



Deep Sea Seals Pension Scheme Implementation Statement

August 2022

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 updated its SIP in to 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.isio.com/scheme-documents/deep-sea-seals-pension-scheme/>

Changes to the SIP are detailed on the following page.

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 Scheme has 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 Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 5 April 2022 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

- The Scheme fully disinvested from BMO Equity Linked Bonds as a move to de-risk the portfolio away from equity exposure.
- Some of these proceeds were invested in a new fund, the M&G Total Return Credit Investment Fund. This fund was chosen to sit alongside the JP Morgan Unconstrained Bond Fund within the Diversified Credit allocation, which was increased to 40% of the Scheme's strategic asset allocation.
- The LDI mandate was also refined and extended, to hedge 100% of interest rate and inflation sensitivity in the liabilities, reflecting updated liability cashflows.

Implementation Statement

This report demonstrates that Deep Sea Seals Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed Keith Pacey

Position Chair of Trustees

Date August 2022

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 Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge 100% of the Scheme's Technical Provisions liabilities	The hedge ratio was increased from 90% to 100% during the reporting year.
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 manager.	There have been no changes to the policy over the reporting 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.	There have been no changes to the policy over the reporting 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 Scheme for the risk of default. To diversify this risk by investing in a range of credit markets across different geographies and sectors.	There have been no changes to the policy over the reporting 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 Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process	ESG actions undertaken: 1. The updated ESG policy was reviewed by the Trustees in September 2019. 2. The managers' ESG policies were reviewed and presented to the Trustees in an ESG Manager Summaries report.

		<p>3. A track record of using engagement and any voting rights to manage ESG factors</p> <p>4. ESG specific reporting</p> <p>5. UN PRI Signatory</p> <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>More details of the ESG policy and how it was implemented are presented later in this report.</p>
Currency	<p>The potential for adverse currency movements to have an impact on the Scheme's investments.</p>	<p>Hedge all currency risk on all assets that deliver a return through contractual income</p>	<p>There have been no changes to policy over the reporting year.</p>

Changes to the SIP

The Scheme has previously updated its SIP in to 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 Scheme will publish an updated SIP to account for the strategic changes over the year, following the Scheme year end.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following pages outline 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 engagement 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.

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 Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

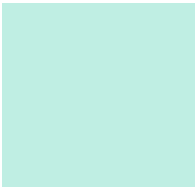
Areas of assessment and ESG beliefs

Risk Management	<ol style="list-style-type: none"> 1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustees
Approach / Framework	<ol style="list-style-type: none"> 3. The Trustees should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none"> 6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustees will receive training as required to develop their knowledge. 8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none"> 9. The Trustees will seek to understand each asset manager's approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none"> 11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
<p>BlackRock Investment Management (UK) Limited</p> <p>Dynamic Diversified Growth Fund</p>	<p>The Fund benefits from BlackRock's scale to drive improvements in its ESG capabilities. The integration of ESG factors is clearly evident in the identification of risks and opportunities which ultimately translate into investment decisions.</p>	<p>BlackRock should consider whether they believe they should adopt any specific targets for the Fund.</p> <p>BlackRock should consider producing regular diversity reports which clearly show BlackRock's and the Fund's diversity metrics and the progress made towards any targets, which should align with the firm-wide diversity policies.</p> <p>BlackRock to consider running climate change scenario analysis on the portfolio. This can be via an external provider or through Aladdin Climate once available.</p> <p>BlackRock should include the Fund's ESG metrics as well as significant Voting & Engagement data in their quarterly client reporting.</p>	<p>Isio engaged with BlackRock in April 2022. The manager has developed a broad implementation toolkit which covers different asset classes and determined what ESG capabilities the team can employ. No ESG objective has yet been included in the fund documentation. Some ESG specific baskets have been created included a low carbon transition energy basket.</p>
<p>Ninety One (UK) Limited</p> <p>Diversified Growth Fund</p>	<p>Ninety One have evidenced their ability to consider the significance of ESG factors in this Fund. Ninety One should consider measurable ESG aims for the Fund and increase the number of ESG risk metrics that are being monitored. Although Ninety One are actively developing their integrated ESG approach in investment decisions, Ninety One should consider more in-depth reporting for clients and progress reports on aims for the Fund.</p>	<p>The manager should consider quantifying KPIs and how portfolio companies are working towards goals to achieve ESG objectives.</p> <p>Ninety One could improve on the risk metrics they monitor. Currently Ninety One only provide a carbon report run from MSCI data and a simple ESG profile report on request by investors Consider to use of ESG objectives.</p>	<p>Isio engaged with Ninety One in Q2 2020 on the Scheme's behalf, the current proposed actions remain appropriate.</p>

<p>M&G</p> <p>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>M&G could provide specific ESG objectives and policy for the Fund</p> <p>They should continue the development climate scenario modelling and temperature pathways, and continue to improve reporting metrics such as TCFD requirements</p> <p>Aim to be able to provide specific ESG ratings for each asset in the Fund</p>	<p>Isio engaged with M&G in April 2022 on the Scheme's behalf. The manager is developing climate scenario modelling and temperature pathway capabilities. They have also developed their own ESG scorecard and improved reporting of metrics and engagements.</p>
<p>J.P. Morgan Investment Management</p> <p>Unconstrained Bond Fund</p>	<p>The Fund satisfies ESG requirements. ESG is integrated within the Fund's risk management process and investment approach. ESG reporting has improved over the past 12 months, but we would like to see improvements in the reporting of Fund-specific engagements.</p>	<p>JPM should implement ESG objectives for the Fund.</p> <p>The manager is developing an ESG scorecard for use across the asset classes but not yet available.</p> <p>JPM are undergoing an engagement and reporting project to further improve engagement reporting at the fund level, with aims of completion in 2022. In 2021, JPM established a system to track and capture engagement activity. In 2022 they plan to further develop this at the fund level and will provide further updates when completed.</p> <p>JPM have improved their ESG reporting with the inclusion of ESG Fund reports which utilises MSCI data and provides a number of ESG metrics</p> <p>JPM are able to provide a variety of ESG metrics from a number of data sources (currently on request given limited coverage, this could be more widely available).</p>	<p>Isio engaged with JPM in April 2022 on the Scheme's behalf and JPM are open to working with Isio in developing a template for reporting going forwards.</p>
<p>Insight Investment Management</p> <p>LDI Enhanced Selection Funds</p>	<p>Insight has demonstrated a comprehensive selection and monitoring process for assessing ESG risks in counterparties and their engagement record with a wider range of market participants is particularly impressive.</p>	<p>Insight should consider developing internal diversity targets, focussed not just on gender but also race.</p> <p>They should also consider greater emphasis on D&I issues in assessing companies / counterparties.</p>	<p>Isio engaged with the manager in March 2022 and Insight continue to progress D&I policies and targets, as well as continuing efforts to evolve engagement reporting in order to produce a disclosable narrative. Insight anticipate</p>



Insight continue to develop their ESG framework and regularly seek feedback in order to improve.

Insight could include an engagement summary in regular reporting.

this will be available in regular reporting into 2023.

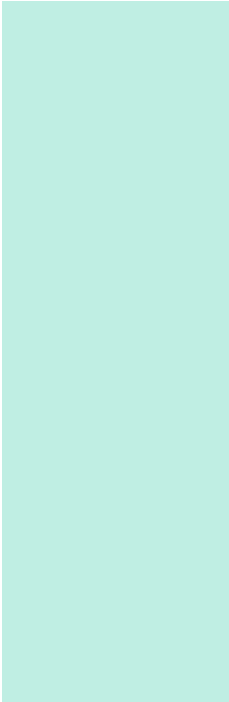
Engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 month period to the end of 5 April 2022.

Fund name	Engagement summary	Commentary
BlackRock Dynamic Diversified Growth	<p>Total companies engaged with: 825</p> <p>Engagement Themes</p> <p>Governance: 693 (84%)</p> <p>Social: 283 (34%)</p> <p>Environmental: 546 (66%)</p>	Blackrock provided no examples of engagements.
BMO Equity Linked Bonds	<p>Equity-linked bond fund portfolios are very different to traditional equity or bond portfolios and so BMO's engagement programme primarily focuses on trading counterparties and clearing members. This engagement work is structured both in terms of prioritisation (both in terms of companies to whom they have the greatest exposure and to companies whom they feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones</p>	<p>Credit Suisse Group AG</p> <p>Engagement Themes: Climate Change Milestones: Publication of first TCFD report Counterparty: Goldman Sachs Group Engagement Themes: Business Conduct Milestones: Signed up to the UN Principles for Responsible Banking</p>
Insight LDI	<p>The LDI Funds aim to outperform in the long term against a set of cashflows discounted using either gilt or swap rates. Insight comment that the fund does not invest in instruments</p>	<p>Central Securities Depository Regulation (CSDR)</p> <p>Description – Responses to the proprietary questionnaire highlighted areas of weakness, namely:</p> <p>1. Environmental stress tests and monitoring environmental risks across their loan book</p>

	<p>applicable to this question.</p>	<ol style="list-style-type: none"> 2. No inclusion of explicit climate risk analysis within their underwriting process beyond standard practice. 3. Lack of carbon data and environmental metrics from originator 'data tapes' that are provided at new issue and at regular intervals. 4. Weak process to cope with changing circumstances by underlying borrowers. <p>Engagement Result</p> <p>In the UK, HMT has announced it will not be adopting these EU rules post-Brexit. In Europe, ESMA has requested a survey on this topic to understand the issues further, and European Commission's consultation seeks views on this in advance of the review on this regulation. ESMA concluded that mandatory buy-in provisions will not apply from February 2022.</p>
<p>JPM Unconstrained Bond Fund</p>	<p>Total companies engaged with: Over 300</p>	<p>Veolia Environnement</p> <p>In 2021 the manager saw a significant number of intra-year adjustments to compensation plan metrics and targets due to the financial impact from COVID-19. These were common in the travel and travel-related industries (e.g., cruises / airlines), the restaurant industry, and mall-based retail among other areas. They evaluated modifications on a case by case basis to determine if they were reasonable and in line with the interest of long-term shareholders. They engaged with a variety of companies to help make these determinations. In some cases, the manager concluded modifications were acceptable. This was often when the company was significantly impacted by COVID-19, compensation committees exercised discretion to cap compensation at target or below, and executive retention was a legitimate concern. In other cases, they were uncomfortable with the modifications - such as in the case of Veolia Environnement.</p> <p>Concerns were raised with a number of companies making modifications and adjustments to compensation plan metrics and targets due to the financial impact from COVID-19. Veolia, a French utility company, was impacted by the COVID-19 pandemic, which resulted in it lowering its financial targets and drawing on state support through the crisis.</p> <p>As a result of their concerns, the manager determined to escalate the engagement by voting against the CEO pay at the AGM. However, despite their concerns, the resolution was passed at the AGM. Following the vote, they engaged further with the</p>

		<p>company to ensure that compensation policies provide clear visibility and confidence for shareholders in the long-term planning of the company as well as to establish stretching targets which cannot be adjusted mid-plan. They will continue to monitor and engage the company ahead of the next AGM.</p>
<p>M&G Total Return Credit Investment Fund</p>	<p>Total companies engaged with: 35 Environment - 23 Social - 2 Governance - 10</p>	<p>Avantor Sciences - 20/07/2021</p> <p>Objective - Following a Bloomberg article which raised concerns over the potential misuse of acetic anhydride outside of the regulated supply chain, the manager wanted biopharma and healthcare provider Avantor to increase disclosure of the customer due diligence process, specifically focusing on high risk jurisdictions.</p> <p>Action Taken - M&G started the engagement by initially writing to the company, requesting a meeting on the issue. Subsequently M&G had a call with the head of Investor Relations</p> <p>Result - Avantor have seized all acetic anhydride sales in Mexico following the distribution control issues. They have also seized sales in Africa, Asia, and Latin America, which means the only distribution paths are now in the US and Europe. Whilst this is a positive step, M&G have concerns that there are a number of other 'high risk products' still being sold in Mexico, Asia and other countries that could have a similar issue arise from a number of other products.</p> <p>Avantor has just published its first ESG report and they were receptive in future iterations to include further due diligence (DD) on the audit of the distribution paths. It is clear that at present there is no clear additional steps taken for high risk products specifically looking at high risk regions. The company clearly are not doing as much as they hoped to prevent a similar situation in the future, so they will continue to monitor for additional DD and disclosure of this process.</p>
<p>Ninety One Global Multi-Asset Sustainable Growth Fund</p>	<p>Total companies engaged with: 12 Climate Change: 6 Board Diversity: 2 Waste Reduction: 1 Financials: 2 Other: 1</p>	<p>KLA Tencor: corporate culture discussion</p> <p>KLA Tencor is a leading semiconductor equipment manufacturing and design company. The manager held a meeting with the company to explore the culture at KLA, and the extent to which this was an intangible competitive advantage for the firm. They believe that people are the most important asset for the majority of businesses and therefore corporate culture is a key driver of firm value and long-term business sustainability. KLA has a strong corporate</p>

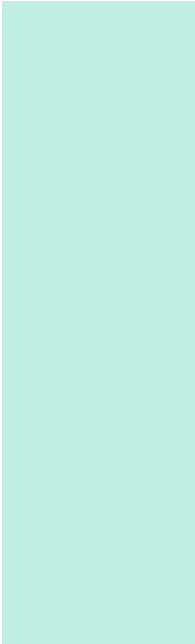


culture based on building a talent core, which supports its mission to be a leader in innovation and helps its customers overcome yield challenges. Ninety One's research had suggested that KLA excelled in the training and development of its staff, leading to positive human capital externalities, but Ninety One wanted to meet with the company to explore its approach to training and development in detail and understand the company's culture more broadly. KLA believes that training and development is a differentiator and a competitive advantage. The company aims to have the strongest and best informed workforce in the industry. A deeply integrated philosophy around training is that every employee in the company highlights their own training and development needs. For the past 15 years, the company has had a training and development team, which has been recognised as leading across the US.

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 5 April 2022. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Dynamic Diversified Growth Fund	Proposals Voted: 12458 For votes: 11679 Against votes: 779 Abstain votes: 182	<p><u>Woodside Petroleum Ltd.</u> 15/04/2021 <u>Summary:</u> Approve the amendments to the Company's Constitution Proposed by Market Forces <u>How you voted:</u> Against <u>Rationale:</u> Shareholder proposals best facilitated through regulatory changes. <u>Outcome:</u> Fail</p> <p><u>Johnson & Johnson</u> 22/04/2021 <u>Summary:</u> Report on Civil Rights Audit <u>How you voted:</u> For <u>Rationale:</u> Supportive of company's efforts to date on these issues. Proposal support based on nature of the proposal. <u>Outcome:</u> Fail</p> <p><u>Rio Tinto Limited</u> 06/05/2021 <u>Summary:</u> Approve Emissions Targets <u>How you voted:</u> For <u>Rationale:</u> We believe it is in the best interests of shareholders to have access to greater disclosure on this issue. <u>Outcome:</u> Pass</p>	<p>BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS). The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.</p> <p>While they subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into the vote analysis process.</p>
Ninety One Global Multi-Asset Sustainable Growth Fund	Proposals Voted: 1230 For votes: 1112 Against votes: 84 Abstain votes: 23	<p><u>Microsoft Corporation</u> 30/11/2021 <u>Proposal</u> - Report on Lobbying Activities</p>	Ninety One conduct their own votes.



Alignment with Company
Policies
Voted – Against
Outcome – Passed

S&P Global Inc.
05/05/2021
Proposal - Approve
Greenhouse Gas (GHG)
Emissions Reduction Plan
Voted – For
Outcome – Passed

Unilever Plc
05/05/2021
Proposal - Approve
Greenhouse Gas (GHG)
Emissions Reduction Plan
Voted – For
Outcome – Passed
