



STMicroelectronics (Bristol) Retirement Benefit Scheme

April 2022

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 2022 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 continued to drawdown, with c.£4.4m of the initial commitment still to be funded at year-end. The funds have been taken from the excess cash in the Trustee Bank Account.

Post year-end, the Trustee recalibrated the LDI mandate with the updated liability cashflows from the 2020 actuarial valuation. The target hedge level has been increased from 70% to 90%.

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 the Trustees on 27 October 2022

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.	This has been increased to 90% post yearend.

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.	No change has been made to the policy.
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.	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 The Trustee monitors the managers on an ongoing basis.	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.	No change has been made to the policy.

Changes to the SIP

There were no changes to the SIP over the year.

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">1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Scheme.2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee.
Approach / Framework	<ol style="list-style-type: none">3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.4. ESG factors are relevant to investment decisions in all asset classes.5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors.
Reporting & Monitoring	<ol style="list-style-type: none">6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop 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	<ol style="list-style-type: none">9. The Trustee will seek to understand each asset manager's approach to voting and engagement when reviewing the asset manager's approach.10. Engaging with companies is an effective way of 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.

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 2022. Please note that not all categories sum to the number of total engagements, as some engagements covered more than one ESG area.

Fund name	Engagement summary	Commentary
BlackRock – Dynamic Diversified Growth Fund	<p>Total engagements: 825 Environmental: 546 Social: 283 Governance: 693</p>	<p>BlackRock engage with companies through their Investment Stewardship team to provide feedback and inform their voting decisions. These engagements largely relate to the Fund’s equity positions only.</p> <p>Examples of significant engagements include:</p> <p>Netflix – Blackrock engaged with Netflix regarding the potential adoption of Sustainability Account Standards Board (SASB)-aligned disclosures, which published its inaugural environmental, social, and governance (ESG) report during the first quarter, utilizing the SASB reporting frameworks for the Internet & Media Services and Media & Entertainment industries. The company determined its material focus areas and stated that it would publish an annual report covering their ESG performance. In their report, the company disclosed its diversity and inclusion efforts, its commitment to fair and balanced media, its approach to transparent information sharing between the board and management, and its renewable investment projects.</p> <p>General Electric Company – BlackRock have engaged with the company for several years to discuss corporate governance and sustainability issues that they believe will drive long-term, shareholder value. BlackRock voted for a proposal that requested the company to report on its progress towards achieving a</p>

		<p>target of net zero greenhouse gas (GHG) emissions by 2050.</p> <p>General Electric has a goal to achieve carbon neutrality for its operations by 2030 and plans to exit the new build coal power market in favour of increased deployment of renewables.</p> <p>BlackRock recognise and support the efforts that the company has made to date on the management and oversight of climate risk, they see the effective disclosure of climate-related risks and GHG emissions data as critical to investors' understanding of a company's ability to deliver sustainable, long-term shareholder value.</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 - The LIBOR transition - Recognising the pricing issues with bilateral RPI swaps 	<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 regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>
Legal and General Investment Management ("L&G") – Absolute Return Bonds	<p>Total engagements: 125 Environmental: 80 Social: 34 Governance: 62</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>
Apollo – Semi-Liquid Credit	<p>Total engagements: 82 Environmental: 44 Social: 32 Governance: 66</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>Verallia – Apollo worked with Verallia to develop a sustainable development scorecard based on three pillars aligned</p>

		<p>with the UN Global Compact Sustainable Development Goals (SDGs). This will help Verallia measure its progress towards reducing its emissions and providing a safe and inclusive workplace. This scorecard will also help to measure progress towards the “Re-imagine glass for a sustainable future” initiative targeted for 2025.</p> <p>Adani Transmission Limited – Apollo discussed steps to improve ESG and raised concerns about their exposure to coal. Adani were receptive and set aims to reduce the coal exposure and improve their renewable energy in its power mix. They also constituted a corporate responsibility committee with independent directors to provide assurance on their ESG commitments.</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 2022. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
BlackRock	<p>Votable Proposals : 13,303 Proposals Voted : 12,458 For votes : 11,409 Against votes : 819 Abstain votes : 182 Withhold votes: 33</p>	<p>Alphabet – Blackrock believes water management is a material risk for Alphabet given the significant volumes of water used to cool data centres. Though the company had recently enhanced their water metrics disclosure to include three water indicators (total water withdrawal, consumption, and discharge) BlackRock was concerned that the level of disclosure didn't go far enough. Blackrock voted against the board and in favour of the motion asking Alphabet to report annually on its quantitative water-related metrics by location, including practices implemented to reduce climate-related water risk.</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>Votable Proposals : 22 Proposals Voted : 22 For votes : 20 Against votes : 2 Abstain votes : 0</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 specific sector globally which ensures that any voting decision remains consistent throughout the</p>



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.
