

Aircelle Pension Scheme

Trustee's Report – Implementation Statement (continued)

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 updated its SIP in to 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](#), and 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 Scheme 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 Scheme 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 December 2023 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

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Summary of key actions undertaken over the Scheme reporting year

- During the reporting period, the Scheme increased the liability hedge ratio to c.60% on a self-sufficiency basis to increase resilience within the LDI mandate following the LDI crisis in 2022. The investment strategy was de-risked in parallel to this increase in hedge ratio.
- During the reporting period, the Trustees of the Scheme updated the Statement of Investment Principles to enhance the policy on voting and engagement on ESG matters and updated the Scheme's investment approach to a new de-risked strategy.

Implementation Statement

This report demonstrates that the Trustees of the Aircelle Pension Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed by the Trustee Directors of the Aircelle Pension Scheme
July 2024

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Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
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 both directly and indirectly interest rate and inflation risk where it is deemed appropriate and affordable to so.	
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 manager.	
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable and affordable to do so.	
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.	
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 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 Trustees monitor the manager on an ongoing basis.	Further detail provided later in this report

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Currency	The potential for adverse currency movements to have an impact on the Scheme's investments,	<p>Hedge currency risk where possible on all assets that deliver a return through contractual income.</p> <p>Hedge currency risk where possible for non-contractual return generating assets, with the exception of any active manager strategies that chose not to hedge currency exposures.</p>
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments,	Non-financial matters such as reputational risks or others as deemed appropriate are taken into account in the selection, retention or realisation of investments.

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Changes to the SIP

During the Scheme year the SIP was updated to include the new de-risked investment strategy. The strategy was revised to enhance the Scheme's liquidity position and to support LDI collateral management.

Furthermore, the Scheme's policy on ESG matters relating to voting and engagement was also updated. Please see below for more detail.

Policies added to the SIP

Voting Policy - How the Trustee expect investment managers to vote on their behalf

- The Trustee has acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'

- The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

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Current ESG approach

ESG as a financially material risk

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

Risk Management	<ol style="list-style-type: none"> 1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee
Approach / Framework	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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 their knowledge. 8. The role of the Scheme’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	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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.

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ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified
LGIM –World Equity Index Fund	<p>LGIM continues to grow their dedicated and experienced ESG team that drive engagement with portfolio companies on key ESG issues.</p> <p>The Fund benefits from LGIM’s reporting capabilities in modelling climate related risks and analysis for asset-classes. However, given the nature of the passive fund range, there is little scope for the manager to make investment decisions based on ESG factors.</p>	<p>Investment Approach – The manager should consider setting explicit fund level ESG, climate and social objectives.</p> <p>Reporting – LGIM should strive to report on nature or biodiversity-related metrics.</p>
BlackRock – Dynamic Diversified Growth Fund	<p>Blackrock have firm-wide ESG policies, large, dedicated ESG teams and uses a wide range of internal and third-party data sources all to support and implement its sustainable approach to investing. However, there is less detailed evidence of these policies being monitored and measured against at a fund-level and the outcomes of any risk analysis and engagement being part of regular reporting. This will raise its overall ESG score.</p>	<p>Investment Approach – Introduce fund-specific ESG objectives,</p> <p>Risk Management – Update its ESG scorecard on an annual basis</p> <p>Stewardship – Create fund level stewardship priorities</p> <p>Reporting – Provide Scope 1 & 2 GHG emissions and ESG metrics in quarterly reporting specific to the Fund, rather than Diversified Strategies as a whole.</p> <p>Collaboration - Collaborate with the market on ESG issues that are in line with the Fund’s ESG objectives/tilt</p>
Apollo – Total Return Fund	<p>Apollo integrate ESG considerations into the Fund’s risk management framework, and in the due diligence process.</p> <p>Apollo can also evidence a variety of engagements on ESG issues.</p>	<p>Investment Approach – Identify Fund and Issuer ESG priority areas including objectives/ quant KPIs to drive ESG outcomes.</p> <p>Risk Management – Evidence active management of ESG</p>

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	<p>Whilst ESG risks are assessed during initial due diligence, it is not clear how Apollo maintains ESG oversight of each investment throughout the holding period, and there are no priority areas identified for each holding.</p> <p>Reporting on ESG lags peers, however we note that Apollo are actively working to improve reporting and Isio will monitor progress on this.</p>	<p>risks throughout the credit holding period</p> <p>Engagement – Articulate engagement priority areas and evidence engagement activity linked to these.</p> <p>Reporting – Enhance ESG reporting capabilities.</p> <p>Collaboration – Collaborate more actively with market participants and participate with ESG organisations.</p>
<p>M&G – Total Return Credit Investment Fund</p>	<p>M&G boasts a robust company-wide ESG strategy, illustrating their competency in managing ESG risks within the Fund. However, the ESG reporting lags vs peers in the market as M&G do not produce detailed ESG metrics and tracking for the assets contained within the portfolio. M&G have launched a 'sustainable' version of the fund with a greater focus on impact investments to cater for clients with stronger ESG objectives.</p>	<p>Investment Approach – Consider implementing a fund-level ESG policy.</p> <p>Stewardship – Look to formalise stewardship priorities at the fund level and increase proportion of underlying portfolio assets that are engaged with.</p> <p>Reporting – Continue to improve data coverage and reporting metrics.</p> <p>Reporting – Disclose the ESG ratings for assets held in the Fund in quarterly reporting.</p>
<p>M&G – Secured Property Income Fund</p>	<p>M&G have an established Responsible Property Investment framework, which governs ESG integration into the Fund. Extensive ESG analysis of underlying assets is carried out as part of their standard due diligence process. M&G are also focusing on developing a net zero carbon pathway model to monitor assets’ climate emissions within the Fund.</p> <p>There is, however, limited engagement at an underlying asset level and a lack of an engagement policy given the underlying assets are buildings.</p>	<p>Investment Approach – M&G to introduce sector related exclusions for controversial behaviour.</p> <p>Risk Management – Consider reviewing the ESG scorecard annually.</p> <p>Stewardship – M&G to consider engagements at a fund level and improve social initiatives with tenants.</p> <p>Reporting – M&G to include social and nature or biodiversity-related metrics.</p>
<p>LGIM - LDI</p>	<p>LGIM have evidenced their ability to integrate ESG factors in their LDI fund range through counterparty review and engagement. LGIM’s ESG approach brings together granular quantitative and qualitative</p>	<p>Risk Management – LGIM should introduce a formal ESG training program with define training priorities.</p> <p>Reporting – LGIM should include GHG data coverage for holdings within the fund.</p>

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inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. LGIM are working to improve their reporting processes and are looking to provide more granularity on ESG metrics in their standard reporting across all their funds. LGIM have strong commitments to net zero and the decarbonisation framework.

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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-month period to the end of 2023.

Fund name	Engagement summary	Commentary
<p>LGIM World Equity Index Fund</p>	<p>Total engagements: 2500</p>	<p>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.</p> <p>Examples of significant engagements include:</p> <p>Amazon – LGIM engaged with Amazon as they were concerned about reports of Amazon interfering with efforts of its workers to unionise. Therefore, LGIM engaged with the company on matters of transparency on civil rights, equity, diversity, and inclusion. LGIM escalated their engagement by voting for shareholder resolutions (against management) to enhance reporting on protecting the rights of freedom of association and collective bargaining. Following engagement, LGIM believe Amazon has shown some improvement in transparency by publishing work-related policies and conducting a ‘Human Rights Impact Assessment’.</p>
<p>BlackRock – Dynamic Diversified Growth Fund</p>	<p>Total engagements: 427</p>	<p>BlackRock engage with their companies through their Investment Stewardship team in order to provide feedback and inform their voting decisions. These engagements largely relate to the Fund’s equity positions only.</p> <p>Examples of significant engagements include:</p> <p>Dollar Tree – BlackRock did not support their management’s recommendation on the advisory vote of Dollar tree’s executive compensation due to it being excessive, not performance based and not aligning with long term financial value creation for shareholders.</p> <p>Dollar Tree revised their 2023 compensation package in 2022 and made adjustments such as, altering the cash bonuses which were previously completely based on adjusted operating income, to a proportion of total revenue (weighted 40%) and adjusted operating income (weighted 60%).</p> <p>BlackRock expressed their concerns of a misalignment between pay and long-term shareholders financial</p>

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		<p>interests and thus did not support this proposal from management.</p> <p>Shin Kong - BlackRock believe that long-term shareholders, such as their clients, tend to benefit when board of Directors have diversity of opinions and essentially act as a check and balance on each other. As such, BlackRock supported the vote of nine reform candidates and five management-nominated directors to Shin Kong.</p> <p>BlackRock will continue to engage with the company regarding the steps it is taking to enhance its corporate governance structure following investigations into its weakness, and support long-term financial value creation for shareholders.</p>
<p>Apollo – Total Return Fund</p>	<p>Total engagements: 64</p>	<p>Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and Key Performance Indicators. As bond investors, Apollo’s voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.</p> <p>Significant engagements include:</p> <p>Covanta Holding Corporation – Apollo engaged with the company on a number of ESG-related topics including how the company is progressing on its sustainability-linked goals, labour turnover and unionisation. It was concluded that the company is on track to meet its sustainability linked KPI’s by the end of 2025 and the company also stated they do not see inflation to be a major headwind for the wages and benefits it is able to offer to employees.</p> <p>Apollo used this information to assess the ESG risks and opportunities to which the company is exposed and integrate this into their assessment for investment decision making.</p>
<p>M&G – Total Return Credit Investment Fund</p>	<p>Total engagements: 346</p>	<p>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.</p> <p>Examples of engagements include:</p> <p>Standard Chartered: Standard Chartered (“SC”), along with three other major Banks, have disassociated themselves from the Science Based target Initiatives (SBTi), expressing reservations about the scrutiny of climate targets imposed on corporations. Although M&G have engaged with SC, and SC see themselves as advanced relative to their peers in relation to climate risks and opportunities, M&G are seeking to further understand the decision to disassociate from SBTi and as a result are now also considering engaging with SC to incorporate Net Zero Banking Alliance (NZBA) for net zero pathways.</p>

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<p>M&G – Secured Property Income Fund</p>	<p>Total engagements: 3</p>	<p>M&G Secured Property Income Fund is a property fund, investing in individual or portfolios of properties let to tenants on long leases. M&G as Investment Advisor and Asset Manager are engaging with tenants on behalf of the fund as landlord - rather than shareholder or bondholder.</p> <p>M&G have no direct capacity to influence their corporate strategy on ESG but are in regular direct contact about the SPIF assets tenants occupy.</p> <p>M&G regularly meet with SPIF’s tenants, including the larger operational portfolios such as Bannatyne gyms, British Car Auctions (BCA), and David Lloyd which have their own ESG initiatives as part of their corporate strategy. ESG issues are always raised as these help with improving the GRESB rating. For example, SPIF is actively working with BCA to upgrade asset to a better energy efficient rating.</p> <p>This proactive approach enables M&G to understand whether an asset will have a material impact on fund ESG performance, so that appropriate actions can be included in the asset management plans for each asset to address areas of concern e.g. investing to improve energy efficiency. Annual asset plans incorporate measures to manage and/or improve Responsible Property Investment (RPI) performance. Actions will be prioritised according to each asset’s RPI impact and their ability as the landlord to influence this.</p>
<p>LGIM - LDI</p>	<p>LGIM has continued to engage with a number of industry participants on long term strategic issues in relation to LDI</p>	<p>LGIM consider ESG as essential for all funds, including LDI. Specifically, ESG is integrated into their LDI approach on a top-down and bottom-up basis. LGIM engage with regulators, governments, and other industry participants to address long-term structural issues. This is done alongside LGIM’s analysis of ESG-related criteria, in the assessment of counterparties through LGIM’s proprietary ESG tools.</p>

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Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2023.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM World Equity Index Fund	<p>Votable Proposals: 37,017* Proposals Voted: 36,969* For votes: 29,277* Against votes: 7,700*</p> <p>*Figures may not sum up due to a variety of reasons, such as scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted in differing ways, or a vote of 'Abstain' is also considered a vote against management.</p>	<p>Microsoft Corporation – LGIM voted against the election of a director due to concerns over dual roles impacting oversight negatively. LGIM will continue to engage with their investee companies and publicly advocate their position on the issue whilst monitoring company and market-level progress</p>	<p>All decisions are made by LGIM’s Investment Stewardship team and in accordance with their policy documents which are reviewed annually.</p> <p>LGIM’s voting and engagement activities are driven by ESG specialists. Their voting policies seek to achieve the best outcome for all of their clients. These policies are reviewed annually and take into account feedback from their clients.</p>
BlackRock - Dynamic Diversified Growth Fund	<p>Votable Proposals: 7,326* Proposals Voted: 6,836* For votes: 6,307* Against votes: 307* Abstain votes: 104*</p> <p>*Figures may not sum up due to a variety of reasons, such as scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted in differing ways, or a vote of 'Abstain' is also considered a vote against management.</p>	<p>Shell – BlackRock voted in line with its ESG policy by asking Shell to align its existing 2030 reduction target covering greenhouse gas emissions and the use of its energy products to be in keeping with the targets set out by the Paris Climate Agreement.</p>	<p>BlackRock use Institutional Shareholder Services (ISS) electronic platform to execute vote instructions. BlackRock categorise their voting actions into two groups: holding directors accountable and supporting shareholder proposals.</p>