

Implementation Statement

The Institute of Chartered Accountants of Scotland Retirement Benefits Scheme

For year ending 31 December 2023

Background

In 2019, the Department for Work and Pensions ('DWP') increased regulation to improve disclosure of financially material risks. The regulatory changes recognise that Environmental, Social and Governance ("ESG") factors are financially material to the Scheme, stating that pension scheme trustees are required to consider how these factors are managed as part of their fiduciary duty.

The regulatory changes require that the Trustees detail the Scheme's policies in its Statement of Investment Principles ("SIP"), and to demonstrate their adherence to these policies in an Implementation Report.

Statement of Investment Principles ("SIP")

Over the accounting year, the Scheme's SIP was updated in June 2023 to reflect strategic changes made at the end of April 2023. Further details on the strategic changes can be found below ("Summary of key actions undertaken over the Scheme's reporting year").

The Trustees updated the Scheme's SIP to incorporate new regulations required by the DWP in relation to voting and engagement policies as follows:

- Details on the Trustees' policies for managing financially material considerations, including ESG factors and climate change; and
- Details on the Trustees' policies on the stewardship of the Scheme's investments.

The latest SIP can be found online at the following address:

<https://www.icas.com/about-us/governance/public-reporting/icas-retirement-benefits-scheme-statement-of-investment-principles>

Implementation Report

This implementation report is to provide evidence that the Trustees of The Institute of Chartered Accountants of Scotland Retirement Benefits Scheme ("the Scheme") continue to follow and act on the principles outlined in the Scheme's Statement of Investment Principles ("SIP"). The report details:

- Actions the Trustees have taken to manage financially material risks and implement the key policies in their SIP;
- The Trustees' current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- The extent to which the Trustees have followed policies on engagement covering engagement actions with the Scheme's investment managers and, in turn, the engagement activity of the investment managers with the companies underlying their respective investment mandate; and

- The voting behaviour by investment managers (noting the Trustees' delegation of Scheme voting rights to the investment managers through its investment via pooled fund arrangements), covering the reporting year up to 31 December 2023 for and on behalf of the Scheme, including the most significant votes cast on the Scheme's behalf.

Summary of key actions undertaken over the Scheme's reporting year

The Trustees undertook a high-level review of the Scheme's investment strategy in February 2023 as this has deviated from the agreed strategic benchmark due to cashflow activity (including strategic rebalancing) and changes in the liability matching portfolio over prior periods.

As part of this, the Trustees agreed to increase the Scheme's strategic allocation to Liability Driven Investment (LDI) funds from 25% to 30%. The Scheme's Diversified Credit allocation was correspondingly decreased from 35% to 30%.

Implementation Statement

This report demonstrates that the Trustees of the Institute of Chartered Accountants of Scotland Retirement Benefits Scheme have adhered to the Scheme's investment principles and their policies for managing financially material considerations, including ESG factors and climate change.

A signed copy of this document is held on file by the Trustees.

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions over reporting period
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of the liabilities from changes in interest rates and inflation expectations.	To allocate 30% of the Scheme's assets to an LDI portfolio, which is designed to offset 90% of the Scheme's liability sensitivity to interest rates and inflation (on a gilts-based equivalent Technical Provisions basis).	The Trustees agreed to increase the strategic allocation to the LDI portfolio from 25% to 30% over the period. This is to more accurately reflect the level of assets required to achieve the same level of hedging following the gilt market crisis at the end of 2022, due to lower leverage offered by LDI managers.
Liquidity	Ability to raise 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).	<p>The Trustees continued to meet liquidity requirements as and when required from the Scheme's liquid (daily dealt) allocations, including a small liquidity buffer held with LGIM.</p> <p>The Trustees' investment adviser advises on the most suitable source of funds upon request should the cashflow disinvestment exceed the liquidity buffer.</p>
Market	Risk of losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge any unrewarded risks (e.g. interest rates, inflation), where affordable and practicable.	No actions or changes to policy over accounting period
Credit	Risk of default on payments due as part of a financial security contract.	<p>To diversify this risk by investing in a range of credit markets across different geographies and sectors.</p> <p>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.</p>	No actions or changes to policy over accounting period

Environmental, Social and Governance ("ESG")	Exposure to ESG factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following ESG criteria, unless there is a good reason why the manager does not satisfy each criterion:</p> <ol style="list-style-type: none"> 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 <p>The Trustees monitor the managers on an ongoing basis.</p>	<p>No actions or changes to policy over accounting period.</p> <p>The Trustees' provisionally agreed allocation to an ESG-focussed infrastructure equity fund remains postponed until further clarity on the Actuarial Valuation.</p>
Currency	The risk of losses arising from adverse currency movements on the value of the Scheme's assets.	<p>Allow the Scheme's active managers who invest in overseas securities the flexibility to hedge overseas currency exposure to manage risk.</p> <p>The Scheme also has a 50% currency hedge (to Sterling) on the LGIM Future World Global Equity Index Fund allocation.</p>	No changes over accounting year period.

Changes to the SIP

Policies added to the SIP	
Date updated: June 2023	
The SIP was updated in June 2023 to reflect a number of strategic changes and changes in regulations in relation to voting and engagement policies over the period.	
Voting Policy - How the Trustees expect investment managers to vote on their behalf	<ul style="list-style-type: none"> • The Trustees have 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 Trustees have 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.
- Example stewardship activities that the Trustees have considered are listed below.
 - Selecting and appointing asset and fiduciary managers – the Trustees will consider potential managers' stewardship policies and activities
 - Asset manager engagement and monitoring via Isio's ESG research rating of the Scheme's asset managers to ensure these remain satisfactory.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustees' policies with regards to ESG as a financially material risk.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

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.
Voting & Engagement	<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.
Reporting & Monitoring	<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.

ESG summary and engagement

Engagement with investment managers

To date, the Trustees have not yet carried out a formal ESG review of the Scheme's investment managers, either directly or indirectly via Isio as the Scheme's investment adviser.

However, Isio continue to engage with the Scheme's investment managers on their ESG policies on an ongoing basis to ensure they meet a set of minimum criteria, as defined by Isio.

Investment managers' engagement activity

As the Scheme invests via pooled funds via investment managers, the managers provided details on their engagement actions, including a summary of the engagements by category for the 12-month period to 31 December 2023.

Fund name	Engagement summary	Commentary
LGIM Future World Global Equity Index Fund	<p>Total Engagements: 886</p> <p>Environmental: 446</p> <p>Social: 178</p> <p>Governance: 229</p> <p>Other: 33</p> <p>*One engagement can comprise of more than one topic across each company</p>	<p>LGIM currently do not provide examples of their engagement activities at Fund level.</p> <p>LGIM leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</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>
LGIM Diversified Fund	<p>Total Engagements: 1,874</p> <p>Environmental: 1,321</p> <p>Social: 245</p> <p>Governance: 268</p> <p>Other: 40</p> <p>*One engagement can comprise of more than one topic across each company</p>	<p>LGIM have not provided examples of Fund-specific significant engagements.</p>
LGIM – LDI	<p>Total Engagements: 25</p> <p>Environmental: 19</p> <p>Social: 0</p> <p>Governance: 6</p> <p>Other: 0</p>	

<p>LGIM Sterling Liquidity Fund</p>		
<p>M&G – Alpha Opportunities Fund</p>	<p>Total Engagements: 7</p> <p>Environmental: 5</p> <p>Governance: 2</p> <p>Social: 0</p> <p>Other: 0</p>	<p>M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements.</p> <p>M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G’s Corporate Finance & Stewardship (“CF&S”) Team, allowing them to leverage their expertise and sustainability themes.</p> <p>Examples of significant engagement:</p> <p>ING Groep NV – In June 2023, M&G engaged with ING Groep NV to discuss the company’s climate targets and strategy for M&G to better measure and track its progress, as well as encouraging a net zero commitment. The company was receptive to this request and is expected to submit targets to the Science Based Targets initiative (SBTi) for approval in 2024. M&G intend to follow up to monitor progress.</p> <p>Standard Chartered Plc – In December 2023, M&G engaged with Standard Chartered to understand their decision on disassociating from the SBTi and ensure sufficient climate plans are in place. M&G met with the heads of International Relations, Corporate Affairs and Head of Net Zero and Carbon Accounting. The company stated they will not commit to a Net Zero target until they have a clear pathway. The Company is working on TCFD and scope 3 emission disclosures. M&G will review the sustainability report upon its publication and follow up with Standard Chartered next year.</p>

<p>JP Morgan – Unconstrained Bond Fund</p>	<p>Total Engagements: 114</p> <p>Environmental: 68</p> <p>Social: 65</p> <p>Governance: 59</p>	<p>JP Morgan’s (JPM) engagement activities are formed as part of their Stewardship model, in which investment professionals liaise with Stewardship specialists on a global scale. The engagements included within their report span beyond fixed income, given the scale of the strategy’s holdings and global dialogue with investee companies.</p> <p>Examples of significant engagement:</p> <p>Anglo American Plc – JPM followed up with the UK listed mining company on employee health and safety given safety incidents over recent years. The company were on target to achieve their annual target of a 15% improvement, against a 3-year average for total recordable injury frequency. However, the company has yet to show demonstrable improvements in safety performance and JPM continue to monitor this.</p> <p>BNP Paribas SA – JPM met with the company to discuss its approach to climate risk, and for encouraging greater transparency around reporting. BNP Paribas reinforced their focus on becoming a green finance leader and set sector emission reduction targets and increased disclosure on climate risk. JPM noted the lack of standardisation of target format and scope on climate risk disclosure between different banks. JPM are seeking to better understand the company’s scope, and how these targets fits within their wider strategy. JPM also continue to engage with the company to monitor how it develops its strategy to address the issues.</p>
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Voting (applicable for the Scheme’s equity and multi asset funds only)

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme’s investment managers on their behalf.

The Scheme’s fund managers have provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2023. The Trustees have adopted the managers definition of significant votes and have not set stewardship priorities. The managers have provided examples of votes they deem to be significant, and the Trustees have further shown the votes relating to the greatest exposure within the Scheme’s investment and which they deem to be in relation to an important topic. Going forward, when requesting data annually, via their investment consultant, the Trustees will inform their managers what they deem most significant.

As the Scheme invests via pooled funds, LGIM (as the Scheme’s equity and multi-asset investment manager) has provided details on their voting actions including a summary of the activity over the Scheme’s reporting year.

Fund name	Engagement summary	Examples of significant votes	Commentary
LGIM Future World Global Equity Index Fund	<p>Meetings eligible to vote for: 5,080</p> <p>Resolutions eligible to vote for: 52,639</p> <p>Resolutions voted for: 99.9%</p> <p>Resolutions voted with management: 80.3%</p> <p>Resolutions voted against management: 19.3%</p> <p>Resolutions abstained from: 0.4%</p>	<p>Microsoft Corporation – Date: December 2023 Appointment of Chair The Trustees consider this to be a significant vote as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. LGIM voted against the election of Director Satya Nadella and continue to publicly advocate this position.</p> <p>Amazon.com, Inc – Date: May 2023 Gender pay gap The Trustees consider this to be a significant vote as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives taken to close any stated gap. LGIM voted for the reporting on median and adjusted gender/racial pay gaps. LGIM continue to engage with the company and monitor progress.</p>	<p>LGIM’s Investment Stewardship team are responsible for managing voting activities across all funds. The team uses ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.</p>
LGIM Diversified Fund	<p>Meetings eligible to vote for: 9,077</p> <p>Resolutions eligible to vote for: 94,290</p>	<p>Prologis, Inc – Date: May 2023 Gender diversity The Trustees consider this to be a significant vote as relates to LGIM’s view on</p>	

	<p>Resolutions voted for: 99.8%</p> <p>Resolutions voted with management: 76.4%</p> <p>Resolutions voted against management: 23.4%</p> <p>Resolutions abstained from: 0.3%</p>	<p>gender diversity to be financially material. LGIM voted against the election of Director Jeffrey L Skelton as LGIM expects a company to have at least one-third women on the board. LGIM continue to advocate for this position and engage with investee companies on the matter.</p> <p>Shell Plc – Date: May 2023 Climate change The Trustees consider this to be a significant vote as relates to LGIM’s expectation for companies to be aligned with the 1.5C climate scenario. LGIM voted against the approval of the Shell Energy transition progress as LGIM remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets. LGIM continue to engage with Shell on its climate transition plans.</p>	
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