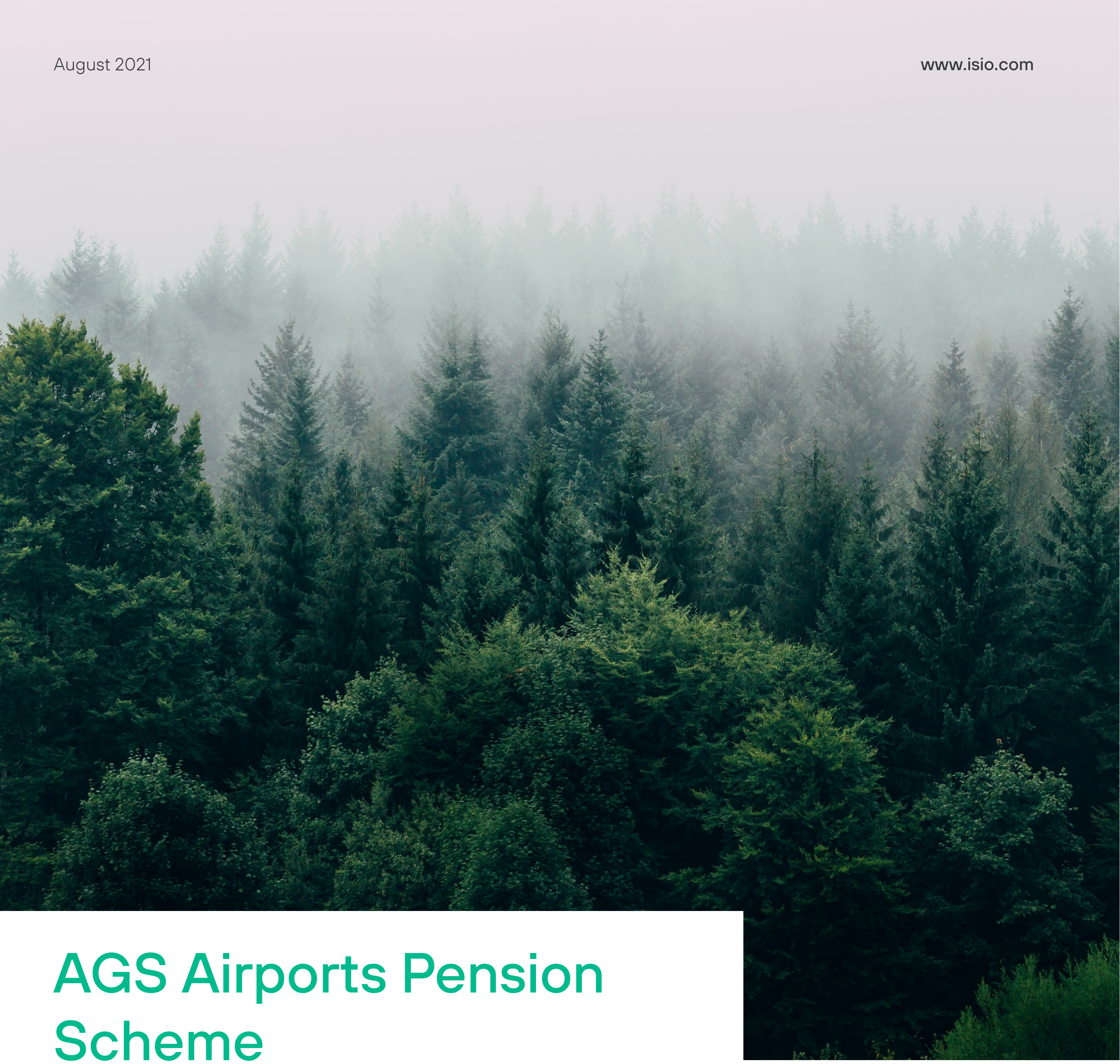

AGS Airports Pension Scheme

August 2021

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 previously 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

Any changes to the SIP over the year 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 2021 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 Trustee agreed to introduce a new £10m diversified credit mandate to the Scheme's portfolio. This was introduced with the intention of deploying some of the long-term cash that the Scheme has held, as well as diversifying the overall diversified credit exposure within the portfolio. The Trustee appointed M&G to manage this mandate, investing in the Alpha Opportunities Fund.
- Following further due diligence, the Trustee decided to continue with the implementation of the new infrastructure equity mandate with Aviva, accounting for 15% of Scheme assets. The Aviva Fund focusses on developing and purchasing renewable energy assets across the UK. Onboarding was completed over Q1 2021, with the full commitment being drawn in two capital calls over March and April 2021.
- The Trustee undertook an exercise to produce a formal ESG beliefs policy. This policy has been formulated to summarise how the Trustee will embed ESG into the investment decision-making process and the wider ambitions in terms of engagement, reporting and collaboration.

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

Date 8 September 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 2020 to account for transfers out of the Scheme as well as some natural drift. The Trustee will conduct a liability hedge review following the results of the June 2021 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.	Over the Scheme year, the Trustee has received multiple updates from the investment consultant on the liquidity position of the Scheme. The investment consultant also carried out a cashflow/ liquidity assessment of the Scheme, which analysed the impact to the Scheme in extreme conditions. As part of this work, the Trustee also agreed a formal policy for meeting any cashflow requirements.
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.	The Trustee implemented new credit and infrastructure mandates over the year to further diversify the portfolio at both manager and asset class level.
Credit	Default on payments due as part of a financial security contract.	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	The Trustee selected a new broad market credit manager (M&G) to sit alongside the existing mandate with JP Morgan. This new mandate is complimentary by manager style and geographical focus, hence bringing further diversification to the

		to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	Scheme's liquid credit exposure.
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 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 PRI Signatory The Trustees monitor the managers on an ongoing basis.	ESG actions undertaken: • The Trustee has developed a formal ESG beliefs policy to document its approach to ESG, and how ESG factors are integrated into investment decisions • The managers' ESG policies were reviewed and presented to the Trustees in an Impact Assessment report in June 2021. • The Trustee has made an investment in an infrastructure fund with Aviva, which primarily develops and purchases renewable energy assets across the UK. The Trustees have also received formal ESG training, provided by Isio's specialist ESG team over the current year.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	1. The Scheme's current mandates hedge all the currency risk back to Sterling. 2. Any active currency positions taken by managers i.e. DGF, DCF, are risk managed and at the discretion of the managers.	

Non-financial	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.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	
Transition	The risk of paying unnecessary costs or being at increased risk of adverse market movements when transitioning assets from one manager or asset class	Organise transitions in a structured fashion with the advice of advisors or by using a specialist transition manager if appropriate.	The Trustees received advice from their investment consultants on all transition activity carried out over the year.
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

The SIP was not updated over the Scheme year (to 30 June 2021). The SIP is however expected to be updated in August 2021 to take account of the changes to the investment strategy and investment manager line up that have occurred. A copy of the revised SIP will be made publicly available as soon as this agreed.

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Schemes policy with regards to ESG as a financially material risk. The Scheme has agreed a more detailed ESG approach, within the ESG Beliefs Policy, which describes how it monitors and engages with the investment managers regarding ESG polices. This page details the Trustee's ESG beliefs. The following pages details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	i. ESG factors can be financially material and managing these risks forms part of the Trustee's fiduciary duty. ii. There should be a positive ESG tilt to the investment strategy in return for anticipated risk reductions. iii. Any impact on risk and return due to ESG integration should be considered alongside the Trustee's risk budget and the Scheme's funding position to avoid any additional cost to the Scheme sponsor.
Approach / Framework	i. The Trustee will seek to understand how investment managers integrate ESG considerations into their investment decisions and include reference to ESG capabilities in future evaluation criteria when selecting new investment managers. ii. The Trustee will seek to align their ESG objectives with an internationally recognised framework.
Reporting & Monitoring	i. The Trustee will monitor each manager against their ESG KPIs on an ongoing basis and will conduct a full review of the overall compliance of the portfolio against these on a regular basis. ii. ESG metrics (e.g. carbon reporting) will be developed and added to ongoing reporting activity to determine the impact of the Trustee's ESG policies. iii. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training to maintain an understanding of these factors, including an annual ESG training meeting for all Trustee members.
Voting & Engagement	i. The Trustee will seek to understand each investment manager's approach to engaging with portfolio companies and the effectiveness of these activities. ii. The Trustee will maintain regular dialogue with the Scheme's investment managers, predominantly through their Advisor, to understand progress relative to peer group.
Collaboration	i. Asset managers should sign up and comply with common codes and practices such as the UNPRI & the UK Stewardship Code and/or TCFD. If they do not sign up, they should provide a valid reason why. ii. Asset managers should engage and collaborate with other market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights. iii. The Trustee has a strong desire to participate with Asset Managers to collaborate where possible to maximise the ESG impact.

ESG summary and engagement with the investment managers

Manager and Fund	ESG Summary	Actions identified
LGIM Diversified Fund	LGIM have clearly identified firm-wide sustainability goals and have a dedicated team responsible for engaging with portfolio companies. 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.	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. Isio identified that LGIM could introduce exclusions (eg. UN Global Compact violators, coal mining, controversial weapons, and any companies that do not comply with LGIM's climate pledge). LGIM has since implemented minimum exclusion standards for all asset classes incorporated in multi-asset funds.
JP Morgan Unconstrained Bond Fund	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.	JP Morgan should further develop their ESG reporting and ensure that it is included in their regular reporting. JP Morgan should also consider reporting on all engagements with issuers that the Fund invests in. It was 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.

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.	It was proposed by Isio that M&G could enhance their regular reporting by detailing energy and carbon emissions of their properties as part of their regular reporting, and to increase the percentage of assets within the fund covered by Green Certification. M&G should look to enhance their reporting on diversity factors such as ethnicity, nationality, and social standing, aligning this with their gender pay gap reporting. In addition, M&G could develop their data capture methods to simplify the process for their tenants and potentially increase the accuracy of data collected.
M&G Alpha Opportunities Fund	M&G have an established responsible Investment framework and carry out extensive ESG analysis as part of their due diligence. However, M&G should consider measurable ESG aims for the Fund and increase the number of ESG risk metrics being monitored. M&G would also benefit from more in-depth reporting for clients and progress reports on Fund aims.	M&G currently have a qualitative approach and are working towards a more quantitative scorecard approach. M&G should seek to roll this out for all analysts and to develop an integrated ESG scoring system that captures not only the issuer level but also the sector and country levels. M&G should clearly publicise engagements throughout the quarter as part of their quarterly reporting, and on their website. In addition, M&G should provide

		updates on past engagements. M&G should increase the number of risk metrics they monitor, such as climate change and portfolio's sensitivity to these metrics.
Alcentra Direct Lending (EDL II & III)	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 introducing ESG priorities, a quantitative scorecard and KPIs. Alcentra have outlined that they are still developing their ESG approach and aim to improve their processes over time.	It was proposed by Isio that Alcentra could improve their regular reporting by setting fund specific ESG priorities, detailing ESG metrics of portfolio companies and provide more examples of their collaboration within the industry. Alcentra should introduce a quantitative scorecard to use as part of their due diligence process, and measure the effectiveness of their engagement using KPIs.
Aviva	Aviva places a strong importance on ESG given the long-term nature and focus on renewable energy infrastructure, and is continuously looking for ways in which they can improve. The Fund integrates ESG throughout the investment process, and is able to demonstrate both effective ESG risk assessment as well as positive ESG implications through its asset management	The Fund should consider including ESG reporting in the quarterly fund report, in addition to the annual ESG report. The Fund should engage with third parties on ESG issues, for example choosing a contractor which applies good ESG practices.
BMO LDI / Cash	BMO was an early adopter of ESG risk management and has invested a significant amount of time and research in this area.	It was proposed by Isio that BMO should demonstrate what their reported ESG risk metrics are linked to their ESG priorities.

	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.

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 2021.

Fund name	Engagement summary	Commentary
LGIM Diversified Fund	Total engagements: 923 Environmental: 447 Social: 247 Governance: 404 Other: 229	We note that this is the first year in which LGIM have been able to provide this level of engagement data for the Fund. LGIM actively co-ordinate engagement activity at a firm level through their investment stewardship team, rather than through each fund management team. LGIM engages with regulators, governments, and other industry participants to address long-term structural issues. LGIM believe in an active ownership approach. Therefore, they aim to leverage the wider capabilities of the global firm, to actively engage with companies, to create positive change and value. Where engagements are unsuccessful, the team will assess and improve future engagement.
JP Morgan Unconstrained Bond Fund	Total engagements: 9 Environmental: 2 Governance: 4 Environmental & Governance: 3	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. Details on engagements: **Telefonica** - JP Morgan engaged with Telefonica on their ESG initiatives, specifically: Human Capital Management with respect to Covid-19, Governance and Board, Sustainability Strategy and Stakeholder Engagement. Telefonica presented their ESG efforts well, but JP

		Morgan believes that it does not translate into their overall strategy and engaged with the company to understand why their share price continued to decline, despite the longevity of their ESG Strategy. JP Morgan intend to continue dialogue with Telefonica Management and Board members regarding this issue. JP Morgan commends Telefonica on the transparency of their ESG efforts, specifically outlining their gender diversity, whereby they have 30% female representation at Board level.
M&G Secured Property Income Fund	Total engagements: 12 Environmental: 2 Environmental & Social: 10	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. However, M&G maintain a dialogue with all occupiers, and as part of this positive ESG initiatives 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. Details on engagements: **Tesco** – M&G has engaged with Tesco to collaborate and identify mutual ESG aspirations. Tesco benefits from an inhouse ESG team and holds Net Zero aspirations, with initiatives across the portfolio. They have a specific focus on M&G leased assets and look to replicate this across their freehold estate. M&G and Tesco have shared energy data for 2019 and 2020. In addition, Tesco has installed Electric Vehicle charging points in many of their car parks and M&G are actively engaged to discuss fitting solar panels for relevant stores.
M&G Alpha Opportunities Fund	Total engagements: 7 Environmental: 2 Social: 1 Governance: 4	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured on the outcomes from the engagements. Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers

		supported by M&G's CF&S Team, allowing them to leverage their expertise in sustainability themes. M&G monitor the success of engagement by assessing whether they have met their objective and log this on a central system. An example of a significant engagement includes: **Quadient** – M&G engaged with Quadient to encourage public disclosure of policies relating to human rights and modern slavery in order, to recognise the importance of these issues given the nature of the supply chain. This engagement allowed the company to explain its full ESG strategy to M&G and look in greater depth at its approach to supply chain management, especially relating to conflict minerals and human rights. M&G asked the company to publish full public policy documents on human rights, supplier practices, business ethics and data privacy. The company was extremely receptive to M&G's questioning and their suggestions for releasing public-facing policy documents. The company has assured M&G that it intends to publish these, and supplementary information, on its website in the near future. M&G will continue to monitor the situation and follow up as appropriate.
Alcentra Direct Lending EDL II and III	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.	Alcentra engages with each of its borrowers on a full range of ESG topics and conducts an annual ESG engagement questionnaire which allows them to understand their borrowers' approach to managing ESG risks (policies in place, initiatives, etc.) and measure engagement through qualitative and quantitative metrics. The response rate to date has been 90% (100% if excluding those borrowers who are going through a sale or refinancing process) and Alcentra look to use these responses to further engage with borrowers. Where possible, Alcentra uses their strong relationships and position as lenders with management teams and shareholders to ask questions, make recommendations and share their

		experiences around ESG in the private debt market. In addition, Alcentra continually evaluates the application of ESG incentive mechanisms within credit documentation. On several transactions, Alcentra closely engages with a borrowers' management team and owners, offering ESG incentives, such as an interest rate reduction, if certain ESG criteria are met, such as social themes and employee satisfaction.
Aviva Infrastructure Fund	Aviva currently do not provide details of their engagement activity at entity, fund or mandate level due to historic differences between listed equity and debt processes and private markets. Aviva are developing their reporting process, and Aviva plans to begin engagement reporting later this year.	Aviva recognises its duty to act as responsible stewards of its clients' assets, and maintains a strong belief that Responsible Investment, including environmental, social, and governance factors, can have a material impact on investment returns and client outcomes. Their Responsible Investing approach is governed by Aviva's framework of policies, procedures, governance structures and controls, with a dedicated Real Assets ESG team, enabling integration at Fund level. This includes their broader Responsible Investment strategy and approach, which is developed and overseen by the Global Responsible Investment team and the ESG Governance Committee.
BMO LDI & Sterling Liquidity Fund	Total engagements: 92 Climate change: 68 Environmental Stewardship: 10 Labour Standards: 7 Corporate Governance: 7	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. Details on engagements: JP Morgan Chase & Co – BMO engaged with JP Morgan Chase & Co surrounding

		climate change. Specifically, this addressed JP Morgan Chase & Co's commitment to aligning its portfolio to the goals of the Paris Agreement, and to regularly report on progress. As the largest US bank, BMO believes this commitment demonstrates clear climate leadership. BMO also engaged with the company regarding their environmental and climate risk practices for their lending portfolio in the past. HSBC Holdings PLC – BMO engaged with HSBC regarding climate change. HSBC has committed to phasing out the financing of coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. BMO has continuously engaged with the bank for a stronger coal exit strategy for a while, individually and collaboratively with other investors, to strengthen overall climate risk management efforts. BMO has argued that such an exit should include underwriting, which the bank has confirmed. BMO states that it is the strongest commitment it has seen from a global bank with a significant Asian footprint.

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 2021.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Diversified Fund	Votable Proposals: 90,870 Proposals Voted: 98.7% For votes: 80.5% Against votes: 18.8% Abstain votes: 0.7%	**Pearson:** Despite shareholder support following a series of profit warnings from the previous CEO, the company put forward an all-or-nothing proposal in the form of an amendment to their remuneration policy. If this was not passed, the company confirmed that the proposed new CEO would not take up the role. LGIM believed shareholders were backed into a corner; many were in favour of the new CEO but not the proposed amendments. LGIM voted against the policy and spoke with the chair of the board on succession plans and shortcomings of the current remuneration policy. **SIG plc:** LGIM voted against a one-off £375,000 payment to the company's interim CEO for work carried out over two months. LGIM does not generally support one-off payments, believing that a remuneration policy which is appropriate for the role and responsibility level should be in place – negating the need for one-off payments. LGIM was concerned with the payment's size (65% of full-time salary over 2 months). The resolution was passed, despite 44% of shareholders not supporting it.	LGIM's Investment Stewardship team uses International Shareholder Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote in line with LGIM's policies. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with LGIM's position on ESG, they put in place a custom voting policy with specific voting instructions.

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