



Arconic Britain 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 latest SIP (27th September 2019) can be found online at the web address <https://www.arconic-pensions.co.uk/arconic/>. Changes to the SIP are detailed on the following pages.

Manager Stewardship Policy

Please see below for a summary of manager stewardship policies:

- LGIM
<https://www.lgim.com/se/en/capabilities/corporate-governance/stewardship-and-integration/>
- M&G
<https://www.mandgplc.com/our-business/mandg-investments/responsible-investing-at-mandg-investments>
- Barings
<https://www.barings.com/us/guest/investment-policies>
- Partners Group
<https://www.partnersgroup.com/en/about/corporate-governance/transparency-disclosure/about-partners-group-uk-limited/>
- Aviva
<https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/>
- KKR
<https://www.kkr.com/responsibility/responsible-investment>

Implementation Report

This Implementation Report covers the year to 5th April 2020 and 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 5 April 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

There have been no key actions taken by the Scheme over the reporting year in respect to investment strategy or asset allocation.

Implementation Statement

This report demonstrates that the Arconic Britain Pension Scheme has adhered to its investment principles and its policies as set out in its SIP for managing financially material considerations including ESG factors and climate change.

Signed

Position Steven Ross, Chair of Trustee

Date 2 November 2020

Managing risks and policy actions DB

Risk / Policy	Definition	Policy (as set out in the Scheme's SIP)	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 approximately 80% of the Scheme's Technical Provisions liabilities as measured on a gilts flat basis.	There have been no changes to the policy over the reporting year.
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.	There have been no changes to the policy over the reporting year.
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.	There have been no changes to the policy over the reporting year.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.	There have been no changes to the policy over the reporting year.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge currency risk by investing in a currency-hedged share class where possible.	There have been no changes to policy over the reporting year.
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 the criteria:	ESG actions undertaken: This updated ESG policy was reviewed by the Trustees as part of the SIP update in September 2019.

Risk / Policy	Definition	Policy (as set out in the Scheme's SIP)	Actions and details on changes to policy
		<ol style="list-style-type: none"> 1. Analysis and management of financially material ESG risks 2. Responsible Investment ('RI') Policy / Framework 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory 	<p>The managers' ESG policies were reviewed and presented to the Trustees in an ESG Manager Summaries report.</p> <p>The Trustee also received ESG training during the year.</p> <p>More details of the ESG policy and how it was implemented are presented later in this report.</p>

Changes to the SIP

Policies added to the SIP	
Date updated: 27 September 2019	
How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	<ul style="list-style-type: none"> 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.
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.	<ul style="list-style-type: none"> The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustee monitors the investment managers' engagement and voting activity on a periodic basis as part of their ESG monitoring process. The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
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.	<ul style="list-style-type: none"> 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. Investment manager fees are reviewed periodically to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	<ul style="list-style-type: none"> 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.

<p>The duration of the Scheme's arrangements with the investment managers</p>	<ul style="list-style-type: none">• 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 holding periods are flexible, and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
---	--

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines the Trustee's investment adviser's (Isio) 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 engagement activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements.

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 and provide an annual summary report to the Trustee	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

Areas of assessment and ESG beliefs

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 its 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 manager's 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.

ESG summary and actions with the investment managers

Manager and Fund	ESG Summary	Actions Identified	Engagement Details
<p>Legal & General Investment Management</p> <p>Bespoke LDI Portfolio</p>	<p>LGIM has a team dedicated to understanding and assessing the impact of ESG factors for the wider business.</p> <p>LGIM uses proprietary tools to quantify and monitor ESG risk. LGIM believes engaging with regulators, governments and other industry participants will help mitigate ESG risk.</p> <p>Isio believes LGIM has a strong ESG framework relative to its competitors.</p>	<p>LGIM should include the ESG scoring of counterparties in regular client reporting of LDI Funds.</p>	<p>Isio engaged with LGIM in Q2 2020 on the Trustee's behalf to review its ESG policies and set actions and priorities for each manager.</p>
<p>Legal & General Investment Management</p> <p>Passive Equity Funds</p>	<p>LGIM has shown a strong commitment to highlighting, identifying, and managing ESG risks across its entire fund range, including their passive equity funds.</p> <p>LGIM is a market leader in its approach to ESG. LGIM has developed a clear and comprehensive framework for scoring portfolio companies on ESG factors. LGIM actively communicates these scores to the companies and engage with them directly to help mitigate ESG risks moving forwards.</p>	<p>LGIM to consolidate the ESG scores of the underlying portfolio companies to generate a portfolio level score, making it easier for investors to digest the ESG impact of the fund.</p> <p>LGIM should provide further evidence that it is making progress towards diversity at a firm level and within the portfolio management team.</p> <p>LGIM should integrate ESG reporting into its standard, quarterly client reports. While LGIM currently produces numerous, comprehensive reports on ESG, they are separate from the standard reporting. LGIM is planning to do this by the end of 2020.</p>	<p>Isio engaged with LGIM in Q2 2020 on the Trustee's behalf to review its ESG policies and set actions and priorities for each manager.</p>

<p>M&G Investment Management</p> <p>Secured Property Income Fund</p>	<p>M&G has an established Responsible Investment framework and carry out extensive ESG analysis as part of their due diligence.</p> <p>SPIF has a strong history of active engagement and collaboration on ESG related topics.</p>	<p>To provide energy and carbon emissions performance as part of M&G’s regular reporting.</p> <p>To increase the percentage of assets within SPIF covered by Green Certification.</p> <p>M&G could develop smart capture methods for data, this would be more time efficient from a tenant’s perspective and potentially increase the accuracy of the data received.</p> <p>To provide reporting to a similar level as gender pay gap reporting on other inclusion and diversity factors such as ethnicity, nationality, and social standing.</p>	<p>Isio engaged with M&G in Q2 2020 on the Trustee’s behalf to review its ESG policies and set actions and priorities for each manager.</p>
<p>M&G Investment Management</p> <p>Alpha Opportunities Fund</p>	<p>M&G has evidenced its ability to consider the significance of ESG factors in this Fund. M&G should consider measurable ESG aims for the Fund and increase the number of ESG risk metrics that are being monitored.</p> <p>Although M&G is actively developing its integrated ESG approach in investment decisions, M&G should consider more in-depth reporting for clients and progress reports on aims for the Fund.</p>	<p>M&G currently has a qualitative approach and working towards a more quantitative approach (scorecard). M&G should seek to roll this out for all analysts, and it can develop an integrated ESG scoring system which scores both at an individual issuer level and at a sector/country level.</p> <p>M&G should clearly publicise engagements throughout the quarter in quarterly reports and on its website and provide updates on past engagements – with engagements focused on companies the Fund invests in.</p> <p>M&G should increase the number of risk metrics it monitors such as, climate change and the sensitivity to these metrics to the portfolio.</p>	<p>Isio engaged with M&G in Q2 2020 on the Trustee’s behalf to review its ESG policies and set actions and priorities for each manager.</p>
<p>Barings</p> <p>Investment Grade CLO Fund</p>	<p>Barings has a clear firm-wide ESG framework, managed by a dedicated team who integrate ESG considerations across their business.</p> <p>Isio notes that Barings’ ability to influence CLO managers is limited as an investor but is comforted by Barings’ commitment to ESG through its business level ESG priorities and collection of</p>	<p>Barings to identify and categories ESG risks within the portfolio.</p> <p>Barings to implement a quantitative scorecard to quantify ESG risks through a standardised process.</p> <p>Barings to implement KPIs to measure engagement effectiveness.</p>	<p>Isio engaged with Barings in Q2 2020 on the Trustee’s behalf to review its ESG policies and set actions and priorities for each manager.</p>

	ESG data from CLO managers to develop further insight into the industry.	Barings to report on ESG metrics and provide qualitative comment specific to the Fund within the quarterly report.	
Partners Group (“PG”) Global Real Estate Secondary Funds (“GRES”)	<p>PG fully integrate ESG factors into its due diligence process, screening out investments based on specific ESG considerations as appropriate.</p> <p>PG has established specific ESG KPIs for the GRES funds and provide regular reporting on these against targets.</p> <p>At a business level, PG also show strong commitment to tackling prominent ESG issues such as Climate Change.</p>	<p>Provide specific ESG metrics and policies that apply at fund-level, instead of providing broader practices that apply to the entire PG firm and fund range.</p> <p>Provide case studies/examples of ESG engagement with portfolio assets.</p> <p>Provide more granular information/data on the diversity metrics in place at portfolio level, including ethnicity, gender, and social mobility statistics.</p>	Isio engaged with PG in Q2 2020 on the Trustee’s behalf to review its ESG policies and set actions and priorities for each manager.
Aviva Investors Lime Property Fund	<p>Aviva has an established department which proactively reviews and reports on ESG issues.</p> <p>ESG factors are incorporated into the Fund’s investment analysis and decision-making processes.</p>	<p>Provide specific ESG metrics and policies that apply at fund-level, instead of providing broader practices that apply to the entire firm or funds of that asset class.</p> <p>Aviva to implement KPIs to measure engagement effectiveness.</p>	Isio engaged with Aviva in Q2 2020 on the Trustee’s behalf to review its ESG policies and set actions and priorities for each manager.
KKR Lending Partners Europe	<p>KKR is yet to develop a standardised process for implementing ESG factors within its risk management and investment process.</p> <p>Additionally, Isio notes the limited portfolio company engagement. However, KKR has been active within the industry to collaborate with other investment managers to develop ESG best practices and celebrate companies with good ESG policies.</p>	<p>Isio proposes that KKR develops an ESG scorecard which can be used to review deals from a quantitative perspective and allow them to provide a qualitative overlay.</p> <p>Isio proposes that KKR identifies ESG objectives for the Fund.</p> <p>Isio proposes that KKR engages with portfolio companies and assess its engagement by setting key performance indicators.</p> <p>Isio proposes that ESG risks to be reported as part of KKR’s quarterly monitoring reports.</p>	Isio engaged with KKR in Q2 2020 on the Trustee’s behalf to review its ESG policies and set actions and priorities for each manager.

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 5 April 2020.

Fund name	Engagement summary	Commentary
<p>Legal & General Investment Management</p> <p>Bespoke LDI Portfolio</p>	<p>Information has been requested but was not available at the time this report was produced.</p>	<p>LGIM believes that active engagement in the development and evolution of the LDI landscape provides a significant opportunity to add value for clients and effect positive change for the industry. LGIM takes a long-term perspective and has a specific focus on addressing key themes and emerging governance and sustainability issues that could impact the value of its clients' investments.</p> <p>LGIM's engagement policy follows a six-step approach:</p> <ol style="list-style-type: none"> 1. Identify long-term themes and specific ESG issues 2. Identify and set long-term goal 3. Formulate the engagement strategy with clear timeframes and escalation process 4. Track progress in a dedicated data management system (customised Salesforce) where company and thematic interactions and engagements are logged 5. Review progress regularly; impact and success allow us to escalate issues that have not been addressed by the engagement and to amend the engagement strategy if required
<p>Legal & General Investment Management</p> <p>Passive Equity Funds</p>	<p>Information has been requested but was not available at the time this report was produced.</p>	<p>LGIM's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness.</p> <p>LGIM's engagement activity is recorded in a dedicated data management system. This system is also used to oversee progress and quantify engagement effectiveness.</p>

<p>M&G Investment Management</p> <p>Secured Property Income Fund</p>	<p>Information has been requested but was not available at the time this report was produced.</p>	<p>At the Real Estate level, M&G actively engages with tenants on ESG issues by hosting programmes to promote health, wellbeing, and sustainability.</p> <p>M&G has also set up a new Customer Experience Best Practice Group, which has been formed to enhance the occupier customer experience across its office buildings by pooling the many expertise of its service partners. As part of this, M&G have identified a framework that provides for consistent service provision, detailing everything from nametags for service personnel to regular occupier engagement activities.</p>
<p>M&G Investment Management</p> <p>Alpha Opportunities Fund</p>	<p>Total Engagements: 17</p> <p>Environmental: 4</p> <p>Governance: 12</p> <p>General: 1</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>Notable engagements over the period include:</p> <p>Around town – Meeting with management to highlight the need for more disclosure at property/portfolio level to help LGIM and the market to form a more informed view on the underlying risks.</p> <p>CPI Property Group – Meeting with management to gain better understanding of corporate governance structure and given the company over recent months has been working on improving and strengthening corporate governance.</p>
<p>Barings</p> <p>Investment Grade CLO Fund</p>	<p>Information has been requested but was not available at the time this report was produced.</p>	<p>The analyst teams engage with CLO managers with a focus on improving disclosure on key ESG topics. Barings acknowledges the CLO industry has poor integration of ESG issues but attempts to leverage its reach and size to influence the managers to engage more.</p> <p>Barings is currently working to enhance its engagement recording systems and aim be able to report on engagements in a more systemic way.</p>
<p>Partners Group</p> <p>Global Real Estate Secondary Funds</p>	<p>Total Engagements: 2</p> <p>General: 2</p>	<p>PG believes that the monitoring of existing investments and an active ownership approach is an important component of the overall due diligence and investment process.</p> <p>In 2019, PG held an internal review of the Fund's top 32 managers regarding its ESG practices and assigned a score of 1 to 4 based on the ratings. PG found that over 60% of the managers met its standards on ESG reporting and integration. For the remaining 40%, these managers were sent a questionnaire to fill up to further evaluate their practices. Questions raised in the survey include topics around business practices, ESG policies, environmental management, reporting, regulatory compliance.</p>
<p>Aviva Investors</p> <p>Lime Property Fund</p>	<p>Information has been requested but was not available at the time this report was produced.</p>	<p>Aviva uses a range of methods to engage with companies, including face-to-face meetings with company directors, investor-led collaborative initiatives, targeted communication of voting issues ahead of company AGMs, and engagement via voting position.</p>

		<p>Notable engagements over the period include:</p> <p>Imperial College – The Fund team recently engaged with Imperial College to explore how they could work together to increase the operational sustainability performance of the Translation & Innovation Hub building. This engagement involved a site visit and enabled identification of opportunities within the building for energy and greenhouse gas savings.</p> <p>The University of Brighton - the Fund recently acquired and is in the process of funding the development of a new purpose-built student accommodation scheme for the University of Brighton. The development is targeting a BREEAM 'Excellent' rating and an overall minimum reduction of 19% in regulated carbon emissions, achieved via the implementation of on-site CHP generation.</p>
<p>KKR Lending Partners Europe</p>	<p>Information has been requested but was not available at the time this report was produced.</p>	<p>KKR rarely engages with portfolio companies on ESG issues. KKR believes it has limited influence as debt investors and believes the effectiveness of engagement will be limited.</p> <p>Should ESG issues be material to the credit worthiness of a deal, KKR may involve senior advisors and internal experts to engage with the portfolio company pre-investment.</p> <p>Once invested, KKR will monitor deals on an ongoing basis and track and quantify ESG issues where possible.</p>

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 5 April 2020. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Legal & General Investment Management	Voteable Proposals: 41,689 Proposals Voted: 40,618 Votes For: 33,599	Metro Bank - Engagement over a lack of independent directors on its board, poor gender diversity, a pay structure not in line with best practice standards, and failure to manage conflicts of interest. In 2019, LGIM's concerns were compounded by the disclosure of material accounting errors within the bank's loan books.	LGIM's Investment Stewardship team manages the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness.
Passive Equity Portfolio	Votes Against: 6831 Votes Abstained: 188 Votes Withheld: 1071	<p>LGIM voted against.</p> <p>BP - LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. At the company's annual general meeting, the proposal was passed with overwhelming approval from shareholders.</p> <p>LGIM voted for.</p>	<p>LGIM produces an annual Active Ownership report to summarise how it has worked towards creating sustainable value for clients.</p>

This report has been prepared for the sole benefit of the Trustee of the Arconic Britain Pension Scheme and based on its specific facts and circumstances and pursuant to the terms of Isio Group Limited's services contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited accepts no responsibility or liability to that party in connection with the Services.