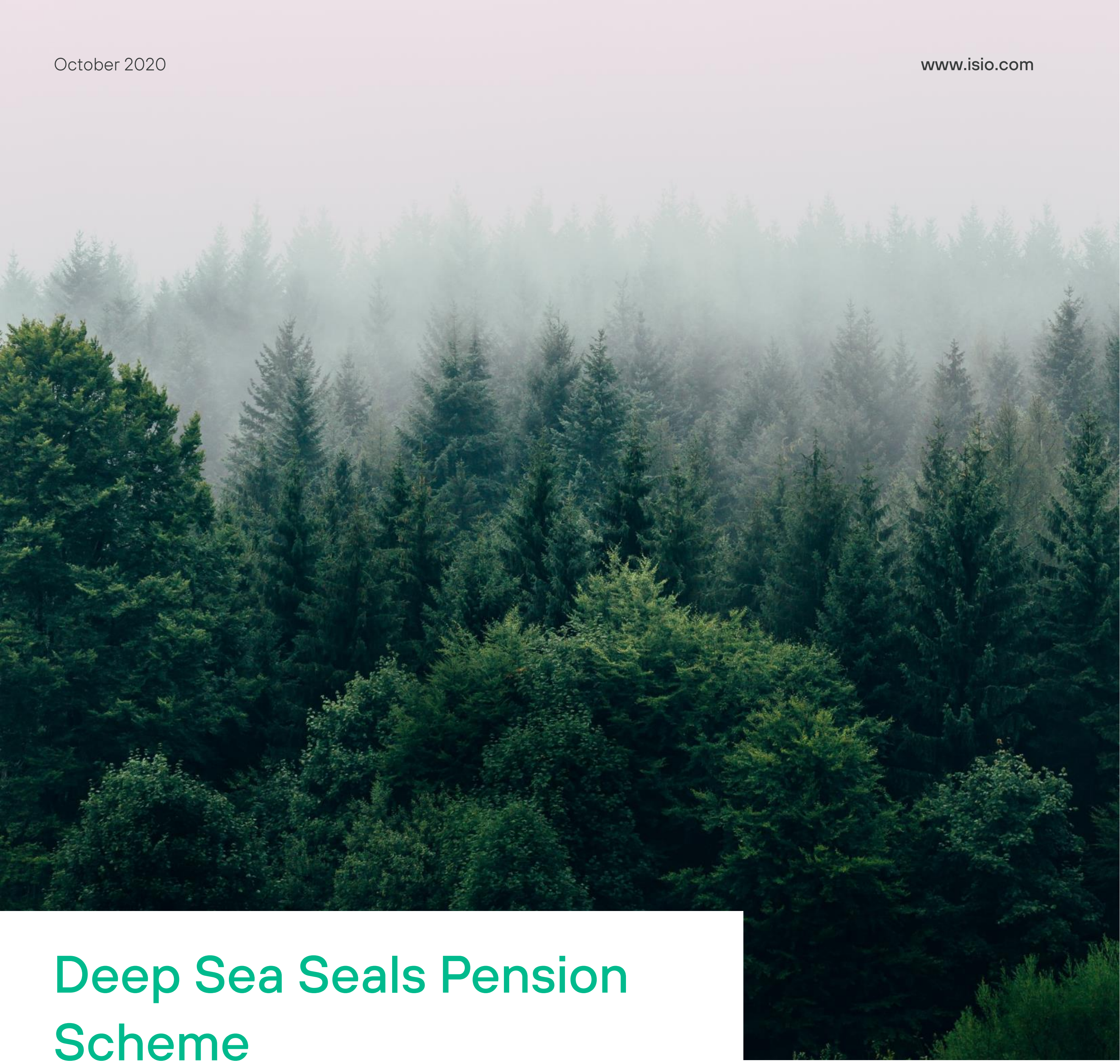

Deep Sea Seals Pension Scheme Implementation Report

October 2020

isio.

Document classification: Confidential

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.isio.com/scheme-documents/deep-sea-seals-pension-scheme/

Changes to the SIP are detailed on the following pages.

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 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 5 April 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

There have been no key actions taken by the Scheme over the reporting year in respect to investment strategy or asset allocation.

Implementation Statement

This report demonstrates that the 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 by Trustees: K. Pacey and C. Langridge

Date: 30 October 2020

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 broadly hedge 90% of the Scheme's Technical Provisions liabilities.	There have been no changes to the policy over 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 the criteria: 1. Responsible Investment ('RI') Policy/Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting	ESG actions undertaken: 1. The updated ESG policy was reviewed by the Trustees as part of the SIP and IID update in September 2019. 2. The managers' ESG policies were reviewed and presented to the Trustees in an ESG Manager Summaries report.

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

Changes to the SIP

Policies added to the SIP	
Date updated: 13 September 2019	
The Scheme's investment strategy.	• The Scheme took steps to remove some risk from its investment strategy in March 2019 by reducing the Diversified Growth Fund allocation by 20% and subsequently increasing the lower risk Diversified Credit holdings by 20%. This change was completed prior to the previous reporting year.
How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.	• As the Scheme is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustees monitor the investment managers' engagement and voting activity on a periodic basis as part of their ESG monitoring process. • The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.	• The Trustees review the performance of all the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustees evaluate performance over the period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. • For open-ended funds, the holding periods are flexible, and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

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 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 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	• 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	• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

Risk Management	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	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	6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; 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	9. The Trustees will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	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 and Fund	ESG Summary	Actions identified	Engagement Details
BlackRock Investment Management (UK) Limited Dynamic Diversified Growth Fund	BlackRock has a clear firm-wide sustainability policy. Although the Diversified Strategies team have shown that they consider ESG issues when investing, there are currently no Fund-specific measurable targets in place to judge the level of incorporation of ESG within the Fund.	BlackRock should incorporate fund-specific ESG objectives and introduce key performance indicators ('KPIs) by which they can assess the success of any engagement/ objectives. BlackRock should look to develop their own analysis to support quantitative/ qualitative ESG data provided by third parties such as MSCI. Incorporate more ESG focussed indices into their investment process.	Isio engaged with BlackRock in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.
Ninety One (UK) Limited Diversified Growth Fund	Although the Fund has no explicit ESG objectives, Ninety One have a clear firm-wide ESG policy and a dedicated in-house global ESG team. Within Multi-Asset, analysis, and assessment of ESG issues are integrated in their security selection process which includes MSCI ESG ratings and proprietary ESG scorecards in the corporate and sovereign debt space.	Ninety One could improve on the risk metrics they monitor as currently, Ninety only provide a carbon report run from MSCI data and a simple ESG profile report produced on request by investors. Ninety One could also improve how they quantify KPIs and the ability to demonstrate how their portfolio companies are working towards goals to achieve ESG objectives. We have also suggested that Ninety One develop Fund-specific ESG objectives.	Isio engaged with Ninety One in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.

J.P. Morgan Investment Management Unconstrained Bond Fund	We believe that J.P. Morgan's ESG policy is "satisfactory". ESG is integrated into the Fund's risk management process and investment approach, however, the low level of ESG reporting needs to be addressed. Despite showing promise in the Fund's adoption of ESG into its processes and risk management, JPM as a company must also consider and improve on their own impact on carbon emissions as well and their wider business practices.	JPM should finish developing their ESG reporting and ensure this is included in regular reporting in future. JPM should consider creating a report that details any engagements with issuers the Fund invests in and rates the success of each engagement. JPM should develop measurable ESG objectives for the Fund.	Isio engaged with J.P. Morgan in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.
BMO Asset Management Overseas Equity-Linked UK Inflation Fund	BMO was an early adopter of ESG risk management processes and have invested a significant amount of time and research in this area. BMO appear to have gone beyond competitors in the LDI space and have evidenced that they believe ESG is a crucial element of good risk management.	BMO should demonstrate that their reported risk metrics are linked to ESG priorities.	Isio engaged with BMO in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.
Insight Investment Management LDI Enhanced Selection Funds	Insight have shown they have sufficient resource and capability to assess the extent of ESG risks on counterparty exposure for LDI mandates. Insight recognise that their ESG framework can be developed even further and we believe it is a positive sign that they are continually improving their approach to ESG.	Insight to add counterparty ESG scores to client reporting Insight to consider developing internal diversity targets, focused not just on gender but also race. Insight should increase emphasis on Diversity and Inclusion issues when assessing companies / counterparties.	Isio engaged with Insight in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.

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 2020.

Fund name	Engagement summary	Commentary
BlackRock Investment Management (UK) Limited Dynamic Diversified Growth Fund	**Total engagements: 633** Environmental: 244 Social: 187 Governance: 591	BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. These engagements largely relate to the Fund's equity positions only, which comprised c.30% of the overall portfolio as at 5 April 2020. Examples of significant engagements include: **Standard Chartered -** BlackRock initiated dialogue with the company around climate risk, and have engaged with the board, sustainability team and executive management around the company's role in the transition to a low-carbon economy. BlackRock believe the company to be a leader in the financial sector in terms of their climate related practices and feel their engagement with Standard Chartered demonstrates how they intend to initiate dialogue on climate risk across the sector. **Woodside –** Following several years of engagement with the company, BlackRock placed Woodside on their watch list and expressed public concern about the insufficient progress made on climate risk and reporting within the firm. When equity positions are placed 'on watch' BlackRock expect the companies to make substantial progress within 12 months before voting action is taken against boards and management.
Ninety One (UK) Limited Diversified Growth Fund	**Total engagements: 8** Environmental: 2 Governance: 5 General ESG: 1	Ninety One believe that engagements with portfolio companies are an integral part of the investment process. The ESG team provides engagement advice and targets material ESG themes and specific holdings that are significant to Ninety One and their clients. Examples of significant engagement include: **AO Smith –** Ninety One engaged with AO Smith following a short-seller's report released in 2019 that cast doubts over the quality of AO Smith's Chinese business. Ninety One met with AO Smith to discuss the allegations laid out in the report and advise the company on how it should increase its transparency on a forward-looking basis.

		Moncler – Ninety One engaged with Moncler on two proposals put forward by the company - the proposal to create a mechanism for increased voting rights and secondly, for outgoing board members to present a list of replacement candidates. Ninety One felt these two proposals were not for the benefit of minority shareholders and minority members of the board. Thus far, shareholder resistance appears to have been effective.
J.P. Morgan Investment Management Unconstrained Bond Fund	**Total Engagements:9** Governance: 6 Social: 2 General: 1	As bondholders, J.P Morgan does not carry voting rights, but engages on a wide range of ESG issues with a variety of market participants. Examples of significant engagements include: **UBS Group –** J.P. Morgan engaged with the Chairman on "Governance" related matters, where the engagement had a focus on fines and litigation regarding their French fine of EUR5.1bn, for illegally providing French customers with banking services to hide assets from tax authorities. **Morgan Stanley –** J.P. Morgan engaged with MS over potential shareholder proposals. As You Sow had originally suggested two proposals: one to report on credit risks in the portfolio related to climate change, and one to report on diversity inclusion. MS pledged to create a report on diversity inclusion this year and is also looking at different methodologies regarding its lending portfolio.
BMO Asset Management Overseas Equity-Linked UK Inflation Fund	**Total Engagements:45** Environmental: 26 Social: 5 Governance: 7 General: 7	As BMO achieves equity exposure synthetically, they do not have any voting rights. BMO's engagement encompasses a spectrum of ESG issues, across a range of sectors and geographies. BMO monitors the outcomes of their engagements and report on their progress. Examples of significant engagements include: **Lloyds Banking Group –** BMO met with Remuneration Committee Chair to discuss remuneration outcomes for 2018 ahead of the 2019 AGM. BMO pushed back on proposed increases to fixed pay allowances to executives and the company indicated that it would go back to the drawing board on this. **Deutsche Bank -** BMO spoke with the bank to discuss its financial crime compliance systems in the wake of revelations that it may have facilitated money laundering through Danske Bank's Estonian unit.
Insight Investment Management LDI Enhanced Selection Funds	**Total Engagements:13** Social: 1 Governance: 12	Insight does not carry voting rights but engages on a wide range of ESG issues with a variety of market participants. Examples of significant engagements include: **ICMA –** Insight has been working with regulators and supporting trade bodies to highlight that mandatory buy-in provision is expected to negatively impact liquidity in the bond markets. **The Pensions Regulator –** In March 2020, tPR announced the first of two consultations on a revised UK pensions funding code. Insight issued a detailed white paper explaining the investment implications of the new funding code proposals.

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 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock Investment Management (UK) Limited, Dynamic Diversified Growth Fund	Voteable Proposals: 11,900 Proposals Voted: 11,565 Votes For: 10,726 Votes Against: 702 Votes Abstained: 84 Votes Withheld: 45	**Exxon Mobil Corporation -** BlackRock voted in support of a proposal to produce a report on the risks of petrochemical operations in flood prone areas, due to the lack of adequate corporate disclosure. In their annual Investment Stewardship Report, BlackRock list Exxon Mobil as an example of a company where they continue to use their vote to encourage progress on ESG issues, particularly around climate risk management. **Chevron Corporation -** BlackRock voted against a resolution to establish an Environmental Issue Board Committee, citing that corporate policy decisions should be left to the board, with the board being held accountable for its decisions through the election of directors. **Banca Transilvania SA -** BlackRock voted against a resolution relating to the approval of renumeration of directors and the general limits for additional renumeration of directors. BlackRock found that the report did not contain the required level of detail for shareholders to understand	BlackRock's proxy voting process is led by the BlackRock Investment Stewardship Team (BIS) which consists of regional teams. BlackRock use Institutional Shareholder Services (ISS), an electronic platform, to access voting research and to execute their vote instructions. BlackRock aims to engage with the company in the first instance to give management time to address the issue, however, they are not afraid to vote against companies where they believe the Board or management have not acted in the interests of long-term investors.

		the company's approach to paying its executives.	
Ninety One (UK) Limited Diversified Growth Fund	Voteable Proposals: 1,654 Proposals Voted: 1,511 Votes For: 1,454 Votes Against: 48 Votes Abstained: 9 Votes Withheld: 143	**Coca-Cola European Partners (CCEP) –** Ninety One voted against the reappointment of two directors and abstained on another two due to our concerns on board composition and effectiveness. **YDUQS –** Ninety One voted against the classification of independent directors. The company presented the vote under a single agenda item, impeding the ability to consider the independence of each director on their merits.	Ninety One votes at shareholder meetings throughout the world as a matter of policy and principle. Ninety One believes that once they become investors, they assume a critical fiduciary responsibility on behalf of clients by consistently exercising their proxy voting rights in company general meetings by either support or sanction. Ninety One use an external proxy-research and vote-execution service provided by Institutional Shareholder Services (ISS). ISS delivers its benchmark research and Ninety One's custom policy research. The research is discussed between the ESG team and the investment team to come to a unanimous voting decision.

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