



Drake & Scull Retirement Benefits Plan Implementation Report

March 2022

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.

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 2022 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 2022.

Summary of key actions undertaken over the Plan reporting year

- As per last year, the Trustees commissioned and discussed an ESG Impact Assessment Report which provides information on the investment manager's approach to integrating ESG factors assessed against a set of agreed ESG beliefs. The Trustees' investment consultant continues to monitor the investment managers from an ESG perspective.

- The Trustees fully disinvested from the BlackRock Fixed Income Global Opportunities Fund (FIGO) and the Aberdeen Standard Investments Integrated Liability Plus Solutions (ILPS), and allocated capital to two new funds, the BlackRock Diversified Private Credit Fund, and the M&G Total Return Credit Investment Fund.
- The Trustees agreed to a de-risked strategy, decreasing the target return from 3.4% per annum to 2.7% per annum above the return on a liability matching portfolio of UK Government bonds.
- The Trustees reduced the Plan's Synthetic Equity Exposure to c.17% of the Plan's assets. Since year end, the Trustee's de-risked the Plan's exposure to interest rate and inflation movements by increasing the target hedge on both to c.90% of Technical Provision liabilities.

Implementation Statement

This report demonstrates that 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.

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Action
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.76% of interest rate and c.79% of inflation risk on the 2018 Technical Provisions basis. The Trustees monitor the hedge and will update the strategic hedge on a regular basis with advice from the investment consultant.	No changes to the policy were made over the year. Since year end, the hedge on interest rates and inflation risk was increased to c.90%.
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 and Synthetic Equity mandates.	No changes to the policy were made over the year.
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 compensates the Plan for the risk of default.	No changes to the policy were made over the year.
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:	No changes to the policy were made over the year. ESG actions undertaken: The Trustees review the manager's ESG policies on an annual basis through a Progress report. This report summarises

		<ol style="list-style-type: none"> 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 <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>the managers' progress on addressing the actions raised within the ESG Manager Summary report.</p> <p>More details of the ESG policy and how it was implemented are presented later in this report.</p>
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	<p>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.</p> <p>Exposure to global equity markets in the Synthetic Equity Portfolio is achieved via exchanged traded futures, which by their nature are implicitly hedged to Sterling.</p>	No changes to the policy were made over the year.
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

Policies added to the SIP over the year to 31 March 2022

Date updated: September 2021

Target return decrease

- The Trustees updated the SIP to recognise the revised target return, which decreased from 3.4% per annum to 3.2% per annum above the return on a liability matching portfolio of UK Government bonds.
- Note that the SIP is currently being updated to reflect the revised target return which is now 2.7% per annum above the return on a liability matching portfolio of UK Government bonds.

Allocation to BlackRock Diversified Private Credit Fund

- The Trustees updated the SIP to recognise the new investment in the BlackRock Diversified Private Credit Fund.

Allocation to M&G Total Return Credit Investment Fund

- The Trustees updated the SIP to recognise the new investment in the M&G Total Return Credit Investment Fund.

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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion:</p> <ol style="list-style-type: none"> 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 <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>ESG actions undertaken:</p> <p>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.</p>

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 2022.

Manager and Fund	ESG Summary	Engagement details
Apollo Total Return Fund	<p>Apollo integrate ESG considerations into the Fund's risk management framework, and in the due diligence process. Apollo can also evidence a variety of engagements on ESG issues.</p> <p>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 peers, however we note that Apollo are actively working to improve reporting and Isio will monitor progress on this.</p>	<p>Isio engaged with Apollo in Q3 2021 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the Apollo engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> - Apollo should identify core ESG priority areas for the Fund including objectives e.g. alignment with Apollo ESG priority areas / quantitative KPIs / influence the issuer to improve the ESG score throughout the investment holding period / engagement themes that will be prioritised. While we appreciate this is not an ESG-focused fund, some baseline ESG objectives are now an expectation for all fund types. - Apollo should provide evidence of how the ESG risks identified at the due diligence stage are actively managed through the life of the investment, with priorities listed for each issuer where material ESG issues are identified. The priorities are expected to lead to engagement activities, and Apollo to keep and share a record of these key engagements. - Apollo should consider methods to better incorporate climate risks in the risk management framework for the Fund, for example through climate scenario modelling and

		<p>disclosing alignment with temperature pathways.</p> <ul style="list-style-type: none"> - Apollo should better articulate engagement priority areas and evidence engagement linked to these. - Apollo should continue to improve reporting capabilities, by engaging with issuers to obtain better data, obtaining data from 3rd party data providers, or through using tools to estimate proxy data sets where data is hard to collect. - Apollo should introduce ESG metrics, and a summary of engagement into regular fund reporting such as monthly investment reports. - Apollo should collaborate more actively with market participants and through memberships with ESG organisations relevant to the credit sectors in which the Fund invests. - Apollo should demonstrate collaborative engagements to promote ESG best practice through participation with groups such as Climate Action 100+.
<p>BlackRock Diversified Private Debt Fund</p>	<p>Isio view BlackRock’s approach to the majority of ESG practices as satisfactory but not best practice. The Fund does not have a specific ESG policy, but BlackRock acknowledge ESG risk as a credit consideration and embed this into their credit analysis.</p> <p>Data collection is a key challenge to implementing ESG risk management and data reporting in the private debt space is limited, however BlackRock are actively taking steps to try and overcome this issue.</p>	<p>Isio engaged with BlackRock in Q3 2021 on the Trustees’ behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> - BlackRock should update their ESG scores to reflect forward looking expectations and commitments and not the current ESG position of each borrower. - The Fund should look to do more than mitigating risks. In particular, the DPD Fund

		<p>should look to create a Fund specific policy to identify key objectives/targets.</p> <ul style="list-style-type: none"> - BlackRock should progress with improving data collection and reporting on other sleeves within the portfolio such as real estate debt and infrastructure debt. - BlackRock should provide Fund specific engagement details and improve engagements with issuers following investments. - BlackRock should provide available engagement details in their regular client reporting.
<p>BlackRock UK Long Lease Property Fund</p>	<p>BlackRock have a strong ESG background and have successfully implemented their ESG policies at a firm-wide level. This ensures ESG is considered throughout the lifecycle of an investment.</p> <p>The Long Lease Property (LLP) Fund benefits from a dedicated team that oversees sustainable investing in Real Assets, as well as dedicated resource from the Risk and Quantitative Analysis (RQA) group to review the Fund's consideration to ESG risks.</p> <p>The Fund places an emphasis on engagement to obtain accurate data, and are looking to improve the depth and coverage of their engagements.</p>	<p>Isio engaged with BlackRock in Q3 2021 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> - BlackRock Real Assets to develop and release their Carbon Programme and Net Zero roadmap by the end of 2021. - BlackRock to outline and implement a strategy to install smart meters within properties to increase their engagement capabilities and data coverage and to report on engagement effectiveness over time. - Whilst BlackRock provide commentary and include high-level ESG policies in their quarterly reporting, BlackRock would benefit from including more detailed ESG analysis in standard reporting, spanning a wider range of metrics, such as carbon emissions, energy and water consumption as well

<p>BlackRock Liability Matching Funds (LMF)</p>	<p>BlackRock has extensive firm-wide capabilities in assessing and applying ESG factors. However, it continues to believe there is little opportunity to pursue an ESG agenda within LDI funds. BlackRock has however, made progress towards incorporating ESG factors within its wider LDI offering, including the introduction of a market leading ESG focussed cash fund and ESG screened synthetic strategies that sit alongside the standard LDI funds.</p>	<p>as including a summary of engagement activity.</p> <p>Isio engaged with BlackRock in Q3 2021 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> – BlackRock should develop measurable ESG objectives for the Liability Matching Funds specifically. – Isio to follow up with BlackRock on integrating additional screens – as mentioned BlackRock is looking to incorporate an environmental screen for derivative counterparties. – BlackRock has started to engage with derivative counterparties on governance issues. BlackRock is also working on engaging with them on environmental issues and should continue to do so and report on it. – BlackRock should provide ESG reporting for its LDI funds. – BlackRock should evidence where it has collaborated on LDI specific issues.
<p>BlackRock Synthetic Equity Portfolio</p>	<p>The BlackRock passive equity range provides a solid basis for ESG coverage with a net zero commitment by 2050. However, there needs to be a clearer link between the stewardship policies and how these are implemented through engagements. Improvement is also needed in the reporting and modelling of ESG data at the fund level.</p>	<p>Isio engaged with BlackRock in Q3 2021 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the BlackRock engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> – BlackRock should provide a clearer link between the stewardship priorities and how these are implemented through

		<p>engagement with portfolio companies.</p> <ul style="list-style-type: none"> - BlackRock should seek to improve the scope of carbon reporting. <p>*Note these are general actions proposed for BlackRock's passive equity range and not specific to investments within the range.</p>
<p>M&G Total Return Credit Investment Fund</p>	<p>M&G have evidenced their ability to consider the significance of ESG factors in this Fund. M&G should consider measurable ESG objectives for the Fund as well as a framework to reach net zero by 2050. M&G are actively developing tools to improve ESG modelling and reporting and should continue to increase the number of ESG metrics available for reporting purposes.</p>	<p>Isio engaged with M&G in Q3 2021 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the M&G engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> - M&G should provide specific ESG objectives and policy for the Fund. - M&G should continue the development climate scenario modelling and temperature pathways. - M&G should continue to improve reporting metrics such as TCFD requirements. - M&G should aim to be able to provide specific ESG ratings for each asset in the Fund.
<p>Partners Group PMCS 2016</p>	<p>PG have an established ESG and Sustainability team and are able to clearly demonstrate the integration of ESG factors at Fund level. PG are also a leader in the private debt space in terms of their collaboration with other industry participants in relation to ESG. In the future PG are looking to improve their regular reporting to investors on ESG metrics.</p>	<p>Isio engaged with Partners Group in Q3 2021 on the Trustees' behalf to review their ESG policies. Isio regularly reports back to the Trustees with updates on the Partners Group engagements.</p> <p>Proposed Actions:</p> <ul style="list-style-type: none"> - Partners Group should identify specific KPIs and targets for private debt portfolio companies. - Partners Group should identify more clear firm-wide priorities and targets as well as KPIs for private debt investments. - Partners Group should provide more granular

information/data on the diversity metrics in place at portfolio level, including ethnicity, LGBTQ+ and social mobility stats.

- Partners Group should evidence where they have worked with portfolio companies to bring about a desired change and include in reporting.
 - Partners Group should provide regular quarterly reporting to investors on ESG metrics.
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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 2022.

The Funds below are funds that the Plan was invested in as at 31 March 2022.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	<p>Total engagements: 82</p> <p>Broad-based ESG: 30 Environmental: 14 Governance: 36 Social: 2</p>	<p>Apollo has 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.</p> <p>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.</p> <p>Examples of engagements include:</p> <p>Adani Transmission Limited – Apollo discussed steps to improve ESG and raised concerns about their exposure to coal. Adani were receptive and set aims to reduce the coal exposure and improve their renewable energy in its power mix. They also constituted a corporate responsibility committee with independent directors to provide assurance on their ESG commitments.</p>
BlackRock Diversified Private Debt Fund	<p>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.</p>	<p>The investment teams conduct regular direct engagement with borrowers, however, specific numbers of ESG engagements are not presently available for each of DPD's underlying strategies. Examples of ways in which the fund looks to incorporate ESG include:</p> <ul style="list-style-type: none"> ESG risk considerations are fully embedded in fundamental research, due diligence, and investment decision processes across the Global credit platform, on which DPD is constructed. Margin ratchets and annual ESG questionnaires are used
BlackRock UK Long Lease Property Fund	<p>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.</p>	<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>

BlackRock Liability Matching Funds (LMF)		<p>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.</p>
BlackRock Synthetic Equity Portfolio		<p>BlackRock do not engage with companies at a fund level since the synthetic equity portfolio is implemented using derivatives like future contracts.</p>
M&G Total Return Credit Investment Fund	<p>Total engagements : 20 Environmental: 15 Governance: 4 Social : 1</p>	<p>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.</p> <p>Examples of engagements include:</p> <p>Avantor Sciences – M&G engaged with Avantor, following a Bloomberg article which raised concerns over the potential misuse of acetic anhydride outside of the regulated supply chain. M&G wanted Avantor to increase disclosure of the customer due diligence process, specifically focusing on high risk jurisdictions. M&G had a meeting with the head of Investor Relations to discuss the issue. As a result, Avantor ceased all acetic anhydride sales in Mexico following the control issues and have since taken steps to further their due diligence on the audit of the distribution paths. M&G believe there is further progress needed and continues to monitor the due diligence and disclosures on this area.</p>
Partners Group PMCS 2016	<p>Total engagements: 4* Corporate: 4</p> <p>Partners Group have reported no ESG-related engagements since investments were made in the Fund</p> <p>*from 31/12/2020-31/12/2021</p>	<p>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.</p> <p>Partners Group have implemented ESG ratchets for a number of prospective investments. Partners Group can measure effectiveness of engagements and borrowers are incentivised for cheaper borrowing.</p>

