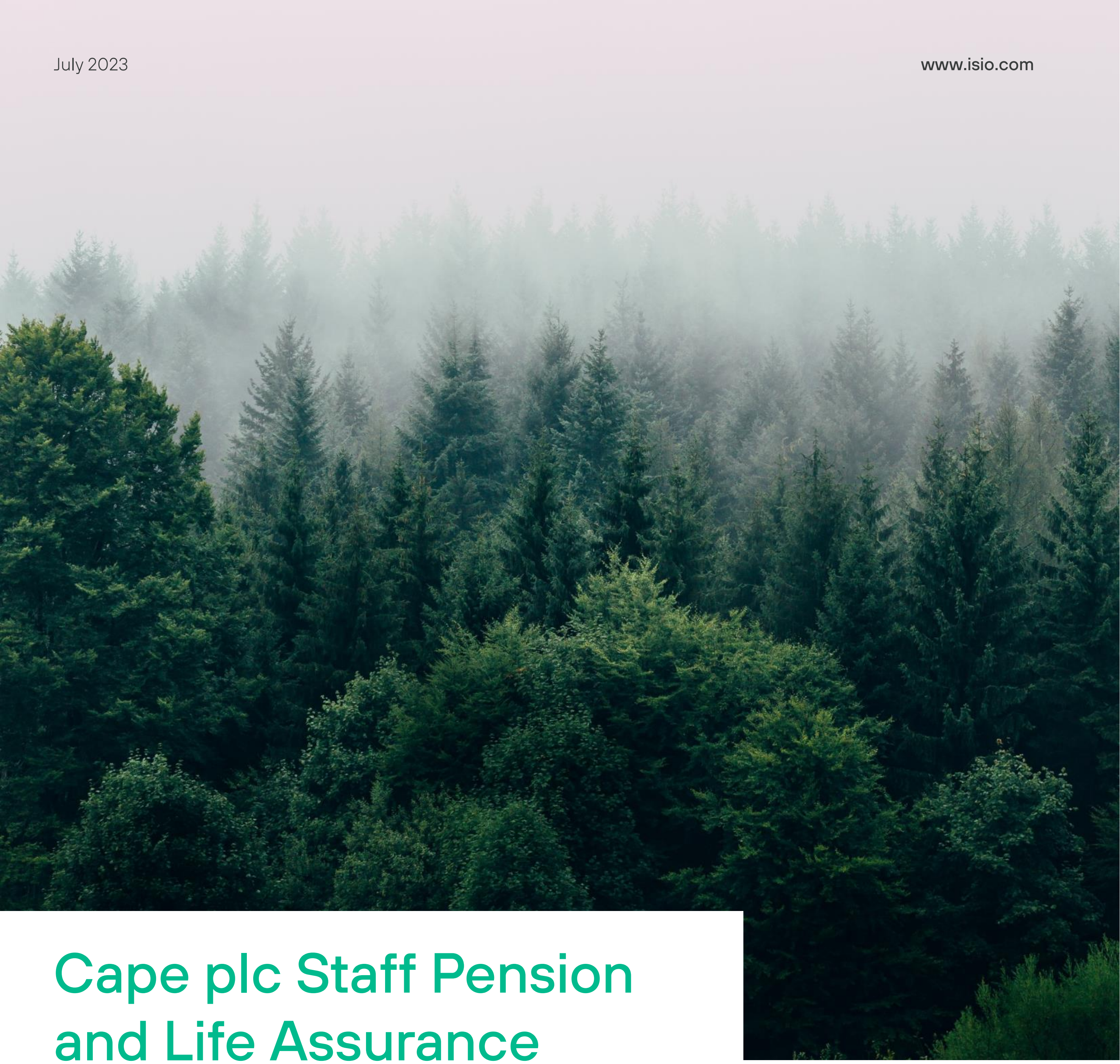

Cape plc Staff Pension and Life Assurance Scheme Implementation Report

July 2023

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Report

This implementation report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address here changes to the SIP are detailed on the following page.

The Implementation 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 5 April 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

- After the UK mini-budget announcement in September, there were unprecedented rises in UK gilt yields which resulted in the Schroders LDI mandate requiring additional capital to maintain the hedge. This cash was sourced from the M&G TRCI Fund to meet the collateral requirements. In October 2022, Schroders increased its collateral requirement to 500bps, since the cash in the M&G TRCI Fund was exhausted, Schroders then reduced the hedge from c.85% to c.65%. The Trustee is currently in the process of reviewing the hedge.

- Following a strategy review, the Trustee decided to fully disinvest from the Invesco property mandate and transfer these proceeds once received into a daily dealt fund to boost the portfolio's liquidity and support the LDI mandate.

- In addition to this, in March 2023 the Trustee also decided to disinvest from the Barings Global Active High Yield Credit Strategies Fund to enhance the portfolio's overall liquidity. The proceeds from the disinvestment were reinvested into the M&G Total Return Credit Investment Fund, forming part of the collateral waterfall.

Implementation Statement

This report demonstrates that Cape plc Staff Pension and Life Assurance Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions DB

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 80% of these risks relative to the Scheme's liabilities on a buyout basis.	In the previous reporting year, the Scheme increased the hedge from 80% to 85% (on a buyout basis) to better protect the Scheme against interest and inflation risk. Following the gilt crisis in Autumn 2022, Schroders reduced the hedge from 85% to c.65%. The Trustee is currently reviewing the hedge.
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.	The Trustee decided in December 2022 to disinvest from the Invesco UK Residential Fund with the proceeds to be invested in a daily dealt fund to boost the overall portfolio's liquidity. As the proceeds are not expected to be received until June - December 2024, there is still an allocation to the property mandate within the SIP. As well as this, the Trustee disinvested from the Barings Active Global High Yield Credit Strategies with the proceeds re-invested into the M&G Total Return Credit Fund as part of the collateral waterfall post reporting year end in May 2023. The Trustee agreed that cashflow requirement continued to be sourced from the M&G Total Return Income Fund. This will be actioned by the Isio Administration team thereby reducing the governance and time cost of the disinvestment process.
Market	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. The Trustee regularly reviews the performance of the managers and have concluded the allocation remains appropriate.

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.	
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 6. UK Stewardship Code signatory The Trustees monitor the mangers on an ongoing basis.	Further detail provided later in this report
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk.	There have been no changes to the policy over the reporting year.
Non-Financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	There have been no changes to the policy over the reporting year.

Changes to the SIP

Post reporting year-end, the Trustee made changes to the SIP to reflect the recent regulatory requirements as well as changes to the investment strategy.

Policies added to the SIP	
To be updated in 2023	
Voting Policy - How the Trustees 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 Trustees 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 Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.

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. The Scheme has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG polices. This page details the Scheme's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk Management	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	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	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	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	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, fund	ESG Summary	Proposed Actions
Barings – Active Global High Yield Credit	Barings has a clear firm-wide ESG framework, managed by a dedicated Sustainability team. However, there are no fund-specific ESG objectives or policies. The fund lacks social exposure in all parts of the assessment criteria.	- To have a fund specific ESG policy. - To update ESG framework annually, including social factors. - To have fund-level stewardship priorities in place. - The fund should track social metrics. - To deliver fund objectives through stewardship activities.
CQS – Multi Asset Credit	CQS have a clear firm-wide ESG framework and the Fund has several ESG objectives, such as attaining better ESG ratings and lower 'WACI' than a high yield index benchmark, and achieving Net Zero by 2050. Proprietary analysis feeds into the investment and risk management processes. Portfolio analysts and managers are responsible for carrying out ESG due diligence on issuers and provide an ESG score that feeds into the overall internal credit rating.	- Finalise interim decarbonisation targets for the Fund on the journey to Net Zero by 2050. - Continue to build out scenario analysis capabilities, with a particular focus on temperature modelling. - Include social factors as a priority area for engagement activities. - Report on social metrics as a part of regular fund reporting.
Invesco – UK Residential Fund	Invesco have a sizeable dedicated global ESG team and an established Responsible Investment framework. Invesco has evolved the ESG process and consider ESG as ESG+R - Environment, Social, Governance + Resilience. ESG is integrated within the acquisition process and business plans for all assets in the portfolio which is a step forward from 2021.	- Introduce Fund specific ESG objectives in the investment process and measure its own temperature specific pathways. - Continue progress with scorecard assessment and integrate over 2023 as part of risk assessment. - Provide more details of their engagement with their tenants and how this is used to improve buildings within the portfolio. - Consider more frequent ESG specific client reporting and a greater focus on Governance and Environmental issues.

M&G – Total Return Credit Investment Fund	M&G have a strong firm-wide ESG approach and have evidenced their ability to manage ESG risks in this Fund. However, we note reporting is a slightly weaker area due to data reporting issues in certain areas of the portfolio, which M&G are working to address. While the Fund scores well on ESG integration, M&G are developing a 'sustainable' version of the Fund with a greater focus on impact investments for clients with stronger ESG goals.	- Introduce KPIs to track to the Fund's alignment with the firm-wide ESG policy. - M&G to continue to develop temperature scenario modelling. - M&G should increase the number of portfolio issuers they are actively engaging with on ESG specific issues. - M&G should continue to improve data coverage and reporting metrics, with a particular focus on social and engagement reporting.
Schroders - LDI	Schroders integrate ESG consideration in their counterparty selection process and have a well-established method to screen counterparties. Schroders have made some improvements to their reporting capabilities by starting to report sustainability metrics on UK gilts.	- Schroders should provide ESG scores and metrics for counterparties in clients' reports. - They should produce user-friendly engagement reports.

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 5 April 2023.

Fund name	Engagement summary	Commentary
Barings – Active Global High Yield Credit	Total Engagements: 741* Environmental: 280 Of which relating to: Climate Change: 160 Natural Resource Use/Impact: 108 Social: 105 Of which relating to: Conduct, Culture and Ethics: 18 Human and Labour Rights: 57 Governance: 68 Of which relating to: Renumeration: 15 Strategy, Financial and Reporting: 288 Of which relating to Reporting: 108 Risk Management: 94 *The manager does not currently provide details of their engagement activities at Fund level. However, here are details of engagements and Firm-level.	Barings focus their engagements on material ESG topics usually identified within their ESG integration process and ongoing monitoring. Barings also use engagements to act in the interest of their clients by using the UN Global Impact's principles to guide their activities in tackling issues such as human rights, labour, environment and anti-corruption. An example of a significant engagement includes: **Wintershall Dea** – Barings prevented further investment into an oil & gas portfolio company whilst it investigated their material exposure to Russia as well as shareholdings being partially owned by individuals who were sanctioned by the EU. The shareholdings from the sanctioned individuals were frozen indefinitely and they cannot receive any financial benefits such as dividends from the company. In 2023 the company announced it would fully exit its Russia operations with the negative financial impact offset by compensation from investment guarantees. Barings view the company exits and improved disclosure on financial effects as a positive by reducing the potential governance risk and therefore returned the company's debt from a 'Hold' to 'Buy' rating, to allow further investment.

CQS – Multi Asset Credit	Total Engagements: 204 Environmental: 88 Of which relating to Climate Change: 51 Pollution/Waste: 26 Social: 30 Of which relating to Human Capital Management: 16 Conduct, Culture and Ethics: 5 Governance: 25 Of which relating to: Renumeration: 9 Board Effectiveness – Independence: 7 Strategy, Financial and Reporting: 61 Of which relating to Reporting: 27 Strategy and Purpose:18	CQS engages with corporate issuers, banks whom they provide capital relief to as well as CLO managers. CQS's engagements prioritises sustainable business practices, good governance with financial disclosures, climate risk management (encouraging disclosure in alignment with TCFD) and diversity within a company. The manager does not provide detailed case studies on a Fund-level, however, an example of a significant engagement on a firm-level includes: CQS conducted an audit of all their climate data to ensure it is up to date. Following this audit, CQS have created a Climate Target Engagement Programme to engage with portfolio companies that either do not disclose carbon emissions and/or do not have decarbonisation target. CQS believes this will encourage better disclosure and net zero-alignment within the portfolio.
Invesco – UK Residential Fund	Total Engagements: 713* Environmental: 210 Of which relating to Climate Change: 133 Natural Resource Use/Impact: 41 Social: 189 Of which relating to Human and Labour Rights: 71 Conduct, Culture and Ethics: 60 Governance: 173 Of which relating to Renumeration: 59	Invesco uses engagement to address problematic areas or opportunities from an ESG perspective. Whilst engaging with other stakeholders, their goal is to create an inducive environment that would allow for optimal ESG outcomes in an efficient and fair matter. An example of significant engagement includes: **Qantas Airways Limited -** Invesco engaged with Qantas to discuss the company's climate action plan specifically developing NetZero targets and pathways and work towards GHG reduction target of 25% of by 2030. Following engagements, Qantas released a sustainability report which promises to plug a number of gaps, including a commitment to SBTi. The company plans to i) Renew the fleet with most carbon efficient planes, ii) Expand the use of sustainable aviation fuel whilst investing in domestic capacity and iii) Improve the access to high quality ACCU offsets. In order to incentivise executives within the portfolio company to work towards these targets, their compensation incorporates climate outcome milestone achievements.

	Leadership – Chair/CEO: 56 Strategy, Financial and Reporting: 141 Of which relating to Reporting: 59 Risk Management: 43 *Engagements are at firm-level as Invesco are unable to provide details of their engagement activities at Fund level.	
M&G – Total Return Credit Investment Fund	Total Engagements: 11 Environmental: 5 Of which relating to Climate Change: 4 Net Zero: 1 Social: 4 Of which relating to Human and Labour Rights: 2 Conduct, Culture and Ethics:1 Human Capital Management: 1 Governance: 2 Of which relating to Renumeration: 1 Leadership: 1	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. An example of engagements include: **Thermo Fisher** – M&G wanted to ensure the effective policies and procedures for the appropriate use of medical technology and analytical equipment. M&G met with the company's investor relations and the senior director of corporate social responsibility to discuss the issue. Thermo Fisher responded by improving its policies and procedures. It has adopted and implemented a Code of Business Conduct and Ethics, applicable to all directors, officers, and employees, who receive annual training on the code. The company has an approved network of authorised distributors that agree to comply with this purchasing process under the terms of their contract.
Schroders - LDI Fund **Schroders – Sterling Liquidity Fund**	Total Engagements: 43 Environmental: 13 Of which relating to Climate Change: 5	Schroders use constructive engagements with management teams at portfolio companies or assets they invest in to enhance long-term value for their clients by accelerating positive changes towards a fairer and more sustainable global economy. Schroders also engage with several leading industry groups and

	Natural Resource Use/Impact:5 Social: 13 Of which relating to Human and labour rights: 5 Human Capital Management: 4 Governance: 7 Of which relating to Board Effectiveness Independence: 5 Shareholder Rights: 2 Strategy, Financial and Reporting: 5 Of which relating to Capital Allocation: 5 Strategy/Purpose: 5 Other: 5	organisations to promote a well-functioning financial market. An example of a significant engagement: **DMO** – Schroders engaged with DMO regarding the issuance on gilts focusing on their supply and liquidity as well as further issuance of green gilts. The manager held multiple 1-on-1 meetings with DMO to provide insight on potential supply/demand imbalances. Following this engagement, Schroders have had positive interactions with both the DMO and wider participants on supply and demands dynamics in the gilt markets which provides further stability for LDI clients.

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