BBA Income and Protection Plan

May 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 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 2022 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 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 Trustee's investment consultant continues to monitor the investment managers from an ESG perspective and provide annual updates.

- The Plan fully disinvested from the LaSalle property mandate in April 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.

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 over the year was 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.	In March 2022, the Trustee approved an interim change in the interest rate hedge to 87% of gilts +0% liabilities to be in line with the estimated funding level. The change was finalised and implemented post reporting year-end. Additionally, the Trustee agreed to review and update the long-term LDI solution following the completion of the Actuarial Valuation in 2021.
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.	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	No changes to the policy were made over the year.

		compensates the Plan for the risk of default.	
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 June 2021, the Trustee revisited the ESG beliefs considering the latest market trends and upcoming regulation changes. The Trustee agreed a revised set of ESG beliefs in August 2021 and worked alongside the investment consultant to update the ESG Policy statement. 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 c.2/3rds of the total currency exposure.	No changes to the policy were made over the year.

Changes to the SIP

Policies added to the SIP	
Date updated: November 2021	
Liquid Diversified Credit Benchmark	• The Trustee updated the SIP to recognise the revised benchmark for the M&G Total Return Credit Investment Fund from LIBOR to SONIA.

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. 2. The Trustee believes that it is important to manage a broad range of ESG factors which present a financially material risk to the investment portfolio. As climate change considerations are a key investor focus, as well as a priority area of government regulation, the Plan will explicitly manage climate factors by seeking to minimise climate risks and take advantage of climate opportunities to the extent possible within the Plan's broader financial objectives. 3. ESG issues are relevant to all asset classes, but the considerations and approach will vary by asset classes. **4.** The Plan will seek to align its investment portfolio with the net zero emissions targets of the Sponsor and implement a net zero journey plan by setting targets for decarbonisation of the investment mandates. The actions taken will consider the expected timescales to reach buyout, as well as take into account what is practical to achieve whilst continuing to maximise the value of assets at all stages of the investment journey.
Engagement	5. Asset managers have a responsibility to engage with investee companies on ESG issues regardless of whether they are equity or debt investors. 6. Asset managers should exercise their votes on all issues including ESG related issues on behalf of the Plan. 7. Evidence of engagement activity should be provided on an ongoing basis, at least annually.

Asset Managers	8. Most of the day-to-day ESG related decisions will be delegated to the underlying asset managers. 9. 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. 10. The Trustee will seek to monitor key ESG metrics, initially focused on monitoring climate change metrics, and set targets against these metrics. 11. The Trustee will engage with asset managers where their ESG policies are misaligned with the Plan's ESG policy or are behind what is considered best practice in the market. Divestment will be considered where it is not at the detriment of Plan members if the engagement has failed to result in change with the manager. 12. The Trustee will seek to understand how the asset managers make ESG decisions and how ESG is integrated into their investment process.
Performance	13. The Trustee believes that companies and sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. The Plan will seek to allocate to sustainable and impact opportunities should they align with the financial objectives of the Plan and where the benefits are likely to outweigh the transaction costs of any changes. 14. 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 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. 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 it and progress will be monitored on this.	Apollo to 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 to provide evidence they have identified financially material ESG risks and how they are actively managed through the life of the investment. The priorities are expected to lead to engagement activities, and Apollo to keep and share a record of these key engagements. Apollo to consider methods to better incorporate climate risks in the risk management framework for the Fund, for example through climate scenario modelling and disclosing alignment with temperature pathways. Apollo should better articulate engagement priority areas and evidence engagement linked to these. Apollo continue to improve reporting capabilities by engaging with issuers to obtain better data, obtaining data from 3rd party data providers, or using tools to	01/03/2022: Apollo have been working to establish an 'impact' sleeve of the Total Return Fund, made up of positions linked to ESG related objectives such as resource sustainability, economic opportunities, education/healthcare benefits and new technology innovation. While this is not expected to materially impact the overall credit metrics of the portfolio, Isio welcomes Apollo's focus on ESG issues and will work with them to establish how this area of the portfolio could develop over time.

		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+.	
Barings – Barings Global High Yield Credit Strategies Fund	Barings has a clear firm-wide ESG framework, managed by a dedicated team of 10 individuals who are responsible for ESG considerations firm-wide. Analysts are responsible for carrying out ESG due diligence on issuers and provide an ESG score that feeds into the overall internal credit rating.	Barings to identify ESG related KPIs/objectives on a Fund level. Barings' diversity and inclusion policies should be expanded to the wider business not just the US. Barings to provide greater evidence of engagement regarding diversity and inclusion. Barings' engagement triggers should be set and implemented based upon current ESG scores and ESG outlook scores for each issuer. Barings to continue to work with issuers to improve data coverage for the portfolio. As at March 2021, coverage was 43% vs a benchmark level of 78%.	Isio engaged with Barings on behalf of the Trustee in March 2022 and reported no progress against actions since the ESG fund review in August 2021.

M&G – Secured Property Income Fund	M&G have an established Responsible Property Investment framework, which governs ESG integration into the Fund. Extensive ESG analysis is carried out as part of their due diligence process and the SPIF has a strong history of active engagement and collaboration on ESG related topics.	M&G should collect staff ethnicity data and set appropriate targets to ensure a fully diverse workforce. M&G to set targets around increasing the green certification of assets in the portfolio. M&G to provide more transparency around engagements, how often engagements are initiated and whether by the tenant or Fund. M&G should ensure that provision is included in all new leases contracts to allow for suitable monitoring of ESG metrics.	01/03/2022: M&G have committed to providing more frequent engagement reporting, switching from annual to quarterly. This is expected to start from the second half of 2022.
M&G – Total Return Credit Investment Fund	M&G have evidenced their ability to consider the significance of ESG factors in this Fund, however, there are areas such as Investment Approach and Reporting in which we believe the Fund could continue to improve.	M&G to provide specific ESG objectives and policy for the Fund. M&G to continue the development climate scenario modelling and temperature pathways. M&G to 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.	01/03/2022: M&G have proposed to employ a carbonator tool to track the carbon intensity of leveraged loan assets. The details are expected to be shown in future quarterly reports. 01/03/2022: M&G have commissioned a third party to inform coverage of ESG on their Asset Backed Securities assets. Additionally, M&G will provide more transparency on specific analysts' ratings of the E,S&G criteria in assessing assets.
Partners Group - Direct Lending	Partners Group have an established ESG and Sustainability team and are able to clearly demonstrate the integration of ESG factors at Fund level. They are also a leader in the private debt space in terms	Partners Group should aim to provide regular quarterly reporting to investors on ESG metrics.	01/03/2022: Partners Group have set out a proposed plan for ESG metric reporting, with the intention to be able to report on carbon emissions and intensity by mid 2023.

	of their collaboration with other industry participants in relation to ESG. In the future Partners Group are looking to improve their regular reporting to investors on ESG metrics.		01/03/2022: Partners Group continue to incorporate more ESG ratchets into their loan deals.
Schroders (formerly River and Mercantile) – LDI and Structured Equity	Schroders segregated approach provides investors with the flexibility to integrate ESG into their portfolios to the fullest extent possible. We would encourage clients to discuss this with Schroders as they have already done a lot of the thinking required to help clients achieve their ESG goals where suitable.	Schroders to formalise their approach to buying green gilts. Schroders to raise ESG issues with counterparty banks if asked to do so by clients or if they see it impacting the counterparty bank's behaviours. Schroders to finalise their ESG reporting for clients. Engagement reporting to be provided for clients that request it.	Isio engaged with Schroders on behalf of the Trustee in March 2022 and reported no progress against actions since the ESG fund review in August 2021.

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 2022.

Fund name	Engagement summary	Commentary
Apollo – Total Return Fund	Total engagements: 82 Broad-based ESG: 30 Environmental: 14 Governance: 36 Social: 2	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. 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. Examples of engagements include: 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.
Barings – Barings Global High Yield Credit Strategies Fund	Total engagements: 725 Environmental: 348 Governance: 271 Social: 106	Barings engage with portfolio companies via discussions with management and provided some examples of successful engagements over the past 12 months. Barings have a proprietary system which allows analysts across the business to track engagement with portfolio companies to improve ESG disclosures. Where there is exposure

		to an issuer across investment teams, analysts will collaborate in their engagement activity. Examples of engagements include: Global e-commerce business – Barings were concerned with a potential governance risk during the due diligence stage whereby the company founder was serving as the CEO and the Chairman and remained a significant shareholder. Barings later collaborated with other market participants in an engagement via the investor forum to improve voting structure, make independent board appointments and obtain better divisional disclosures. The collaborative engagement resulted in announced improvements to the shareholder voting structure. Barings had reduced exposure with a view to await further improvements before increasing the exposure.
M&G – Secured Property Income Fund	Total engagements: 12 Environmental: 2 Environmental & Social: 10	The M&G Responsible Investment Policy sets out tenant engagement targets for the Fund, over recent years the fund has seen good improvement on ESG discussions with tenants, including receiving more energy usage date from tenants, which has improved from around a third to over 90% of Fund income. M&G are supporting their tenants to run and implement their own ESG initiatives and partner with them on mutually beneficial ones. Examples of engagements include: Tesco plc – M&G were supporting their tenant in reaching their Net Zero aspirations and engaged with them to report on their energy data disclosures. Tesco installed electric vehicle charging points in their

		carparks in 2020 and M&G have commenced discussions with them to introduce photovoltaic panels in their stores.
M&G – Total Return Credit Investment Fund	Total engagements : 20 Environmental: 15 Governance: 4 Social : 1	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 engagements include: 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 seized 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.
Partners Group - Direct Lending	Total engagements: 5* Corporate: 5 Partners Group have reported no ESG-related engagements since investments were made in the Fund *from 31/12/2020-31/12/2021	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. 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.

Schroders (Formerly River and Mercantile) – LDI and 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.	River and Mercantile Solutions were 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. However, after the acquisition by Schroders, we would expect to see a greater level of engagement going forward due to the scale of the wider business.

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