AGS Airports Pension Scheme

January 2024

isio.

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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 SIP can be found online at the web address https://www.agsairports.co.uk/media/1248/ags-airports-pension-scheme-statement-of-investment-principles-november-2023.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 in which they invest
- voting behaviour covering the reporting year up to 30 June 2023 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 ISC provided approval for Alcentra to extend the life of the EDL II fund by two years. This will allow the Fund additional time to exit positions which had taken longer than anticipated to realise, as a result of the impact of Covid-19.
- Following an agreement from investors, the Aviva infrastructure fund was changed to a 'closed ended mandate'. This means that the fund will be wound down over a period of 5 years as opposed to continuing as an open-ended investment vehicle.
- To ease liquidity strain as well as maintaining the ability to provide additional collateral for the Scheme and to have the option of increasing the liability hedge with Insight, the Trustee agreed to redeem their holdings in the M&G Alpha Opportunities Fund and the remaining holdings in the LGIM

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Diversified Fund and the JP Morgan Unconstrained Bond Fund where the proceeds were held in the Trustee Bank Account.

- The Trustee agreed to use the proceeds from the redemptions to increase the hedge with Insight to 80% (on technical provisions).
- As a result of significant changes to the strategy over Q4 2022 amid the UK gilt market crisis, the Trustee conducted a strategy review in March 2023, where Isio presented options for the evolution of the Scheme's asset allocation. Following the review, the Trustee agreed to retain the current asset allocation and 80% liability hedge.

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

Position

Date

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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 80% of these risks on a Technical Provisions basis. The Trustee notes its desire to implement a higher hedging ratio if suitable from a liquidity and funding perspective.	Due to the UK gilt market crisis in Q4 2022, Isio and the Trustee conducted a strategy review in March 2023, where it was agreed to retain the current asset allocation and 80% liability hedge. The Trustee reviewed the SIP in November 2023 to take account of the changes to the investment strategy and regulatory updates.
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 mandate.	Over the Scheme year, the Trustee received multiple updates from the investment consultant on the liquidity position of the Scheme. Following strategy meetings in 2023, the Trustee 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 withdrew funds from M&G Alpha Opportunities Fund, LGIM Diversified Fund and JP Morgan Unconstrained Bond Fund to ease liquidity strains in order to achieve their target liability hedge.
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 to invest only in debt	

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		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.	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 Trustee 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 Trustee in an Impact Assessment report in March 2023.
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	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	

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	and beneficiaries of the Scheme in the selection, retention and 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 Trustee 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.	

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Changes to the SIP

The SIP was not updated over the Scheme year (to 30 June 2023). The SIP was however updated in November 2023 to take account of the changes to the investment strategy and regulatory updates. A copy of the revised SIP is available on the Company website, or via the link earlier in this document.

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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 detail 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.

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ESG summary and engagement with the investment managers

Manager and Fund	ESG Summary	Actions identified
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 SPIF has a strong history of active engagement and collaboration on ESG related topics. M&G are focusing on developing a net zero carbon pathway model to monitor assets' climate emissions within the Fund.	It was proposed by Isio that M&G could identify and take advantage of ESG opportunities as part of the investment decision making process. The Fund could also include social and engagement reporting as part of the Fund's ESG reporting cycle and improve social initiatives with tenants.
Alcentra Direct Lending (EDL II & III)	Alcentra have a Responsible Investment Team who review the output of the quantitative ESG Scorecard and help to integrate ESG into the Funds. ESG metrics are incorporated into Alcentra's quarterly reports and over the previous 12 months have introduced dedicated ESG reports. As the existing EDL funds are fully invested, any future ESG improvements are most likely to be focused on enhanced engagement and stewardship priorities.	It was proposed by Isio that Alcentra could set fund-level ESG priorities and introduce fund-level ESG policies. Alcentra could also introduce engagement/stewardship objectives and milestones for portfolio companies and provide fund-level engagement data. Alcentra should consider adopting a firm-wide net zero commitment and climate policy.
Aviva	Aviva have clearly demonstrated that ESG is integrated into the investment philosophy of the Infrastructure Income Fund. ESG is assessed prior to the acquisition of assets and also throughout the lifetime of the investment.	Aviva should set Fund-specific and quantifiable ESG, Climate and Social objectives. The Fund should also look to provide engagement examples and report on formal metrics. The Fund should consider fund-level engagement

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		priorities and improvements in engagement activity impact metrics. Quarterly reports should detail recent engagement activities, emissions data and ESG metrics. In addition, Aviva could introduce fund-level climate objectives and metrics.
Insight LDI	Insight have a robust ESG scoring system for the counterparties they deal with. Insight have made improvements to their counterparty engagement process with the aim of achieving a greater level of impact in their engagements with counterparties. .	Insight should consider developing internal diversity targets, focused not only on gender but also on race. In addition, Insight should consider placing a greater emphasis on diversity & inclusion when assessing companies/counterparties. Isio proposed that Insight consider ESG reporting for LDI funds as well as consider the inclusion of an engagement summary in regular reporting. Insight could also consider key performance indicators ("KPIs") and milestones for engagements.

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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 months to 30 June 2023.

Fund name	Engagement summary	Commentary
M&G Secured Property Income Fund	Total engagements: 21 Environmental: 12 Social: 1 Environmental & Social: 8	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 M&G are currently developing initiatives to help meet this goal. An example of a significant engagement includes: **Morrisons** – Morrisons have committed to net zero carbon emissions from own operations by 2035 and aim to reduce scope 3 emissions across own supply chain by 30% by 2030. M&G has engaged with Morrisons to discuss technological opportunities including PV cells alongside other initiatives and are currently undertaking BiU assessments on site. Morrisons also shared their data for 2023 GRESB submission and conduct semi-annual ESG specific meetings with M&G.
Alcentra Direct Lending EDL II and III	Total engagements: 145 Environmental: 20 Social: 23 Governance: 48 Other: 54	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' approaches to managing ESG risks (policies in place, initiatives, etc.) and measure engagement through qualitative and quantitative metrics. 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 borrower's

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		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. An example of a significant engagement includes: **Construction Conglomerate** – Alcentra have held a board seat in the company since 2013, and through their close relationship with the management team have been permitted a degree of influence in decision making. Throughout 2019-2021, Alcentra engaged at Board level around health & safety discussing practices and protocols resulting in health & safety being the first topic on the agenda for every board meeting. Furthermore, Alcentra engaged with the company's head of ESG to suggest the utilisation of an employee survey to gain a greater insight into group culture and identify areas of risk. Following these engagements, health & safety risks are managed more effectively, and the company have an improved view of employees' satisfaction. Additionally, a significant fall in the number of reportable accidents was seen, and the company conducted its first ever employee survey indicating that additional training would be beneficial.
Aviva Infrastructure Fund	Fund is now closed ended in terms of ICSWG so they do not report engagement figures	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. The fund is now closed ended in terms of ICSWG so they no longer provide any form of engagement examples or case studies. Aviva

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		have however committed to achieving net zero carbon emissions by 2050. Furthermore, Aviva confirmed that they have developed an improved carbon foot printing and climate risk reporting offer to replace supplying data via their quarterly investment report and ad hoc requests. The reporting will cover a calendar year where energy, carbon and climate risk data is gathered from suppliers and occupiers.
Insight LDI	Total engagements: 76 Environment, Social & Governance: 1 Social: 2 Governance: 73	Insight has engaged with a number of industry participants on long-term strategic issues in relation to LDI, including: - Green gilt issuance - Liaising with the FCA and TCFD in relation to climate change reporting disclosures - Working with derivative counterparty banks on the integration of ESG factors into the assessment of credit risk. The team regularly engages with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice. An Example of a significant engagement: **Pemex** - Insight engaged with over 35% of their financed emissions on climate-related issues in 2022. They are also actively involved in a number of collaborative initiatives on climate change. For example, in 2022 Insight joined the IIGCC's Net Zero Bondholder Stewardship Working Group which is working to create guidance and standards for bondholders engaging on climate-related issues and continue to be involved in a number of Climate Action 100+ investor groups. In 2022, significant improvements in PEMEX's climate action governance and plans were seen, after being influenced by Insight delivering a consistent message on the long-term goals that the CA100+ group has championed, combined with the shorter-term improvements that Insight has encouraged directly with PEMEX. Furthermore, in December 2022, PEMEX announced plans to publish a 2023-2050 Sustainability Plan in 2023, which will include the strategies, actions and metrics used to meet

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		ESG goals. PEMEX made an important improvement on governance by establishing a sustainability committee to coordinate and oversee PEMEX's ESG strategies and guidelines.

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