



RSNO Pension Scheme Implementation Report

October 2020

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 report.

Statement of Investment Principles (SIP)

The Scheme 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://www.rsno.org.uk/wp-content/uploads/2020/10/RSNO-Pension-Scheme-Final-SIP.pdf>.

The SIP in the above link was updated after 31 March 2020 in order to reflect additional regulatory requirements from the DWP (which were due to be in place from 1 October 2020). We note that any changes to the SIP made after 31 March 2020 have not been covered in this report. Instead, this report covers all changes made during the Scheme year to 31 March 2020.

The SIP which was updated over the 2019/20 Scheme year is also available on the Sponsor website. The changes made to the document over the 2019/20 Scheme year are also referenced on Page 7 of this document.

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 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 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 2020 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

- As part of the Scheme's wider strategy review, the Scheme disinvested from the Invesco Global Targeted Returns Fund during the year following continued performance concerns. The Trustees agreed to reallocate proceeds to a semi-liquid mandate, primarily due to a greater focus on contractual assets, as well as an ability to exploit the illiquidity at fund level. The Trustees selected Apollo to manage this mandate.
- As part of wider strategic changes mentioned above, the Trustees agreed to make a 10% strategic allocation to Long Lease Property. The Scheme entered the queue for the BlackRock UK Long Lease Property Fund and expects to be drawn down over the next two Scheme years.
- The Trustees began engaging with the Scheme's consultants to develop a long-term journey plan. This will involve the Trustees setting their long-term objectives, as well as actions relating to the investment strategy that they intend to implement along the journey.

Implementation Statement

This report demonstrates that the RSNO Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions DB

| Risk / Policy | Definition | Policy | Actions |
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| 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. | To hedge 60% of the impact of interest rate and inflation risk on the value of the Scheme's liabilities (measured on a Gilts basis). | The Trustees have monitored and maintained the Scheme's hedging level through semi-annual reporting. |
| Liquidity | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment. | <p>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 manager.</p> <p>The Trustees recognise that under periods of higher volatility, the ability to immediately disinvest from some pooled funds can be limited. Accordingly, as part of any manager selection, the Trustees will consider any gating provisions.</p> | . |
| Market | Experiencing losses due to factors that affect the overall performance of the financial markets. | To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable. | The Scheme undertook strategy changes over the 12 months to 31 March 2020, which are outlined on the previous page. As mentioned, part of the reason for this was to increase the Scheme's exposure to illiquid, contractual assets, |

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| | | | <p>thus managing market risk more effectively.</p> <p>These changes to the asset allocation were reflected in the SIP which was updated in September 2019.</p> |
| Credit | <p>Default on payments due as part of a financial security contract.</p> | <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 for the risk of default.</p> | |
| Environmental, Social and Governance | <p>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> | <p>The Trustees policy for managing and mitigating risks relating to ESG can be found in Appendix C of the Scheme's SIP.</p> | <p>The ESG policy was reviewed by the Trustees as part of the SIP update in September 2019.</p> <p>The Trustees received training on ESG in Q4 2019 and are scheduled to receive further training over the next 12 months.</p> |
| Currency | <p>The potential for adverse currency movements to have an impact on the Scheme's investments.</p> | <p>The Trustees are comfortable being exposed to currency risk from the equity portfolio; however the currency risk from other overseas investments is hedged back to Sterling.</p> | |
| Non-financial | <p>The views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental</p> | <p>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</p> | |

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| | impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention and realisation of investments. |
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Changes to the SIP

Policies added to the SIP

Date updated:
30 September 2019

How the Trustees acknowledge and deal with risks and financially material risks.

- Please see Appendix B of the Scheme's SIP for the Trustees' policy on managing risks and financially material considerations that the Scheme is exposed to. This is a non-exhaustive list of matters for the Trustees to consider, however it sets out the policy for managing those the Trustees deem most important.

How the Trustees acknowledge ESG related risks, and what steps are taken to mitigate these.

- Please see Appendix C of the Scheme's SIP for the Trustees' policy related to ESG matters.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regarding 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 our view of the managers, our 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 |
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| Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity | <ul style="list-style-type: none">• The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;• As part of ongoing monitoring, the Trustees will use any ESG ratings information provided by their investment consultant to assess how the Scheme's investment managers take accounts of ESG issues;• Through their investment consultant, the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis;• As part of any manager selection exercise, ESG considerations are included as part of the evaluation criteria. | <ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.• The manager has received a 'red' ESG rating from the Investment Consultant, signifying that its ESG approach is below satisfactory. |

ESG summary and engagement with the investment managers

| Manager and Fund | ESG Summary | Actions identified | Engagement details |
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| LGIM Passive Equity | LGIM has shown a strong commitment to managing ESG risks in its passive equity fund range. As a passive investor, LGIM is unable to express ESG views through stock selection, but instead uses voting and engagement to do so. Alongside the traditional risk and return metrics, LGIM also considers the 'impact' of holdings to quantify their societal or environmental contributions. | It was proposed that LGIM should integrate ESG reporting into their standard quarterly reports, which LGIM are looking to action by the end of 2020. | Isio engaged with LGIM on the Trustees' behalf to review their ESG policies and set actions and priorities. |
| LGIM Active Corporate Bonds | LGIM is aware of ESG issues and the effect on long-term returns within its Fund offering. They have also taken steps to integrate these issues within their investment process at a business level. However, there was a lack of fund-specific information with respect to risk management and reporting and given the direction of travel we would expect these points to be addressed in the coming months | LGIM should provide more detail on how they have engaged with the companies found in Corporate Bonds funds including information on the ESG issues that have been raised/addressed, and the outcome of LGIM intervention. It was also proposed that LGIM should provide standard and regular reporting (not only available on request), in relation to Corporate Bonds funds. | Isio engaged with LGIM on the Trustees' behalf to review their ESG policies and set actions and priorities. |
| Schroders Diversified Growth Fund | Schroders are a large asset owner with a well-resourced ESG team. At firm level, they appear to have strong ESG-credentials and are actively involved in a wide range of key | Schroders' ESG priority areas are to be more clearly defined in ESG policy to enable investors to understand Schroders' focus. ESG risks are currently quantified as | Isio engaged with Schroders on the Trustees' behalf to review their ESG policies and set actions and priorities. |

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| | <p>organisations. In line with peers, ESG risks are taken into account at multiple stages, however clear links to voting and engagement activity are difficult to quantify, as are exposure to ESG risks due to a lack of Fund-level reporting.</p> | <p>part of the investment approach and are monitored at portfolio level. Schroders are to look to provide more reporting against these risks as a way for investors to see what they are exposed to and how these risks are being managed. Schroders' ESG-specific objectives are to be considered as part of a more active investment approach.</p> | |
| Apollo Semi-Liquid Credit | <p>Apollo uses a team approach across the firm to address ESG issues, and ESG considerations are included in bottom up credit analysis for each potential investment for the Total Return Fund.</p> | <p>Apollo are looking to incorporate a formal scoring system for each individual investment. Apollo also currently provide firm-level reporting on ESG activities, and it was proposed that this should be extended to quarterly fund-specific client reporting.</p> | <p>Isio engaged with Apollo on the Trustees' behalf to review their ESG policies and set actions and priorities.</p> |
| BlackRock FIGO | <p>BlackRock's approach to risk management and engagement is considered above satisfactory. 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.</p> | <p>BlackRock are to investigate the ESG metrics being included into regular quarterly reporting and should consider creating a report that details the engagements by BlackRock with the issuers the Fund invests in. BlackRock should develop measurable ESG objectives for FIGO specifically.</p> | <p>Isio engaged with BlackRock on the Trustees' behalf to review their ESG policies and set actions and priorities.</p> |
| BlackRock LDI Funds | <p>BlackRock have extensive firm-wide capabilities in assessing and applying ESG factors. However, it has previously believed there are few opportunities to do so within LDI funds. Following discussions Isio have had with BlackRock, BlackRock has made and continues to make progress towards incorporating ESG</p> | <p>BlackRock should incorporate more than just governance screens around derivative counterparties. BlackRock is looking to incorporate an environmental screen for derivative counterparties.</p> | <p>Isio engaged with BlackRock on the Trustees' behalf to review their ESG policies and set actions and priorities.</p> |

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| | factors within their LDI funds. It is however still behind some of its competitors who can more clearly evidence how they incorporate ESG into their range of LDI funds. | | |
| BlackRock Cash Fund | Whilst BlackRock have a clear business level ESG policy, there are currently no formal ESG objectives or engagements targets for the Cash Fund itself. | It was proposed by Isio that BlackRock should consider demonstrating how ESG risks are monitored. | Isio engaged with BlackRock on the Trustees' behalf to review their ESG policies and set actions and priorities. |

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 months to 31 March 2020.

| Fund name | Engagement summary | Commentary |
|---|---|--|
| LGIM Global Equity 60:40 Index Fund | LGIM currently do not provide details of their engagement activities at Fund level, however the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting. | LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. |
| LGIM Active Corporate Bond (All Stocks) Fund | LGIM currently do not provide details of their engagement activities at Fund level, however the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting. | LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. |
| Schroders Diversified Growth Fund | <p>Total Engagements: 5</p> <p>Environmental: 2</p> <p>Social: 1</p> <p>Governance: 2</p> | <p>Schroders 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.</p> <p>Examples of significant engagements include:</p> <p>Qingdao Haier Co Ltd - Schroders contacted the company following an MSCI downgrade to develop a better understanding about the company's responsible material sourcing practices around electronic waste and labour management oversight, and encourage more detailed disclosure over these issues in future company reporting. This engagement was well</p> |

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| | | <p>received by the firm and will be reviewed after the next reporting cycle.</p> <p>Johnson & Johnson – Schroders contacted the company regarding their vote against management at their 2019 AGM. Schroders voted against Executive Compensation. Following the engagement, the compensation committee did introduce several positive changes to the pay program for 2020 and overall Schroders were very encouraged by the meaningful changes made.</p> |
| Apollo Total Return Fund | <p>Total Engagements: 16</p> <p>Environmental: 6</p> <p>Social: 4</p> <p>Governance: 9</p> <p>Human Capital: 1</p> | <p>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>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.</p> <p>Gannett Co. Inc. - As part of the Apollo Term Loan, Apollo negotiated two board observer rights for the company that extend to board seats based on certain leverage thresholds. This enabled Apollo to have greater engagement rights regarding the overall governance structure of the company. Following from this engagement, Apollo built upon their close relationship with the company in order to increase their involvement in the day to day operations of the business.</p> |
| BlackRock FIGO | <p>BlackRock currently do not provide details of their engagement activities for this Fund as there are no equity positions held in this portfolio. Isio will work with BlackRock on the development of the firm's engagement reporting.</p> | <p>BlackRock's ESG related engagements are led by the BlackRock Investment Stewardship (BIS) team. However, the Global Fixed Income Responsibly Investing team partner with the firm level stewardship team to engage with companies when a holding is flagged due to ESG concerns.</p> |

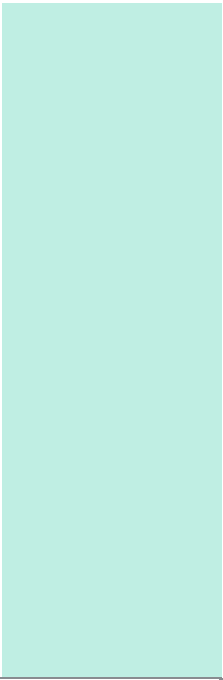
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| BlackRock LDI Funds | BlackRock currently do not provide details of their engagement activities for these Funds as there are no equity positions held in this portfolio. Isio will work with BlackRock on the development of the firm's engagement reporting. | BlackRock's ESG related engagements are led by the BlackRock Investment Stewardship (BIS) team. BlackRock have started to engage with derivative counterparties on governance issues and are working on engaging with them on environmental issues. At firm-level, BlackRock engages with many companies and informs clients about its engagement and voting policies via various forms of communication. |
| BlackRock Cash Fund | BlackRock currently do not provide details of their engagement activities for these Funds as there are no equity positions held in this portfolio. Isio will work with BlackRock on the development of the firm's engagement reporting. | BlackRock currently do not collect engagement data for their Cash Fund. Whilst BlackRock have a clear business level ESG policy, there are currently no formal ESG objectives or engagements targets for the Cash Fund itself. |

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2020. The managers also provided examples of any significant votes.

| Fund name | Voting summary | Examples of significant votes | Commentary |
|-------------------------------------|---|---|---|
| LGIM Global Equity 60:40 Index Fund | <p>Meetings eligible to vote for: 2,871</p> <p>Resolutions eligible to vote for: 36,180</p> <p>Resolutions voted on: 98.6%</p> <p>Resolutions voted with management: 85.5%</p> <p>Resolutions voted against management: 14.4%</p> <p>Resolutions abstained from: 0.1%</p> | <p>BP – LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. 99% of shareholders voted for the resolution and as a result the Company has announced what LGIM believe are industry leading targets. These include net zero emissions from its operations and a 50% reduction in the carbon intensity of all the products it sells.</p> <p>Bayer AG – LGIM were concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US and as such voted against the resolution to discharge the Management Board for the fiscal year 2018. Shareholders sided against approving the resolution, with 55.5% of total votes being against the resolution.</p> | LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. |

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| Schroders Diversified Growth Fund | | This also led to Bayer establishing a glyphosate litigation committee to manage this risk better going forward. | |
| | Proposals Voted: 16,568 | Microsoft Corporation | Schroders vote on all resolutions at all AGMs/EGMs globally unless they are restricted from doing so. Their aim is to take a consistent approach to voting globally. The overriding principle governing their voting is to act in the best interests of their clients. Institutional Shareholder Services (ISS) act as Schroders' one service provider for the processing of all proxy votes in all markets. |
| | For Votes: 14,502 | – Schroders voted in favour of a proposal which would require the company to report on its global gender pay gap, Schroders voted against management in this decision as they felt this proposal warranted a vote "for", given the overall direction of travel towards better transparency and accountability on diversity. | |
| | Against Votes: 1,252 | | |
| | Abstained from Voting: 45 | | |
| | Votes Withheld: 89 | | |
| | Did Not Vote: 105 | Costco Wholesale Corporation – Schroders voted against a proposal which would require the company to disclose board member nominees experience, skills and ideological perspectives. Schroders believed a vote "against" was warranted in light of extensive existing disclosure and that the disclosure of ideological perspectives is not considered standard industry procedure nor an appropriate topic of inquiry in the nomination process. | |
| | | The Walt Disney Company – Schroders voted for a proposal which would require the company to report on lobbying payments and policy. Schroders believed a vote "for" was warranted as for a fifth consecutive year the company is being asked to provide | |



greater transparency on its lobbying activities. While it is acknowledged that the company has improved its disclosure in recent years, with a detailed policy on political contributions and payments to trade associations, there is limited evidence that the board has direct oversight and is monitoring the potential misalignment between the company and the associations of which it is a member.
