



STMicroelectronics (Bristol) Retirement Benefit Scheme

August 2021

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 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 SIP can be found online at the web address <http://stukpension.net>

Changes to the SIP are detailed on the following pages.

Implementation Report

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

- actions the 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 2021 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 has been no change to the Scheme's investment strategy over the past 12 months.

The Alcentra mandate is continuing to drawdown, with c.£4.6m of the initial commitment still to be funded at year-end. The funds have been taken from the Legal & General Corporate Bond mandate and from the Trustee Bank Account (where available).

Looking ahead the Trustee will recalibrate the LDI mandate with new liability cashflows once the actuarial valuation is agreed.

Implementation Statement

This report demonstrates that the STMicroelectronics (Bristol) Retirement Benefit Scheme has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Agreed by Trustee on 16 September 2021

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Investment	The risk that the Scheme's position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. Investing in a diversified portfolio of assets.	No change has been made to the policy.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.	No change has been made to the policy.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.	No change has been made to the 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 c.70% of these risks.	No change has been made to the policy.
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	No change has been made to the policy.

		transfer values), and to provide collateral to the LDI.	
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.	No change has been made to the policy.
Credit	Default on payments due as part of a financial security contract.	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.	No change has been made to the policy.
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.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</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 <p>The Trustee monitors the managers on an ongoing basis.</p>	Further detail provided later in this report
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.	

Changes to the SIP

The latest available SIP is effective as at 30 September 2019, and the following policies were added at that point. The SIP has not been updated during the 12 month period to 31 March 2021.

Policies added to the SIP

Date updated: 30 September 2019

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

- 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.

- The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Scheme's Investment Advisor monitors the investment managers' engagements 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.

- 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.

- 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.

The duration of the Scheme's arrangements with the investment managers

- 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 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.
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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 agreed a more detailed ESG policy in September 2019 which describes how it monitors and engages with the investment managers regarding the ESG policies. 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	<ol style="list-style-type: none"> Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme. 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"> The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager. ESG factors are relevant to investment decisions in all asset classes. 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"> Ongoing monitoring and reporting of how asset managers manage ESG factors is important. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge. 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"> The Trustee will seek to understand each asset manager's approach to voting and engagement when reviewing the asset manager's approach. Engaging with companies is an effective way of seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none"> 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. 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

We have listed the engagements with the Scheme's investment managers over the 12-month period below.

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
BlackRock - Diversified Growth	<p>BlackRock has a clear firm-wide sustainability policy. Although the Diversified Strategies team have shown that they consider ESG issues when investing, there are currently no Fund-specific measurable targets in place to judge the level of incorporation of ESG within the Fund.</p>	<p>BlackRock should incorporate fund-specific ESG objectives and introduce key performance indicators ('KPIs) by which they can assess the success of any engagement/objectives.</p> <p>BlackRock should look to develop their own analysis to support quantitative/qualitative ESG data provided by third parties such as MSCI.</p> <p>BlackRock should incorporate more ESG focussed indices into their investment process.</p> <p>BlackRock should seek to improve its reporting of ESG engagements and statistics at an individual fund level.</p>	<p>Isio engaged with BlackRock in Q2 2020 on the Trustee's behalf to review their ESG policies and set actions and priorities.</p>
Legal & General Investment Management ("L&G") - LDI	<p>L&G have a team dedicated to understanding and assessing the impact of ESG factors for the wider business.</p> <p>L&G use proprietary tools to quantify and monitor ESG risk. L&G believe engaging with regulators, governments and other industry participants will help mitigate ESG risk.</p> <p>We believe L&G have a strong ESG framework relative to their competitors.</p>	<p>L&G should include the ESG scoring of counterparties in regular client reporting of LDI Funds.</p>	<p>Isio engaged with L&G in Q2 2020 on the Trustee's behalf to review their ESG policies and set actions and priorities.</p>

<p>Legal and General Investment Management ("L&G") – Absolute Return Bonds</p>	<p>L&G is aware of ESG issues and the effect on long-term returns within its Fund offering. They have also taken steps to integrate these issues within their investment process at a business level. However, there was a lack of fund-specific information with respect to risk management and reporting and given the direction of travel we would expect these points to be addressed in the coming months.</p>	<p>L&G should provide more detail on how they have engaged with the companies found in the Absolute Return Bond Fund including information on the ESG issues that have been raised/addressed, and the outcome of L&G intervention.</p> <p>L&G should provide standard and regular reporting (not only available on request), in relation to the Absolute Return Bond Fund outlining the exposure to ESG risks, carbon emissions exposure, and a fund-specific summary of voting and engagement activity.</p> <p>L&G to evidence the materiality of ESG considerations in the investment process.</p>	<p>Isio engaged with L&G in Q2 2020 on the Trustee's behalf to review their ESG policies and set actions and priorities.</p>
<p>Apollo – Semi-Liquid Credit</p>	<p>Apollo have been actively incorporating ESG into their investment process for a number of years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.</p>	<p>Set-out formal ESG criteria for each potential credit investment and emphasise ESG factors in day-to-day investment decisions. This could include more clarity on how Apollo analyses what constitutes 'material' ESG risks.</p> <p>Apollo should provide ESG metrics and qualitative comment specific to the Fund on a regular basis where possible. This could include factors such as carbon emissions exposure, company engagement activity, and a summary of investments which exhibit high ESG risks.</p>	<p>Isio engaged with Apollo in Q2 2020 on the Trustee's behalf to review their ESG policies and set actions and priorities.</p>
<p>Alcentra – European Direct Lending III</p>	<p>We believe the Fund's ESG policy is "satisfactory" as they have introduced the analysis of ESG risks within the investment process and engage with companies and the wider community where possible. However, we believe Alcentra could benefit from setting ESG priorities, a quantitative scorecard and KPIs.</p> <p>While there are areas for improvement, Alcentra have</p>	<p>Alcentra to introduce a quantitative scorecard to use as part of their due diligence process.</p> <p>Alcentra to set fund specific ESG priorities.</p> <p>A measure of the effectiveness of engagement to be demonstrated through the use of KPIs. As part of this Fund reporting, we would</p>	<p>Isio engaged with Alcentra in Q3 2020 on the Trustee's behalf to review their ESG policies and set actions and priorities.</p>



outlined that they are still developing their approach to ESG and aim to improve their processes over time.

like to see ESG metrics for portfolio companies.

Alcentra to show more examples of their collaboration within the industry and how this has contributed to ESG best practices.

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 2021.

Fund name	Engagement summary	Commentary
BlackRock - Diversified Growth	<p>Total engagements: 938 Environmental: 584 Social: 411 Governance: 822</p> <p>Note: Some engagements fall into multiple ESG categories.</p>	<p>BlackRock's investment and stewardship team consists of more than 50 professionals that engage with portfolio companies to encourage corporate governance and business practices aligned with sustainable long-term financial performance. The team works closely with BlackRock's active investment teams and always engages companies from the perspective of a long-term investor.</p> <p>Examples of significant engagements include:</p> <p>Cheniere Energy - BlackRock raised some concerns about the company not having full Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting available to shareholders. Whilst the firm provides information online regarding its board oversight of climate risk and their belief that Liquid Natural GAS ("LNG") will play a vital role in the future, the company does not provide further TCFD-related metrics. Cheniere Energy has been aware of this gap in their reporting and were planning to introduce an inaugural corporate responsibility report by the end of 2020, which will be aligned with the TCFD reporting standards.</p>
Legal & General Investment Management ("L&G") - LDI	<p>L&G have engaged with a number of industry participants on long term strategic issues in relation to LDI, including:</p> <ul style="list-style-type: none"> - The introduction of central clearing 	<p>L&G LDI funds do not carry any voting rights but do engage on a wide variety of ESG issues with a variety of market participants.</p> <p>L&G leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with</p>

	<ul style="list-style-type: none"> - The LIBOR transition - Recognising the pricing issues with bilateral RPI swaps 	<p>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>Legal and General Investment Management ("L&G") – Absolute Return Bonds</p>	<p>We requested this data from the manager; however, the manager is currently unable to produce this level of reporting. We will work with the manager to try ensure that this data is available in the future.</p>	<p>L&G's investment and stewardship teams work together to incorporate ESG issues in decision process, from research and engagement to product development. The L&G Stewardship team also engages with other asset owners on a wide range of ESG-related themes.</p> <p>L&G provide an annual Active Ownership Report setting out the firm's approach to stewardship and activities during the year. Further to this and on a quarterly basis, L&G disclose case studies of voting and engagement activities undertaken and/or concluded.</p>
<p>Apollo – Semi-Liquid Credit</p>	<p>Total engagements: 38 Environmental: 22 Social: 23 Governance: 18</p> <p>Note: Some engagements fall into multiple ESG categories.</p>	<p>Apollo takes a strategic approach to ESG engagement and reporting. Before investing they conduct ESG diligence and the information gained helps to inform and tailor both company-specific and portfolio-wide engagement initiatives.</p> <p>Examples of significant engagements include:</p> <p>Clearway Energy - Apollo discussed with the CEO of Clearway Energy incremental uses of growth capital for increasing the efficiency of existing and owned renewable wind farms. Additionally, Apollo discussed using the capital to make new acquisitions of new contracted renewable wind/solar power projects. Following Apollo's engagement with the firm, Clearway Energy stated they would gradually invest at least \$300m in new renewable energy projects during 2020.</p>
<p>Alcentra – European Direct Lending III</p>	<p>We requested this data from the manager; however, the manager is currently unable to produce this level of reporting. We will work with the manager to try and ensure that this data is available in the future.</p>	<p>Alcentra has engaged with each of its borrowers on a full range of ESG topics. They send out an annual engagement questionnaire which allows them to understand their borrowers' approach to managing ESG risk. This also gives them a measure of engagement and progress through qualitative and quantitative metrics.</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 31 March 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock	<p><i>Votable Proposals : 12,398</i> <i>Proposals Voted : 11,980</i> <i>For votes : 10,997</i> <i>Against votes : 850</i> <i>Abstain votes : 109</i> <i>Withhold votes: 24</i></p>	<p>Barclays -</p> <p>BlackRock voted against a proposal to approve ShareAction Requisitioned Resolution. The resolution asked Barclays to set and disclose targets to phase out the provision of financial services to electric and gas utility companies that do not fully align with the Paris Agreement. As a response to the resolution, Barclays proposed their own resolution which committed the company to a strategy, with targets, to align its entire financing portfolio to the goals of the Paris Agreement. BlackRock voted for this proposal, rejecting the proposal from ShareAction, as both proposals were binding and BlackRock was comfortable with Barclay's proposal, as it addressed shareholders' concerns for the time being.</p>	<p>BlackRock perform independent research that is consistent with their voting guidelines to carefully arrive at proxy vote decisions including the re-election of directors. Guidelines are applied on a case-by-case basis taking into account regional market and policy developments with consideration given to the specific circumstances at a company.</p>
L&G Absolute Return Bonds	<p><i>Votable Proposals : 34</i> <i>Proposals Voted : 34</i> <i>For votes : 24</i> <i>Against votes : 9</i> <i>Abstain votes : 1</i></p>	<p>There were no significant votes made in relation to the securities held by this fund during the reporting period.</p>	<p>L&G use Institutional Shareholder Services' (ISS) electronic platform to execute vote instructions. Voting decisions are made by the L&G Investment Stewardship ("IS") team and they do not delegate any voting decisions to external parties. Each member of the IS team is allocated a</p>



specific sector globally which ensures that any voting decision remains consistent throughout the engagement and voting process.

L&G have also produced a custom voting policy for ISS to follow which incorporates L&G's view on ESG issues.
