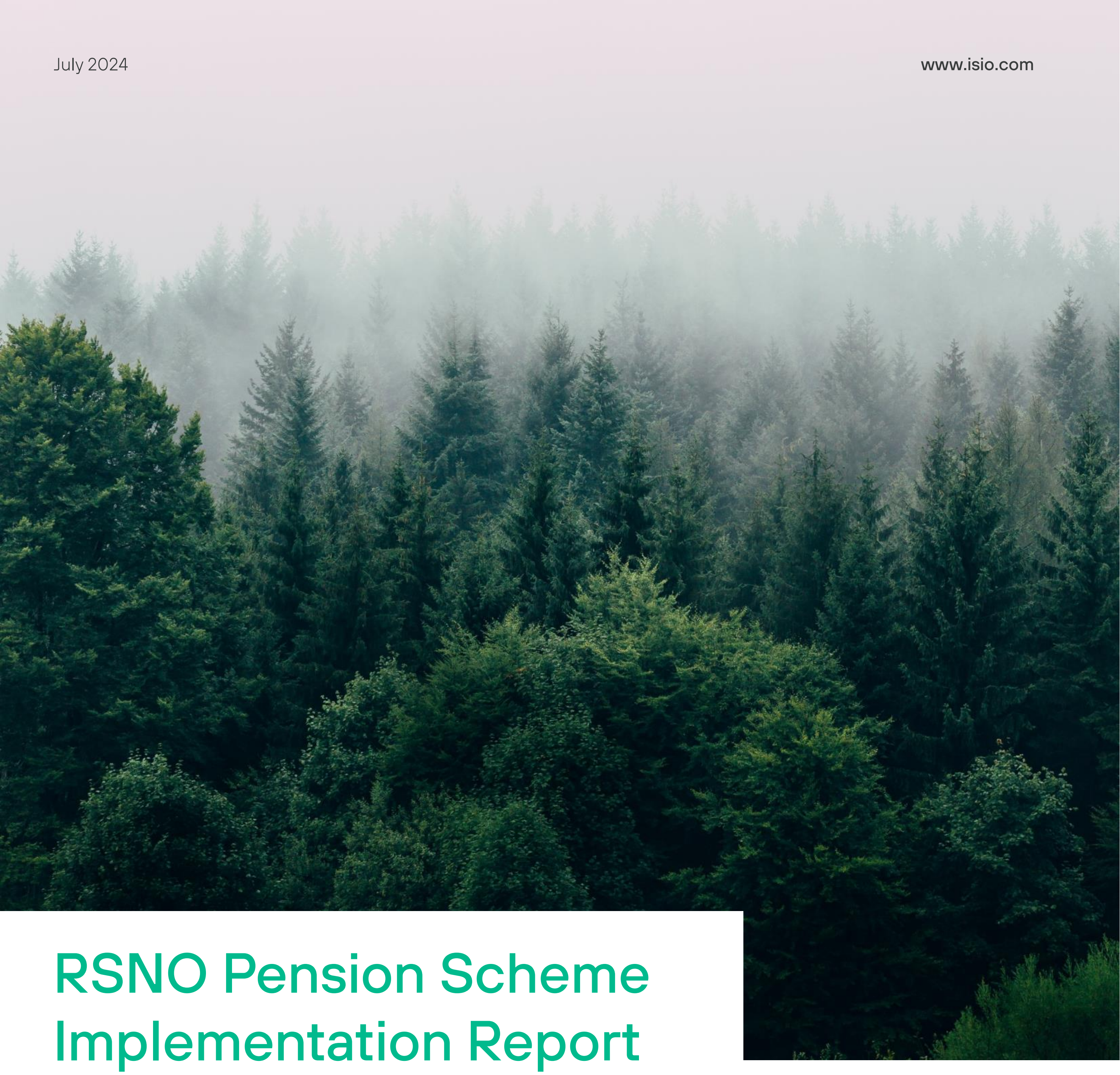

RSNO Pension Scheme Implementation Report

July 2024

isio.

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: Pension Documents - Royal Scottish National Orchestra (rsno.org.uk)

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 31 March 2024 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

Following a 'journey planning' paper produced by Isio and presented at a Trustee meeting in September 2022, the Trustees agreed to a revised investment strategy, which targeted a higher level of expected return than the previous allocation. The following strategy was agreed and was implemented over late 2023 and early 2024:

- Global Equity 10%
- Diversified Growth 15%
- Semi-Liquid Credit 10%
- Long Lease Property 10%
- Infrastructure Equity 10%
- Asset Backed Securities 15%
- LDI (Credit-Enhanced) 30%

In July 2023, a partial redemption was made from the Apollo Total Return Fund, with the intention to fund the new infrastructure equity allocation. The earmarked cash was subsequently invested in a in a low-risk cash fund until the infrastructure commitment was called. During November 2023, the Scheme completed full redemptions from the LGIM Corporate Bonds Fund, BlackRock FIGO Fund, and BlackRock LDI portfolio. Thereafter, the funds from the credit mandates' sales were evenly split between Insight Liquid ABS and Insight High Grade ABS. Additionally, in line with the updated investment strategy, c. £5.2m of the proceeds from the sale of BlackRock LDI were allocated to Insight LDI.

As part of the revised investment strategy, it was also agreed that the liability hedge ratio (measured on the Technical Provisions basis) will target a balanced 75% of both interest rate and inflation risk. This was successfully implemented in November 2023 following the Scheme's investment in a new LDI mandate held with Insight.

Implementation Statement

This report demonstrates that the RSNO 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

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 75% of the impact of interest rate and inflation risk on the value of the Scheme's liabilities (measured on the Technical Provisions basis).	The revised investment strategy (including hedge) was implemented over the 12-month reporting period.
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 Trustees recognise that under periods of higher volatility, the ability to immediately disinvest from some pooled funds can be limited. Accordingly, as part of any manager selection, the Trustees will consider any gating provisions.	The Trustees regularly monitor the collateral and liquidity position to reduce the impact of this risk via annual reporting provided by their investment consultant. The Trustees note that 60% of the current strategic asset allocation can be accessed on a daily basis, 10% weekly, 10% quarterly, and 20% less frequently.
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 revised investment strategy remains diversified and reduces market risk through investment in multiple asset classes.

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.	The revised investment strategy remains diversified from a credit risk perspective.
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.	The Trustees' policy for managing and mitigating risks relating to ESG can be found in Appendix C of the Scheme's SIP.	The Trustees reviewed the Scheme's ESG policies as part of the updated Statement of Investment Principles.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The Trustees are comfortable being exposed to currency risk from the equity portfolio; however the currency risk from other overseas investments is hedged back to Sterling.	

Changes to the SIP

Policies added to the SIP	
Leverage and Collateral Management	The Trustees will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. The Trustees have a stated collateral management policy. The Trustees have agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustees will review and stress test this policy on a regular basis. Further details on this can be found in Appendix E.
Direct Investments	Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustees will obtain appropriate written advice from their investment advisers.
Appendix E – Collateral Management Policy	At the time of writing, the Trustees are targeting a level of collateral over and above that within the Scheme's LDI funds that is sufficient to withstand (at least) one collateral call from each of the Scheme's LDI funds. The Trustees will review their collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements. The Trustees also have a framework for topping up the collateral.

Trigger	Action	Responsibility
Pooled LDI fund issues capital call	Assets sold from below collateral waterfall to meet capital call	LDI manager / Trustees

The Scheme has a collateral waterfall system in place. Assets held with the same manager as the LDI mandate are shown in bold, reflecting the lower governance burden on the Trustees.

Manager	Asset Class	Dealing frequency	Notice period	Settlement period
LDI manager	LDI	Daily	T – 1	T + 4
LDI manager	Asset Backed Securities	Daily	T – 2	T + 3
Non-LDI manager	Diversified Growth	Daily	10am on T	T + 4
Non-LDI manager	Equity	Weekly	12 pm on T – 2	T + 2 (value driven trades) and T + 3 (unit driven trades)

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.

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	The Trustees will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments; As part of ongoing monitoring, the Trustees will use any ESG ratings information provided by their investment consultant to assess how the Scheme's investment managers take account of ESG issues; Through their investment consultant, the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis. As part of any manager selection exercise, ESG considerations are included as part of the evaluation criteria.	The manager has not acted in accordance with their policies and frameworks. The manager has received a 'red' ESG rating from the Investment Consultant, signifying that ESG considerations is below satisfactory.

ESG summary and engagement with the investment managers

Manager and Fund	ESG Summary	Latest Actions Proposed	Engagement Details on Prior Actions
LGIM Future World Equity	LGIM continue to grow their dedicated and experienced ESG team that drives engagement with portfolio companies on key ESG issues. Within LGIM's Future World Index, a set of exclusions are applied, alongside enhancements based on the comprehensive evaluation of ESG factors. Climate considerations are a key priority for the Fund, and LGIM are continually improving their capabilities in the space. In 2023, LGIM introduced Scope 3 and GHG emissions data in regular reporting for the Fund. We view LGIM as being leaders in promoting ESG through collaboration with the broader industry and clients, specifically on climate-related topics.	Isio proposed LGIM should increase the percentage of portfolio companies they engage with as it is currently at 48%. LGIM should also strive to have their ESG metrics and data independently verified to ensure accuracy of key metrics and data.	Isio engaged with the manager on behalf of the Trustees over the period. Following engagement, LGIM advised that they are now providing training for investment professionals regarding the development of sustainability and governance changes. LGIM also advised that they now publish scope 3 emission data for the fund.
Schroders Diversified Growth Fund	Schroders have a strong framework where ESG factors are embedded within the investment process. The Sustainable Investment team is well resourced and provides oversight and is responsible for ESG integration in the firm. The Firm's engagement with the wider industry to leverage a larger influence	Schroders should look to create quantifiable ESG objectives at a Fund level. Isio also recommend that the manager utilises models to show the impact of physical risks on their portfolio.	Isio engaged with Schroders on the Trustees' behalf to review their ESG policies and set actions and priorities. Post interaction, Schroders have displayed clear collaboration with the market on ESG issues that are

	on their ESG priorities alongside depth of ESG analysis are key strengths. Isio's ratings have fallen due to a change in our methodology reflecting Isio's year-on-year increases in ESG standards and expectations.	Additionally, ESG metrics and data reporting should be improved if they were independently verified and reported GHG data coverage above 70%.	within the fund's objectives and tilt. Schroders are also working towards having ESG metrics and reporting independently verified, and aim to report GHG data coverage above 70%.
Apollo Semi-Liquid Credit	Apollo have a central ESG team, including a sub-team that is dedicated to ESG Credit. These teams work in partnership with credit investment professionals. ESG considerations are integrated into the Fund's risk management framework and due diligence process. Their internal ESG ratings system has been improved to incorporate sector-specific scoring. The Fund doesn't currently have a clear stewardship policy or priorities. However, it does have an Impact Sleeve, comprising assets which meet the Fund's criteria for investment first and foremost, but also meet their impact criteria.	Apollo should Develop ESG objectives for the Fund, including formalising an exclusions policy. Apollo should also develop climate scenario analysis for the Fund and establish a stewardship policy and priorities to improve engagement coverage. Isio also recommends that Apollo becomes a signatory to the 2020 UK Stewardship Code. Apollo could also Identify core ESG priority areas for the Fund including objectives e.g. alignment with Apollo ESG priority areas / quantitative KPIs / influence the issuer to improve the ESG score throughout the investment holding period / engagement themes that will be prioritised.	Isio engaged with Apollo on the Trustees' behalf to review their ESG policies and set actions and priorities. Apollo are now able to provide evidence of how ESG risks identified at the due diligence stage are actively managed through the life of an investment. Apollo are considering becoming a signatory to the 2020 UK Stewardship Code.

BlackRock Long Lease Property Fund	BlackRock have a robust firm wide ESG process that is well integrated within its Real Assets platform. Each asset within the portfolio is reviewed from an ESG standpoint and is monitored throughout the lifecycle of an investment. Despite their limited control over properties, they expect to place a greater emphasis on engaging with tenants going forward. BlackRock have committed to improving their ESG framework on an ongoing basis to identify the ESG risk and rewards associated with each underlying asset. BlackRock currently report on some ESG metrics for the Fund however are actively looking to improve their reporting once data quality is improved.	BlackRock could enhance ESG reporting by including a summary of engagements and detailed ESG metrics within regular reports. BlackRock should establish a firm-level net zero target.	Isio engaged with BlackRock on the Trustees' behalf to review their ESG policies and set actions and priorities. BlackRock continue to provide limited ESG metrics and could further improve their capabilities. BlackRock currently only report on greenhouse gas emissions metrics. BlackRock are working on providing more data in 2024 and quarterly reports now include carbon data.
JP Morgan IIF	JPM have demonstrated that the Fund has clear ESG policies and priorities in place, and that ESG is integrated through all stages of the investment process. The level of ESG integration is strong and reporting is line with its peers in the market.	Isio suggest JP Morgan utilise independent ESG data sources and introduce nature/biodiversity risks within their ESG scorecard. Also recommended is for the manager to put in place a firm level target for carbon emission and temperature increases.	Isio engaged with JP Morgan on the Trustees' behalf to review their ESG policies and set actions and priorities. JPM have added data on DEI policies, modern slavery and gender pay gap analysis to their annual sustainability report and scorecard.
Insight LDI Funds	Insight demonstrate a strong commitment to ESG principles, integrating them throughout their investment process. This reflects the increase in both the ESG and Climate score in 2023. Insight leverage multiple independent ESG data sources and have a dedicated Responsible	Insight should consider including ESG objectives or focus areas for their LDI funds. Insight should consider publishing the ESG score for the counterparties within the pooled funds or	Isio engaged with Insight on the Trustees' behalf to review their ESG policies and set actions and priorities. Insight continued to engage with the DMO on their proposal for green gilt issuance,

	Investment team ensuring effective integration.	segregated mandates.	specifically on post-issuance impact reporting and the potential for sustainability-linked bond issuance from the UK government. Insight were not satisfied with the outcome of the engagement and as a result, Insight downgraded the UK Government's green gilt base on their framework.
Insight High Grade & Liquid ABS	We believe that Insight have a strong firm-wide approach to stewardship as they have dedicated stewardship analysts who are responsible for setting key engagement priorities. They are also a key industry collaborator and member of several initiatives. However, at the fund level they remain limited by the quantity and quality of data in the ABS market, which is reflected in the low reporting score. Deterioration in the overall ESG score is mainly due to fall in the reporting score. Unlike some peers, Insight do not include carbon footprint analysis in their ESG reports.	Isio proposed Insight should assess the effectiveness of green, sustainable-linked, or use-of-proceeds bonds for potential inclusion in the portfolios. Insight should also develop an approach to estimate carbon footprint and include it in ESG reports. Isio also recommend that Insight should update their ESG scorecard annually, in line with best practice.	Isio engaged with Insight on the Trustees' behalf to review their ESG policies and set actions and priorities. Insight now produce an ESG scorecard incorporating quantitative and qualitative factors, originators are issued with a proprietary questionnaire with an ESG focus.

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 31 March 2024.

Fund name	Engagement summary	Commentary
LGIM Future World Global Equity Index Fund	Total Engagements: 795 Environmental: 404 Social: 137 Governance: 222 Other: 32	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. LGIM have not provided examples of Fund-specific significant engagements.
Schroders Diversified Growth Fund	Total engagements: 554 Environmental: 782 Social: 254 Governance: 224 One engagement can comprise more than one topic across each company.	**ASML**: Schroder's Global and Thematic Equities team held a meeting with regards to ASML's climate change activities. The manager encouraged the company to publish a detailed transition plan explaining how the company will transition its business and meet its targets. ASML aims to achieve net zero for Scope 1, 2, and parts of Scope 3 emissions by 2025, primarily through energy reduction and renewable energy use. Challenges remain in Asian markets, but progress has been made in Taiwan. ASML is also addressing Scope 3 emissions in its supply chain, with increasing supplier commitments to sustainability. Product energy efficiency has improved significantly, with further reductions planned. Collaboration with customers like TSMC on renewable energy adoption and with SEMI on industry-wide sustainability efforts is ongoing. While costs are hard to quantify, they are part of ASML's substantial R&D investments. ESG metrics are now linked to 20% of executive long-term incentives. Overall, ASML has made considerable progress on its climate goals, with more work to be done in certain areas. Schroders will continue to monitor progress.

Apollo Total Return Fund	Total Engagements: 54 Environmental: 45 Social: 25 Governance: 27 One engagement can comprise more than one topic across each company.	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 of 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. **Adani Ports and Special Economic Zone Limited** – Apollo engaged with the Company on their thermal coal exposure and emissions reduction strategy in December 2023. The Company stated that thermal coal comprises less than 25% of their cargo mix and an additional 8-10% of the mix is from coking coal. This has reduced from 100% originally. The Company expect that green hydrogen and green ammonia will emerge as viable fuel alternatives in the next 5-6 years. As a result, they expect a gradual reduction in thermal coal as a % of their cargo mix over this time period, after which they expect a sharp fall. Adani Ports is targeting carbon neutrality (regarding their Scope 1 & 2 emissions) by 2025 and net zero by 2040. The Company is also working on electrifying the cargo handling process and electrifying the entire network within the ports.
BlackRock Long Lease Property Fund	BlackRock currently do not provide details of their engagement activities due to the nature of the Funds. Isio will work with BlackRock on behalf of the Scheme to develop BlackRock's engagement reporting going forward.	BlackRock's ESG related engagement is led by BlackRock's Investment Stewardship Team (BIS). The BIS Team views engagement as a key mechanism for providing feedback or signalling concerns to companies about factors that affect. BlackRock does recognise the importance of engaging with tenants and other stakeholders to gain insight into their ESG practices and key performance indicators. Engagement activity varies from asset to asset, but often includes a combination of campaigns, activities and events to address sustainable best practice, particularly in relation to energy and resource efficiency, which is a key priority area for BlackRock and the wider industry.

JPM IIF	JP Morgan currently do not provide full details of their engagement activities and themes. Isio will work with JPM on behalf of the Scheme to develop JPM's engagement reporting going forward.	JP Morgan and the IIF fund is actively engaged with the underlying portfolio companies and management teams on ESG related matters due to having 100% ownership or control positions. An example of an engagement includes: **El Paso Electric** ("EPE") – JP Morgan engaged with the company to reassess their climate and carbon intensity impact. The global prioritisation of a low-carbon energy future creates transition risk as EPE adapts to regulations, technology, and consumer demand. JPM worked with the company's management team to set specific carbon reduction goals with action plans in place, including 80% carbon free by 2035 and the pursuit of 100% decarbonisation of generation portfolio by 2045. EPE plans to meet their goals by continuing the deployment of renewable energy resources, enhancing storage solutions, increasing efficiency, and by using new fuels and technologies.
Insight Liquid ABS Fund	Total engagements: 55 Insight currently do not provide details on the underlying engagement themes at the fund level for ABS mandates.	Insight engages with their underlying portfolio projects on a range of ESG issues, mainly related to corporate governance within portfolio companies and share issuance. An example of an engagement includes:
Insight High Grade ABS Fund	Total engagements: 55 Insight currently do not provide details on the underlying engagement themes at the fund level for ABS mandates.	**Lloyds –** Insight engaged with the Company to improve their understanding of investors' ESG concerns and how they can improve their disclosures in this area. As part of the engagement, a Secured Finance portfolio manager from Insight met with a member of Lloyd's Treasure team to discuss their funding paths over the next 5 years and how ESG requirements might influence this. Following this engagement, the Company agreed to provide Energy Performance Certificates (EPC) across new loan deals. Insight will continue to monitor the provision of EPC information and engage with Lloyds on a firm-wide level.
Insight LDI	Total Engagements: 161 Environmental: 21 Social: 12 Governance: 5 Other: 123	The team regularly engages with regulators, governments and other industry participants to address long term structural issues; however, Insight have not provided examples of Fund-specific significant engagements within the LDI mandate.

Voting (for equity/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 March 2024.

The Trustees have adopted the managers' definition of significant votes and have not set stewardship priorities. The managers have provided examples of votes they seem to be significant, and the Trustees have shown the votes relating to the greatest exposure within the Scheme's investment. When requesting data annually, via their investment consultant, the Trustees inform their managers what they deem most significant.

Fund name	Voting summary	Examples of significant votes	Commentary
LGIM Future World Global Equity Index Fund	Meetings eligible to vote for: 5,134 Resolutions eligible to vote for: 52,212 Resolutions voted on: 99.91% Resolutions voted with management: 80.26% Resolutions voted against management: 19.47% Resolutions abstained from: 0.27%	**Name of Company: Amazon.com** **Date of vote: 24 May 2023** **Approximate size of the Fund's holding: c.1.3%** The Trustees consider this to be a significant vote given LGIM views gender diversity as a financially material issue for its clients. LGIM voted in favour of providing a report on median and adjusted gender/racial pay gaps. The vote in favour was applied as LGIM expects companies to disclose meaningful information on gender pay gap, as well as the initiatives companies are applying to close any stated gap.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. LGIM use data extracted from their third-party proxy-voting provider, Institutional Shareholder Services (ISS) Proxy Exchange platform, an electronic voting platform to vote its clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.

		The vote did not pass; however, LGIM will continue to engage with the company and monitor progress.	
Schroders Diversified Growth Fund	Resolutions eligible to vote on: 14,566 Resolutions voted: 13,733 Voted for: 12,209 Voted against: 1,466 Abstained from voting: 58	**Name of Company: JP Morgan Chase & Co** **Date of vote: 16 May 2023** **Approximate size of the Fund's holding: c. 0.2%** Schroders voted for a report on Climate Transition Plan Describing Efforts to align financing activities with their GHG targets. The Trustees consider this to be a significant vote given it aligns with Schroders climate related engagement policies. The company is asked to produce a report disclosing how it intends to align its financing activities with its 2030 sectoral GHG emission reduction targets. Schroders welcome additional disclosures that help better understand how the company is implementing its climate strategy. The vote did not pass.	At Schroders, voting and engagement activity is managed centrally by a 'Sustainable Investment Team'. Schroders switched vendor from ISS to Glass Lewis (GL) who act as their service provider for the processing of all proxy votes in all markets. GL delivers voting through its internet-based platform, Proxy Exchange. Schroders receive recommendations from GL in line with their bespoke guidelines. This is complemented with analysis from Schroders' in house ESG specialists.

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