BBA Income and Protection Plan

June 2021

isio.

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 Plan 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 here, changes to the SIP are detailed on the following page.

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 Plan 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 Plan 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 31 March 2021 for and on behalf of the Plan including the most significant votes cast by the Plan or on its behalf

Summary of key actions undertaken over the Plan reporting year

- The Trustee commissioned and discussed a ESG Manager Summary report which provides information on the investment manager's approach to integrating ESG factors assessed against a set of agreed ESG beliefs. The Trustee's investment consultant continues to monitor the investment managers from an ESG perspective and provide annual updates.

- The Trustee reviewed the Plan's underlying passive equity exposure in April 2020 and following advice from the investment consultant moved its exposure from the MSCI World ex UK Equity to the MCSI World ex UK ESG Leaders to better align the Plan's investments with the ESG beliefs detailed in the SIP. The MCSI World ex UK ESG Leaders is an index that provides exposure to companies with high ESG scores relative to their sector peers and has historically experienced similar returns to the wider MSCI World Equity index but with lower volatility. As a result of the shift in the regulatory and social environment trending towards ESG investing, it is likely that the ESG Leaders index will be less volatile than the wider index going forward.

- In April 2020, the Trustee reviewed the currency exposure in the synthetic equity mandate and removed its exposure to sterling to minimise risk. Sterling fell significantly at the beginning of the COVID-19 pandemic and the decision provided an opportunity to crystalise currency gains but also to protect the Plan from sterling reverting to more typical historical levels.

- The Plan fully disinvested from the LaSalle property mandate post 31 March 2021 which was the ultimate step in the implementation of the revised investment strategy.

Implementation Statement

This report demonstrates that BBA Income and Protection Plan 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	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 80% of these risks relative to the Plan's liabilities on a gilts +0% basis. The Trustee monitors 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. However, the Trustee will review and update the LDI solution following the completion of the upcoming Actuarial Valuation.
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/synthetic equity manager.	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 hold assets such as bonds which deliver a return through contractual income and have a lower volatility overall. To appoint investment managers who diversify market risk by region and sector.	The Trustee reviewed the Plan's underlying passive equity exposure in April 2020 and decided to switch the tracking exposure to the MCSI World ex UK ESG Leaders index. This index has historically experienced similar returns to the wider MSCI World Equity index but with lower volatility.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. 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: 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 The Trustee monitors the managers on an ongoing basis.	ESG actions undertaken: • The managers' ESG policies were reviewed and presented to the Trustee in an ESG Manager Summary report. • The Trustee is expected to 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. • In July 2021, the Trustee revisited the ESG beliefs considering the latest market trends and upcoming regulation changes. The Trustee is expected to agree a revised set of ESG beliefs towards the end of 2021. 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 Plan's investments.	Hedge currency risk on the credit mandates. For the equity mandate we hedge 100% of the USD exposure which is c.2/3rds of the total currency exposure.	The currency hedge in the equity mandate was added to the SIP in April 2020.

Changes to the SIP

Policies added to the SIP	
Date updated: April 2020	
Currency hedging in the Synthetic Equity mandate	• The Trustee implemented a currency hedge in the synthetic equity mandate to remove USD/GBP exposure.
Synthetic Equity Benchmark	• In November 2020, the synthetic equity mandate benchmark was changed from MSCI World ex UK to MSCI World ex UK ESG Leaders.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Plan's policy regarding to ESG as a financially material risk. the Plan has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG polices. This page details the Plan's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Governance	1. Integrating ESG factors into the Plan's investment approach is a dynamic and incremental process. The Trustee will review their approach for integrating ESG factors on a regular basis. The Trustee believes that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy. 2. The Trustee favours a holistic approach to integrating ESG factors rather than focusing on specific issues. 3. ESG issues are relevant to all asset classes, but the considerations and approach will vary by asset classes.
Engagement	4. Asset managers have a responsibility to engage with investee companies on ESG issues regardless of whether they are equity or debt investors. 5. Asset managers should exercise their votes on all issues including ESG related issues on behalf of the Plan. 6. Evidence of engagement activity should be provided on an ongoing basis, at least annually.
Asset Managers	7. Most of the day-to-day ESG related decisions will be delegated to the underlying asset managers. 8. Asset managers are expected to sign up and comply with common codes and practices. Those that have not done so will need to provide valid reasons for this. 9. Ongoing monitoring of how the Plan's asset managers consider and integrate ESG factors is important. 10. Asset managers should integrate ESG related issues as part of their regular reporting. 11. The Trustee will seek to understand how the asset managers make ESG decisions and how ESG is integrated into their investment process.
Performance	12. Integrating ESG factors increases the effectiveness of the overall risk management of the Plan's assets. 13. ESG risks can be financially material and incorporating these factors in decision making is aligned with the Trustee's fiduciary duty.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
Apollo – Total Return Fund	Apollo have been actively incorporating ESG into their investment process for several years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.	Apollo to set-out formal ESG criteria for each potential credit investment and emphasise ESG factors in day-to-day investment decisions. This could include more clarity on how Apollo analyses what constitutes 'material' ESG risks. Apollo should provide ESG metrics and qualitative comment specific to the Fund on a regular basis where possible. This could include factors such as: 1. Carbon emissions exposure 2. Company engagement activity 3. Summary of investments which exhibit high ESG risks (i.e. impairment of reputation, poor governance, environmental concerns). Apollo should provide a detailed explanation as to why they have chosen not to be a UN PRI signatory.	01/02/2021 – Apollo have adopted an ESG scoring system from 1-5 and stated that investments would be escalated to the investment committee if necessary. 01/02/2021 – Apollo appear to have made little progress on reporting and seem reluctant to dedicate any time or resource to improving this metric. 01/02/2021 – Apollo are now a UNPRI signatory. Apollo previously felt that the governance burden of signing up to the UNPRI was not worth the benefit.
Barings – Barings Global High Yield Credit Strategies Fund	Barings has a clear firm-wide ESG framework, managed by a dedicated team who integrate ESG considerations across the business. The Fund has no ESG objectives set in its guidelines. As a result, ESG issues are only considered within the Fund as part of Barings firm-wide ESG beliefs, and are only integrated within the	Barings to provide energy and carbon emissions performance as part of their regular reporting.	12/02/2021: Barings incorporate a quantitative scorecard to quantify ESG risks which feeds into an ESG score and credit rating. Barings identify climate and carbon as priority areas and are undertaking a 'carbon reporting project.' 12/02/2021: Barings are beginning to report on carbon metrics and this feeds into ESG scores and credit ratings.

	investment process through risk analysis.		While specific targets are not set, we see this as an improvement to Barings GHYCS investment approach. 12/02/2021: Barings use ESG ratings and carbon data analysis to drive their engagement activities, and they seek improvements in these metrics. Carbon disclosure and data improvement is a key priority.
M&G – Secured Property Income Fund	M&G have an established Responsible Investment framework and carry out extensive ESG analysis as part of their due diligence. SPIF has a strong history of active engagement and collaboration on ESG related topics.	M&G to provide energy and carbon emissions performance as part of their regular reporting. M&G could increase the percentage of assets within SPIF covered by Green Certification. M&G could develop smart capture methods to capture data, this would be more time efficient from a tenant's perspective and potentially increase the accuracy of the data received. To provide reporting to a similar level as gender pay gap reporting on other inclusion and diversity factors such as ethnicity, nationality, and social standing. Provide evidence of engaging with tenants on ESG issues	11/02/21: GRESB fund-level reports annually, this includes factors such as emissions. GRESB rating increased from 68% in 2019 to 70% in 2020. 11/02/21: 20% of assets have achieved green building certification, M&G are planning to double this by end of 2021. Note: no movement since previous call. 11/02/21: M&G have hired a dedicated asset manager for Long Income who sees ESG as a priority. M&G increased the capture of occupier energy data from 49% in 2019 to 83% in 2020. Many tenants now have dedicated ESG contacts to facilitate this so expect sustained high level of data. 11/02/21: M&G issue a landlord survey to all landlords (not solely ESG focussed) which forms the basis of some conversations around ESG. ESG is covered in every meeting with tenants (although no evidence of this). Evidence of engagement taken with tenants of assets

			with an E and below EPC rating. M&G facilitating discussions around cost sharing of remedial energy / heat saving works to buildings
M&G – Total Return Credit Investment Fund	M&G have evidenced their ability to consider the significance of ESG factors in this Fund. M&G should consider measurable ESG aims for the Fund and increase the number of ESG risk metrics that are being monitored. Although M&G are actively developing their integrated ESG approach in investment decisions, M&G should consider more in-depth reporting for clients and progress reports on aims for the Fund.	M&G currently have a qualitative approach and working towards a more quantitative approach (scorecard). M&G should seek to roll this out for all analysts, and they can develop an integrated ESG scoring system which scores both at an individual issuer level and at a sector/country level. M&G should clearly publicise engagements throughout the quarter in quarterly reports and on their website and provide updates on past engagements – with engagements focused on companies the Fund invests in. M&G should increase the number of risk metrics they monitor such as, climate change and the sensitivity to these metrics to the portfolio.	17/02/21: Each issuer has a quantitative scorecard, which tracks various ESG issues. Evidence of this feeding in to a larger ESG scoring system. Clear evidence of ESG integration across the business, with the sustainability team working closely with research analysts. 17/02/21: M&G plan to report carbon intensity of all funds vs benchmark in future, and to introduce monthly reporting – Expect progress in 6-9 months (look out for in 2021 summaries) Engagements monitored in granular detail, forming a good base for future reporting. No record of fund ESG reporting on fund webpage. 17/02/21: A range of risk metrics are measured at the portfolio level, such as reputational risk, governance risk, and carbon risk. Useful comparisons are given for the fund against its benchmark. No clear link between this monitoring and how it is reported.
Partners Group - Direct Lending	Partners Group have a specialist ESG and Sustainability team, who support the business in achieving their ESG objectives. At a fund level they can demonstrate that ESG is a key aspect of the due diligence process and	Partners Group should identify clearer firm-wide priorities and targets as well as KPIs for private debt investments. Provide more granular information/data on the diversity metrics in place at	19/01/2021: Partners Group have identified firm wide priority areas such as climate change and diversity targets for all companies and have provided evidence of portfolio examples on how they applied these in private credit mandates and are also

	ongoing engagement is apparent through an investment's lifecycle. Partners Group could improve the level of ESG reporting compared to its peers and we would like to see a clearer focus on diversity metrics in their ESG risk assessment at a fund level.	portfolio level, including ethnicity, LGBTQ+ and social mobility stats. Partners Group should identify specific KPIs and targets for private debt portfolio companies. Partners Group should evidence where they have worked with portfolio companies to bring about a desired change and include in reporting.	working on collecting data on their key ESG priorities and provided case study examples. 19/01/2021: Diversity (both gender and ethnicity) is a focus area and the manager is working with all portfolio companies to improve diversity metrics. 19/01/2021: Partners Group have made progress in applying coherent firm-level objectives and feeding them through to their credit portfolios, focused currently on a few key priority areas such as climate change and diversity while applying ESG issues across different sectors. The have also made some improvements in gathering decision-useful data from portfolio companies. 19/01/2021: PG would benefit from defining ESG priorities at sector level so they could apply ESG targets specific to each company. 19/01/2021: PG have started to introduce KPIs to some of their credits, whereby an issuer benefits from lower interest rates if certain ESG targets are met. We would like to see this applied more widely across the portfolio. 19/01/2021: Despite difficulties in relation to data reporting and engagement in relation to private debt investments, Partners Group has evidenced an example of constructive discussion on engagement which has driven some improvement.

River and Mercantile – LDI and Structured Equity	The segregated nature of R&M's offering, coupled with their innovative investment ideas, allows ESG factors to be fully integrated into R&M's portfolios. R&M currently do not have any clients that are looking to integrate ESG considerations into their portfolios. We have, therefore, refrained from giving them our highest ESG rating due to a lack of concrete examples available to display their abilities in this space.	We would like to see a greater appreciation for how environmental and social factors can impact a bank's ability to perform and the risks these factors may pose. R&M to develop ability to be able to produce updates on ESG issues as part of their regular reporting should the client request this.	Isio engaged with River and Mercantile on behalf of the Trustee in September 2020 and reported no progress against actions.

Engagement

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-month period to 31 March 2021.

Level of engagement across the portfolio is relatively low but this is in line with what has been observed in the market for other pension schemes. Managers are still struggling to produce engagement data at fund level with limited data coming from a small proportion of managers.in the wider credit and property funds. It is expected that this will increase going forward as investors prioritise ESG assessment criteria when selecting new funds. The Plan has rated two funds rated as “above satisfactory” and the remaining five funds as “satisfies requirement” in the Voting & Engagement assessment criteria.

Fund name	Engagement summary	Commentary
Apollo – Total Return Fund	Total engagements: 31 All: 7 Broad-based ESG: 1 Environmental: 7 Environmental Social and Governance: 3 Governance: 5 Human Capital: 3 Social: 5	Apollo have a clear framework for due diligence and engagement across all asset classes, maintaining a no ‘one-size-fits-all’ approach, tailoring its engagement according to each investment. Apollo continually engage with portfolio companies via discussions with management. This has been a key driver to produce formal company ESG reports and KPIs.
Barings – Barings Global High Yield Credit Strategies Fund	We requested this data from the manager however currently the manager cannot produce this detailed level of reporting at a fund level. We are working with them to ensure that this data is available in the future.	Barings continually engage with portfolio companies via discussions with management and have provided several examples of successful ESG engagements. The analyst teams engage directly with portfolio companies with a focus on changing behaviour in key risk areas and improving disclosure on key ESG topics.
M&G – Secured Property Income Fund	M&G own the real estate in their fund and tend to engage directly with the occupiers in their buildings on ESG topics but do not have details of engagement activity available.	Within the Fund, to incentivise existing occupiers with their own ESG initiatives, M&G may partner with them on mutually beneficial projects. For example, the Fund is actively allowing licences for asset improvements such as solar panels on Bannatyne gyms, and the installation of electric car charging points across

		some of the Fund's British Car Auction and Tesco assets. The Fund also engages with tenants to ensure that new developments' funding is rated by the Building Research Establishment Environmental Assessment Method as 'Excellent' or 'Very Good' as a minimum, with the highest rating of 'Outstanding' where possible.
M&G – Total Return Credit Investment Fund	Total engagements : 10 Environmental: 2 Governance: 6 Social : 2	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. Examples of significant engagements include: **EDF –** M&G engaged with EDF, via phone calls and emails, to ask for more information on the Brazilian hydrogeneration related issues which were raised in the annual report. EDF provided further information, allowing M&G to better understand and analyse the issues, and will continue providing updates on this. M&G concluded that EDF appear to be doing better than Institutional Shareholder Services (ISS) implied
Partners Group - Direct Lending	Total engagements: 6* Corporate: 5 Monitoring: 1 Partners Group have reported no ESG-related engagements since investments were made in the Fund *since inception	Partners Group aim to have a seat on the Board of Directors for portfolio companies. The representatives work alongside the ESG and Sustainability team to create and implement ESG initiatives at the portfolio companies. Partners Group have continuously worked with regulators, asset managers, investment professionals, policymakers and other industry leaders on a wide variety of platforms; ranging from speaking at investment conferences to contributing to ESG literature and moderating UN PRI panels.

River and Mercantile – LDI and Structured Equity	R&M have engaged with a number of industry participants on long term strategic issues in relation to LDI, including: - The LIBOR transition - Recognising the pricing issues with bilateral RPI swaps	R&M do not routinely engage with counterparty banks, but like most of their offering, they would be happy to do this if desired by the client. However, R&M request ESG policies of all counterparties and would be available to the client if requested.
Lasalle	Total engagements: 11 Environmental: 4 Social: 7	LaSalle's approach to integrating ESG issues is through ongoing dialogue and engagement with the underlying managers. When a manager receives an amber or red ESG rating, LaSalle will engage with the manager to seek improvement. LaSalle's engagement includes an annual ESG survey sent to all managers. The results are calibrated, and managers are provided with bespoke feedback on ESG issues and areas for improvement. As an example, Lasalle, as a signatory to the Better Buildings Partnership Climate Change Commitment ('BBP'), engaged with 57 organisations in Q4 2020 to gain transparency, knowledge, awareness of the organisations' pathways to Net Zero Carbon. As a result, Schroders Real Estate Fund, adopted scope for net zero carbon for: - Operational carbon - Embodied carbon