www.isio.com

BBA Income and Protection Plan

June 2024

isio.

Document classification: Confidential

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as Environmental, Social and Governance ("ESG") factors becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the BBA Income and Protection Plan ("the Plan") continues to follow and act on the principles outlined in the Trustee's Statement of Investment Principles ("SIP"). The SIP can be found online at the web address <insert web address>. Changes to the SIP are detailed on page 5.

This report details:

- actions the Trustee 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.

Summary of key actions undertaken over the Plan reporting year

Over the year ended March 2024, the Plan fully disinvested from the Apollo Total Return Fund and the M&G Secured Property Income Fund. These actions were taken to further support liquidity levels following the gilt crisis. Additionally, over the year the Schroders synthetic equity and ABS allocations were added.

Implementation Statement

This report demonstrates that the Trustee of the BBA Income and Protection Plan has adhered to its investment principles and its policies for managing financially material considerations in the Plan 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.	The policy at the end of the year was to hedge 80% of these risks relative to the Plan's liabilities on a managed buyout 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.
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.	There remains sufficient liquidity in the cash held as part of the LDI portfolio to meet ongoing benefit payments. The Plan's allocation to ABS acts as a further liquidity buffer.
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.	No changes to the policy were made over the year.
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.	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 100% of the USD exposure is hedged which is >70% of the total currency exposure.	No changes to the policy were made over the year.

Changes to the SIP

During the Plan year the following policies were added to the SIP. Note these were also disclosed in the Implementation Statement as at 31 March 2023:

Policies added to the SIP	
Date updated: May 2023	
Voting Policy	• The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on its behalf.

Engagement Policy	• The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on its behalf.
	• The Trustee, via its investment advisers, will engage with managers about 'relevant matters' at least annually.
	• Example stewardship activities that the Trustee has considered are listed below.
	  ○ Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities.
	  ○ Asset manager engagement and monitoring – on an annual basis, the Trustee assesses the voting and engagement activity of its asset managers. The results of this analysis feeds into the Trustee's investment decision making.
	  ○ Collaborative investor initiatives – the Trustee will consider joining/ supporting collaborative investor initiatives.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustee's policy with regards to ESG as a financially material risk. The Trustee has agreed a more detailed ESG policy for the Plan, 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 Isio's (in its role as investment advisers on behalf of the Trustee) view of the managers, the actions for engagement and an evaluation of the engagement activity.

Risk Management	1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan. 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.
Approach / Framework	3. The Trustee 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; therefore, the Trustee will receive training as required to develop its knowledge. 8. The role of the Plan's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	9. The Trustee 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 - fund	ESG summary	Actions identified	Engagement with manager commentary
Partners Group - Direct Lending	Partners Group continue to demonstrate a strong firm-wide approach to ESG and have strong ESG teams and practices. They have a strong screening process in their investment approach, using industry recognised guidance, such as the TCFD and UN Global Impact. However, Partners Group lag peers in reporting and therefore seen their score downgraded in this area.	Set clear and quantifiable Fund-level ESG targets. Include specific social, climate and natural-related objectives at a fund-level. Review and update the ESG scorecard on an annual basis. Include climate and social risks within their ESG assessments. Include climate and social risks within their ESG assessments.	The Direct Lending Fund has set ESG-objectives through sustainability-linked loans but does not have an over-arching or quantifiable target. Partners Group will begin reporting on temperature pathway alignment and emissions data at a fund-level.
Schroders – Segregated holdings	Schroders integrate ESG consideration in their counterparty selection process and have a well-established method to screen counterparties. Additionally, Schroders engage with third party advisers to help them design and implement new ESG frameworks.	Schroders could start to report Fund-level carbon footprints.	Schroders are in the process of setting climate objectives for their LDI Funds. There is no counterparty ESG scores and metrics provided for the LDI fund range although Schroders will shortly have ESG reporting templates set up for the credit portfolios.
Schroders – ABS	Schroders have a strong firm-wide approach to stewardship as they have a dedicated team setting priority themes and overseeing engagement activity. Schroders are also a key industry collaborator and member of several initiatives. However, at the fund-level there are no specific ESG-objectives and unlike peers, Schroders doesn't produce regular ESG reports for the Fund. As ESG reports are not produced, they are unable to achieve a higher score than 0.0 for Reporting.	Assess the effectiveness of green, sustainable-linked, or use-of-proceeds ABS issuance for inclusion in the portfolios. Schroders could update their ESG scorecard annually to keep up with best practice. Begin producing a quarterly ESG report in line with peers.	Isio continues to engage with Schroders to improve the frequency of ESG reporting as well as the ESG monitoring process of the underlying holdings.

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 2024.

Fund name	Engagement summary	Commentary
Partners Group – Direct Lending	Total engagements: 5 Governance: 4 Environmental: 1	Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders, they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks.
Schroders – LDI & Structured Equity	Schroders actively engage in industry wide consultations, including the RPI-CPI reform and LIBOR cessation. If a client asked Schroders to engage with a counterparty bank on their behalf, we would expect Schroders to provide reporting to update the client on the success of the engagement. We have not yet seen any evidence Schroders are able to provide this type of reporting.	Schroders are predominantly a derivatives-based business and so had less leverage to influence the behaviour of counterparty banks compared with peers who have significant equity and credit holdings in the counterparty banks.
Schroders – ABS	Total engagements: N/A	Schroders were unable to provide meaningful examples of ESG-related engagements during the period.

www.isio.com