



Drake & Scull Retirement Benefits Plan Implementation Report

September 2021

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 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://emcoruk.com/application/files/3516/0209/0244/Drake_Scull_SIP_-_Publish_Version.pdf. Changes to the SIP are detailed on the following pages.

In addition, the SIP has been updated post 31 March 2021 to include the new agreed investment strategy. However, the funds included in this Statement are the funds invested as at 31 March 2021. The new funds will be included in the Implementation Statement for the year ending 31 March 2022.

Implementation Report

This Implementation Report is to provide evidence that the Plan 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 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
- voting behaviour covering the reporting year up to 31 March 2021 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 2021.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy with regarding to 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 below table outlines the areas which the Plan's investment managers are assessed on when evaluating their ESG policies and engagements. 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

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 Plan's investment advisor Isio will monitor managers' ESG policies on an ongoing basis• The Trustees are provided annually with a report detailing the managers' ESG policies as well as a summary of actions Isio has engaged with managers on to ensure the Plan is not exposed to risks relating to ESG factors. This was last reviewed in the last quarter of 2020.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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 2021. The new funds will be included in the next annual Implementation Statement.

Manager and Fund	ESG Summary	Engagement details
Apollo Total Return Fund	The Fund's ESG approach was rated as 'meets criteria' in 2020. Apollo have been actively incorporating ESG into their investment process for a number of years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.	Isio engaged with Apollo in Q3 2020 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the Apollo engagements.
Aberdeen Standard Investments (ASI) – Integrated Liability Plus Solutions (ILPS)	The Fund's ESG approach was rated as 'partially meets criteria' in 2020. Overall, it is clear that ESG factors are an integral part of ASI's investment framework, and we are particularly reassured that these factors are not only built into the stock/counterparty selection process, but also assessed on a forward-looking basis. In order to be rated 'meets criteria' from an ESG perspective, Isio would like to see improved ESG reporting capabilities, which is understood to be currently in development.	Isio engaged with ASI in Q3 2020 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the ASI engagements.
BlackRock Fixed Income Global Opportunities Fund (FIGO)	The Fund's ESG approach was rated as 'partially meets criteria' in 2020. The Fund's approach to risk management and engagement were rated as 'meets criteria'. However, the lack of specific ESG aims and regular reporting for the Fund need to be rectified. BlackRock are very good at communicating their views on ESG, but tangible evidence at Fund level is required.	Isio engaged with BlackRock in Q3 2020 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	The Fund's ESG approach was rated as 'partially meets criteria' in 2020. The Fund does not have a dedicated ESG team/officer but are able to demonstrate that ESG is a key aspect of the due diligence process and ongoing engagement is apparent through an investment's lifecycle. BlackRock have developed a clear framework for recognising ESG factors within the investment process and are looking to improve the depth of its reporting on these issues.	Isio engaged with BlackRock in Q3 2020 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.

BlackRock Liability Matching Funds (LMF)	<p>The Fund's ESG approach was rated as 'partially meets criteria' in 2020. Despite BlackRock's extensive firm-wide capabilities in assessing and applying ESG factors, they have previously believed there were few opportunities to do so within LDI funds. Following discussions between BlackRock and Isio, BlackRock have made and continue to make progress towards incorporating ESG factors within their LDI funds. They are however, still behind some of their competitors who can more clearly evidence how they incorporate ESG into their range of LDI funds.</p>	<p>Isio engaged with BlackRock in Q3 2020 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.</p>
BlackRock Synthetic Equity Portfolio	<p>The Fund's ESG approach was rated as 'partially meets criteria' in 2020. BlackRock have displayed a strong approach to managing ESG risks at a firm-wide level. For this Fund however, BlackRock are limited in some ESG areas such as voting & engagement since the equity exposure for this Fund is achieved via derivatives, such as futures contracts, rather than direct ownership of stocks.</p>	<p>Isio engaged with BlackRock in Q3 2020 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.</p>
Partners Group PMCS 2016	<p>The Fund's ESG approach was rated as 'partially meets criteria' in 2020. Partners Group have 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 is apparent through an investment's lifecycle. Partners Group could improve the level of ESG reporting compared to its peers and could show a clearer focus on diversity metrics in their ESG risk assessment at a Fund level.</p>	<p>Isio engaged with Partners Group in Q3 2020 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the Partners Group engagements.</p>

Voting and Engagement

The Plan's investments do not typically grant voting rights to the managers. For example, the Synthetic Equity mandate with BlackRock uses derivatives rather than holding shares and the other funds hold predominantly credit assets which again, do not typically confer voting rights.

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 2021.

The Funds below are funds that the Plan was invested in as at 31 March 2021. The new funds will be included in the next annual Implementation Statement.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	<p>Total Engagements: 38</p> <p>Environmental: 11</p> <p>Social: 6</p> <p>Governance: 7</p> <p>Human Capital: 3</p> <p>Broad-based ESG: 11</p>	<p>Total engagements are broadly in line with last year's (42). 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 Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.</p> <p>Examples of significant engagements include:</p> <p>Gannett Co., Inc. – Apollo discussed the company's diversity and inclusion as they have established a Diversity Advisory Council and Employee Resources Groups to increase representation particularly among the leadership team. Following from this engagement, Gannett has set a goal of 50%+ workforce consisting of underrepresented groups by 2025 and increasing diversity at the director level and above.</p> <p>Danimer Scientific – Apollo met with management to discuss plans for PHA biodegradable plastic capacity expansion and relative benefits of their home-compostable product with respect to reducing plastic waste and GHG emissions. Following discussions, Apollo chose to participate in PIPE transaction that will help finance brownfield and greenfield expansions that will add 235mm lbs per year of PHA bioplastic capacity in the United States.</p>
Aberdeen Standard Investments (ASI) – Integrated	<p>ASI currently do not provide quantitative data for the Fund.</p>	<p>The Fund's engagement is restricted due to the LDI exposure being implemented by using gilts and swaps, and the growth engine part of the fund being implemented synthetically, i.e. via derivatives. However, ASI's research teams perform ESG analysis on their</p>

Liability Plus Solutions (ILPS)		<p>counterparties at firm level (including any engagement) as part of the credit review provided to the ASI Credit Committee. The analysis is reviewed by the committee on a regular basis as one of the factors to approve a new counterparty or to approve the continued use of an existing counterparty – including ongoing inclusion on the ASI derivative panel.</p> <p>At a firm level, ASI view ESG considerations as fundamental to how they invest. ASI 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.</p> <p>ASI also produce a quarterly global ESG investment report which summarises the voting and engagement at a firm-wide level.</p>
BlackRock Fixed Income Global Opportunities Fund (FIGO)	BlackRock currently do not provide details of their voting and engagement activities at Fund level for funds that do not hold direct Equity. Isio expect BlackRock to be able to provide this where available and will continue working with BlackRock on the development of the firm's engagement reporting.	BlackRock's investment stewardship team are responsible for engagement on behalf of FIGO. The team have a local presence in 6 countries and encourage a change in approach by management if they believe the current handling of ESG factors is not adequate.
BlackRock UK Long Lease Property Fund		<p>BlackRock work with their appointed Property Managers and on-site Building Managers to establish active tenant sustainability programmes that regularly engage with tenants on a range of ESG issues.</p> <p>Examples of activities include the launch of "Carbon Challenge" and "Switch-off Week" campaigns which focus on energy efficiency and reduction, as well as programmes which address wider sustainability issues such as water efficiency, waste management and recycling, local wildlife conservation, and health and wellbeing.</p>
BlackRock Liability Matching Funds (LMF)		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 Synthetic Equity Portfolio		BlackRock do not engage with companies at a fund level since the synthetic equity portfolio is implemented using derivatives like future contracts.
Partners Group PMCS 2016	<p>Total engagements: 4</p> <p>Corporate: 4</p>	<p>The PMCS 2016 is a direct lending fund which has reached its mature stage and is now distributing capital back to investors. Therefore, the engagement activity may be limited at a fund level.</p> <p>Examples of significant engagements include Partners Group actively engaging with various portfolio companies during the pandemic to assess their financial health and potential need for further liquidity.</p> <p>In August 2020, BC Partners agreed to transfer ownership in Côte Brasseries to Partners Group in return for new liquidity.</p>

