governance. The Isio ESG rating for Partners Group was downgraded from 'Meets criteria' to 'Partially meets criteria' as whilst Partners Group have demonstrated growth within their ESG team and practices, they are lagging compared to peers across several areas, primarily reporting.	Isio has proposed the following actions: The manager should identify fund-level ESG targets and provide a diversity report to improve diversity reporting metrics. The manager should adopt engagement targets and include engagement information in quarterly reporting as well as report on TCFD Climate change metrics.	Isio engaged with Partners Group in Q3 2022 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the Partners Group engagements.
M&G Total Return Credit Investment Fund	M&G have a strong firm wide ESG approach and have evidenced their ability to manage ESG risks in this Fund. However, we note reporting is a slightly weaker area due to data reporting issues in certain areas of the	Isio has proposed the following actions: The manager should introduce KPIs to track to the Fund's alignment with the firm-wide ESG policy.	Isio engaged with M&G in Q3 2022 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the M&G engagements.

	portfolio, which M&G are working to address. While the Fund scores well on ESG integration, M&G are developing a 'sustainable' version of the Fund with a greater focus on impact investments for clients with stronger ESG goals.	The manager should continue to develop temperature scenario modelling. The manager should also continue to improve data coverage and reporting metrics, with a particular focus on social and engagement reporting.	
BlackRock Liability Matching Funds (LMF)	BlackRock integrates considerations into their counterparty selection and monitoring process. They also have a dedicated Sustainable Investing team, which oversee the firm's global efforts on sustainable investing, however there is a lack of risk measurement of counterparties.	Isio has proposed the following actions: The manager should continue working on their own scorecard to enable to them to score counterparties against ESG criteria. They should also set clear engagement objectives and milestones for counterparties, which would lead to better reporting on counterparty engagements and ESG scores.	Isio engaged with BlackRock in Q3 2022 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.
BlackRock UK Long Lease Property Fund	BlackRock have a robust firm wide ESG process that is well integrated into their Real Assets platform. BlackRock reviews each asset from an ESG standpoint, noting however, that they have limited control over properties. BlackRock currently report on some ESG metrics, but are looking to improve on this, noting that it relies on their data quality.	Isio has proposed the following actions: The manager should report and monitor engagement effectiveness over time. BlackRock should consider updating their ESG scorecards more frequently. BlackRock should provide detailed ESG metrics in their regular reporting.	Isio engaged with BlackRock in Q3 2022 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.
BlackRock Diversified Private Debt Fund	BlackRock as a firm have strong ESG credentials, in particular a rigorous training program, as well as a firmwide net-zero commitment. While the Fund does not have a specific impact focus, it does aim to mitigate ESG risks. That said, there is a lack of fund-specific policies and priorities in place, which is partly due to the nature of	Isio has proposed the following actions: The manager should implement a fund specific ESG policy. The manager should introduce specific stewardship policies for the Fund.	Isio engaged with BlackRock in Q3 2022 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.

	the private debt asset classes it invests in. BlackRock aim to manage ESG risks and encourage issuer level improvements via ESG ratchets. They are also aiming to improve their data collection via improved questionnaires to assist with enhanced reporting.	The manager should include engagement metrics in the regular reporting.	

Voting and Engagement

As the Plan invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 March 2023.

There were no voting rights attached to the Plan's investments over the year to 31 March 2023.

The Funds below are funds that the Plan was invested in as at 31 March 2023.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements: 48 Environmental: 45 Social: 24 Governance: 10	Apollo have a firm wide stewardship policy in place. The policy doesn't specify any priority areas or ESG themes e.g. climate change and the link between the policy and Apollo's engagement activity could be clearer. 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 had a proposed action point to improve engagement coverage, however they have yet to make significant improvement on this. They have only engaged with a small proportion of portfolio issuers. An example of significant engagements at manager level include: Speed Midco S.A.R.L. – Apollo engaged with the company to include 2 sustainability-linked targets in the deal structure:

		1. ESG Emissions 2. ESG Management Roles
Partners Group PMCS 2016	Total engagements: 4* Corporate: 4 *From 31/12/2021-31/12/2022	Although there has been some progress made in implementing engagement targets over the past 3 years, the private credit space has been less active with this, due to a lack of ownership and influence on the asset. Partners Group have a clear policy regarding engagement with underlying portfolio companies. Engagements are managed by the investment teams with input from the central ESG team when required. Partners Group have implemented ESG ratchets for several prospective investments. Partners Group can measure effectiveness of engagements and borrowers are incentivised for cheaper borrowing.
M&G Total Return Credit Investment Fund	Total engagements: 11 Environmental: 5 Social: 4 Governance: 2	M&G's activities are consistent with their ESG policies, and they have a systematic approach around engagements in which specific objectives are outlined in advance and measured based on the outcomes from the engagements. M&G had an action point to increase the number of portfolio issuers they are actively engagement with on ESG specific issues. However they have not made meaningful progress. An example of significant engagements include: **Thermo Fisher:** due to misuse of medical and analytical equipment potentially causing human rights violations, M&G wanted to ensure the effective policies and procedures for the appropriate use of medical

		technology and analytical equipment. M&G met with the company's investor relations and the senior director of corporate social responsibility to discuss the issue. Thermo Fisher responded by improving its policies and procedures. It has adopted and implemented a Code of Business Conduct and Ethics, applicable to all directors, officers, and employees, who receive annual training on the code. The company has an approved network of authorised that agree to comply with this purchasing process under the terms of their contract.
BlackRock Liability Matching Funds (LMF)	BlackRock currently do not provide details of their engagement activities at Fund level. However, this is something they are looking to implement. Isio remains in contact with BlackRock surrounding the firm's engagement reporting.	Within the Liability Matching Funds, there are 3 avenues where ESG factors can be considered: 1. the cash fund which is used to support the derivative exposure 2. the derivative counterparties BlackRock use 3. the physical instruments held For derivative counterparties, BlackRock conduct in-depth due diligence reviews focused on the credit fundamentals of the counterparty which includes criteria on governance. BlackRock are further working on incorporating an 'Environmental' screen across the counterparties used.
BlackRock UK Long Lease Property Fund	BlackRock currently do not provide details of their engagement activities at Fund level. However, this is something they are looking to implement. Isio remains in contact with BlackRock surrounding the firm's engagement reporting.	BlackRock's ESG related engagement is led by the BlackRock Investment Stewardship team. BlackRock lease on full repairing and insuring terms, which means that whilst a tenant is in a property, BlackRock have

		little control over that property, therefore engagement opportunities are scarce.
BlackRock Diversified Private Debt Fund	BlackRock currently do not provide details of their engagement activities at Fund level. Isio remains in contact with BlackRock surrounding the firm's engagement reporting.	BlackRock are developing a methodology for measuring and tracking company engagement on a consistent basis across DPD. Over the year, they have improved their ESG annual questionnaire . BlackRock has also introduced a ratchet program to utilise financial incentivisation (on a best-efforts basis) to improve availability of ESG data, with more focus being placed on carbon emission reporting; Examples of significant engagement from the Global Opportunistic Credit strategy, which forms part of DPD, include: GCO II: Vertex Energy: BlackRock provided a loan to the company, which enabled them to expand and acquire a Gulf Coast refinery. From this, they began a project to process agricultural by-products into a biofuel substitute for diesel, which carries a significantly lower carbon emissions footprint.

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