



AGS Airports Pension Scheme Implementation Report

October 2020

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.agsairports.co.uk/media/1056/ags-airports-sip-sep-2019.pdf>. 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 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 Trustee 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 they invest
- voting behaviour covering the reporting year up to 30 June 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

- The Scheme re-balanced its hedge over the year back to target (100% on technical provisions basis) to account for changes in the liability profile as a result of member transfers and natural drift.
- The Investment Sub-Committee (ISC) have also been undertaking an exercise to determine the beliefs of the Trustees in relation to ESG and inputs integration within the investment strategy.
- Over the year the Scheme disinvested fully from Invesco Global Targeted Return Fund and invested in a new diversified growth fund, the LGIM Diversified Fund. The activity was completed in December 2019.
- The Trustee decided to introduce a new infrastructure equity allocation into the strategic benchmark and appointed Aviva to manage this. Following further due diligence on the Fund, the Trustee is expecting to finalise their commitment to Aviva in the 2020/21 Scheme year.

Implementation Statement

This report demonstrates that the AGS Airports Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed *Katherine Ball*

Position Chair of Trustee Board

Date 1 February 2021

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions
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 these risks on a Technical Provisions basis.	The Scheme's hedge was rebalanced during the year to account for transfers out of the Scheme as well as some natural drift.
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.	
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where affordable and practicable.	
Credit	Default on payments due as part of a financial security contract.	<ol style="list-style-type: none"> 1. To remain appropriately diversified and hedge away any unrewarded risks, where practicable. 2. To diversify this risk by investing in a range of credit markets across different geographies and sectors. 3. 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. 	
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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 	<p>ESG actions undertaken:</p> <ul style="list-style-type: none"> • This updated ESG policy was reviewed by the Trustee as part of the SIP update in September 2019

		<p>2. Implemented via Investment Process</p> <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>	<ul style="list-style-type: none"> The managers' ESG policies were reviewed and presented to the Trustees in an Impact Assessment report. <p>The Trustees are due to receive training to review their ESG policies over the next year.</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>1. The Scheme's current mandates hedge all the currency risk back to Sterling.</p> <p>2. Any active currency positions taken by managers i.e. DGF, DCF, are risk managed and at the discretion of the managers.</p>	
Non-financial	<p>Any factor that is not expected to have a financial impact on the Scheme's investments. This includes the extent to which the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme in the selection, retention and realisation of investments.</p>	<p>Non-financial matters are not taken into account in the selection, retention or realisation of investments.</p>	
Transition	<p>The risk of paying unnecessary costs or being at increased risk of adverse market movements when transitioning assets from one manager or asset class</p>	<p>Organise transitions in a structured fashion with the advice of Advisors or by using a specialist transition manager if appropriate.</p>	<p>The Trustees received advice from their investment consultants on all transition activity carried out over the year.</p>

Out of market

The risk of asset price fluctuations that negatively impact the Scheme whilst the Scheme's assets are in the Trustee Bank account.

Ensure ongoing monitoring of the Scheme's assets and transfers.

Changes to the SIP

Policies added to the SIP

Date updated: 30 September 2019

Investment Manager Monitoring, Engagement, and Implementation of Investment Policy.

Environmental, Social, Corporate Governance factors and the exercising of rights

Method for monitoring and engagement

- The Trustee's investment managers provide regular reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.
- The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.

Circumstances for additional monitoring and engagement

- The manager has not acted in accordance with their policies and frameworks.
 - The manager's policies are not in line with the Trustee's policies in this area.
 - Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.
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Risk Management, Financially Material Considerations and Non-Financial Matters

Environmental, Social and Governance (“ESG”) - Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme’s investments.

Policy: 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
3. A track record of using engagement and any voting rights to manage ESG factors
4. ESG specific reporting
5. UN Principles for Responsible Investment (UN PRI) signatory (six voluntary investment principles that relate to ESG considerations) if applicable.

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s 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 Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.
- The Scheme’s mandates with Alcentra (Direct Lending) are subject to a performance related fee.

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 Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements.
 - The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
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How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

- The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The Trustee does 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 closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Scheme's liquidity requirements.
 - For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regarding to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page 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 stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intend to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

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• When attending Trustee meetings, investment managers will be asked to present to the Trustee on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity;• The Trustees are provided with a report detailing the managers' ESG policies as well as a summary of actions Isio has engaged with managers on to ensure the scheme is not exposed to risks relating to Environmental, Social or Governance factors.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

ESG summary and engagement with the investment managers

Manager and Fund	ESG Summary	Actions identified	Engagement details
LGIM Diversified Fund	<p>LGIM have clearly identified firm-wide sustainability goals, and have a dedicated team responsible for engaging with portfolio companies.</p> <p>At a firm level LGIM is a market leader in their approach to ESG and voting/engagement, Given the underlying philosophy of the fund it is limited in how far it can prioritise ESG, however it is able to leverage LGIM's engagement platform.</p>	<p>Isio has proposed LGIM could expand the standard fund reporting to include the ESG risks and metrics identified at fund level as part of the risk management process.</p>	<p>The Trustees engaged with all of the Scheme's investment managers in Q2 2020 to review their ESG policies and set actions and priorities.</p> <p>Isio periodically reports back to the Scheme's Investment Sub Committee with updates on each of the managers. This is conducted on a quarterly basis.</p>
JP Morgan Unconstrained Bond Fund	<p>The Fund satisfies ESG requirements. ESG is integrated within the Fund's risk management process and investment approach. However, the lack of any 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 consider their own impact on carbon emissions as well and their wider business practices.</p>	<p>A number of items have been proposed by Isio to improve the ESG credentials of the fund, such as JP Morgan should further develop their ESG reporting and ensure that it is included in their regular reporting. It was also proposed that JP Morgan could develop measurable ESG objectives for the Fund beyond their current ESG policy of considering ESG issues when analysing an issuer.</p>	
M&G Long Lease Property	<p>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.</p>	<p>It was proposed by Isio that M&G could enhance their regular reporting by providing energy and carbon emissions performance of their properties and also look to increase the percentage of assets within the fund covered by Green Certification.</p>	

<p>Alcentra Direct Lending</p>	<p>We believe the Funds' ESG policy is "satisfactory" as they have introduced the analysis of ESG risks within the investment process and engage with companies and the wider community where possible. However, we believe Alcentra could benefit from setting ESG priorities, a quantitative scorecard and KPIs. While there are areas for improvement, Alcentra have outlined that they are still developing their approach to ESG and aim to improve their processes over time.</p>	<p>It was proposed by Isio that Alcentra could improve their regular reporting by detailing ESG metrics of their portfolio companies.</p>
<p>BMO LDI / Cash</p>	<p>BMO was an early adopter of ESG risk management and have invested a significant amount of time and research in this area. BMO have gone beyond most competitors in the LDI space in terms of action, collaboration and innovation, and have evidenced that they believe ESG factors are a crucial element of good risk management.</p>	<p>It was proposed by Isio that BMO should demonstrate what their reported ESG risk metrics are linked to their ESG priorities.</p>

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 months to 30 June 2020.

Fund name	Engagement summary	Commentary
LGIM Diversified Fund	LGIM currently do not provide details of their engagement activities at Fund level, however the firm is considering how such information can be provided going forward. Isio will work with LGIM on the development of the firm's engagement reporting.	LGIM's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.
JP Morgan Unconstrained Bond Fund	JP Morgan currently do not provide details of their engagement activities at Fund level although this is something they are discussing internally to develop. Isio remains in contact with JP Morgan surrounding the firm's engagement reporting.	<p>JP Morgan follow their Global Fixed Income, Currency and Commodities investment process, which is research-driven and globally integrated. JP Morgan take into consideration relevant and material ESG issues, alongside other fundamental factors in their proprietary analysis, and monitor these factors throughout the investment process. These factors include a consistent approach that spans three pillars, proprietary research, engagement, and portfolio construction.</p> <p>Details on engagements:</p> <p>Boston Scientific - JP Morgan engaged with Boston Scientific on their product safety and quality practices, specifically as it relates to the BSX's transvaginal mesh devices. This device has long been a product under scrutiny. As of February 2019, BSX faced 53,000 liability cases but had entered into master settlement agreements for around 50,000 cases. BSX commented that they have learnt following the experience in Australia. They commented that the roll out of the products was too fast and there was not adequate training in place. They now ensure a great focus on training, as well as onsite skill clinical support for all procedures. BSX confirmed that they have training plans in place on an enterprise and site-wide basis, as well as by function and by task. This includes focusing on engineer specific training too. BSX ensures that changes in learning/training plans are in place for those who move to a new team within the</p>

		<p>company, ensuring that employees are appropriately re-certified. They have a global team of quality managers in place who assess this training.</p>
<p>M&G Secured Property Income Fund</p>	<p>M&G do not currently provide details of their engagement activities at Fund level. However, they do actively engage with tenants of their properties to promote an ESG agenda. Isio remains in contact with M&G surrounding the firm's engagement reporting.</p>	<p>Due to the nature of most of the leases within the Secured Property Income Fund, M&G state that their overall influence as a landlord is limited. They maintain dialogue with all occupiers, and as part of this ESG-related behaviours are encouraged. The fund is committed to becoming net-zero on carbon emissions by 2050 and are currently developing initiatives to help meet this goal.</p>
<p>Alcentra Direct Lending EDL II and III</p>	<p>Alcentra currently do not provide details of their engagement activities at Fund level. Isio remains in contact with Alcentra surrounding the firm's engagement reporting.</p>	<p>Alcentra maintain regular contact with the management teams of their portfolio companies, however, are currently not able to provide detailed engagement information. Alcentra have developed an ESG Questionnaire that forms part of the due diligence process on any prospective investment. Alcentra have noted, given their position as lenders they typically don't have the same power as equity owners in terms of ability for driving initiatives and strategies and rely on their strong relationships with management teams and shareholders to drive their ESG agenda.</p>
<p>BMO LDI</p>	<p>Total engagements: 36 Labour Standards: 10 Climate Change: 9 Environmental Stewardship: 9 Corporate Governance: 3 Business Conduct: 2 General ESG: 3</p>	<p>BMO's 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. BMO identifies specific objectives for their engagement with investee companies, recording specific outcomes where objectives are achieved as "milestones". BMO report these to clients and each milestone is rated on a three-star scale related to the extent to which BMO assesses it to protect and enhance investor value.</p> <p>Details on engagements:</p> <p>Goldman Sachs Group – BMO engaged with Goldman Sachs around climate change. As a result, Goldman Sachs committed to an updated energy policy that rules out financing for new oil drilling or exploration in the Arctic, including the Arctic National Wildlife Refuge. The policy also rules out financing for new thermal coal mines and coal-fired power projects</p>

		<p>worldwide. BMO have been engaging the bank on their lending policies as well as their climate risk management procedures and targets over many years.</p> <p>Societe Generale – BMO engaged with Societe Generale around their environmental standards, which resulted in Societe Generale signing up to the UN Principles for Responsible Banking. The Principles provide a framework for banks to be more transparent on how their products and services create value for their customers, clients, investors, as well as society.</p>
<p>BMO Sterling Liquidity Fund</p>	<p>Total engagements: 19 Labour Standards: 1 Climate Change: 4 Environmental Stewardship: 6 Corporate Governance: 3 Business Conduct: 2 General ESG: 3</p>	<p>Details on engagements:</p> <p>Banco Santander – BMO engaged with Banco Santander which resulted in Banco Santander signing up to the UN Principles for Responsible Banking, which were launched during the annual United Nations General Assembly in September 2019. The Principles provide a framework for banks to be more transparent on how their products and services create value for their customers, clients, investors, as well as society. BMO have engaged with the bank for over a decade on responsible banking issues, including management of environmental and social risks in corporate lending and underwriting.</p>

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers, we have requested that the managers provide details on their voting actions including a summary of the activity covering the reporting year up to 30 June 2020.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	LGIM are currently not able to provide a voting summary.		LGIM are currently unable to provide any detailed voting information for the Fund. However, they are working to rectify this for the future.

