



Implementation Statement

Atradius UK Pension Scheme – Year to 31
December 2022

Background to the Implementation Statement

Background

The Department for Work and Pensions ('DWP') introduced regulation to improve disclosure of financially material risks. These regulatory changes recognise Environmental, Social and Governance ('ESG') factors as financially material and require UK pension schemes 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 Statement.

Statement of Investment Principles ('SIP')

The Scheme updated its SIP in response to the DWP regulations to cover:

- Policies for managing financially material considerations including ESG factors and climate change.
- Policies on the stewardship of the investments.
- Engagement, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.

The SIP can be found online at the web address

<https://atradius.co.uk/documents/atradius-pension-trustees---statement-of-investment-principles.pdf>

and recent changes to the SIP are detailed in this statement.

Implementation Statement

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

- Actions the Trustee has taken to manage financially material risks and implement the key policies in the Scheme's SIP.
- The current policy and approach with regard to ESG and the actions taken to manage ESG risks.
- The extent to which the Trustee has followed the Scheme's policies on engagement, covering engagement actions with its investment manager and in turn the engagement activity of the investment manager with the companies in the investment mandates. Engagement is a key consideration for the Scheme as the nature of the investment strategy, being mostly credit based rather than equity, means there were no voting rights attached to the Scheme's investments over the period.

Summary of the key actions undertaken over the Scheme reporting year

There were no changes to the investment strategy over the period, with the portfolio remaining in a 100% allocation to a low-risk Cashflow Driven Investment ('CDI') strategy with Insight Investments ('Insight'). This portfolio consists of a liability driven investment ('LDI') portfolio alongside a portfolio of investment grade buy and maintain corporate bonds.

The Trustee rebalanced the Scheme's liability hedging portfolio in March 2022 to reflect updated liability information arising from the Scheme's 31 December 2020 Actuarial Valuation. The target liability hedging remains c.100% of interest rate and inflation risk. The rebalancing is aimed at maintaining broad alignment of the liability hedging portfolio with the Scheme's liabilities, to reduce funding level risk. Despite challenging market conditions during 2022, the Scheme maintained the target level of hedging.

The Scheme's CDI strategy, implemented in 2019 with Insight, is designed to deliver a more predictable rate of investment return and stream of income via predominantly high-quality credit. This approach aims to increase the alignment of the Scheme's assets with its liability cashflow profile.

The Trustee monitors the Scheme's investments on an ongoing basis, including receiving regular reporting from the Scheme's investment adviser and the investment manager.

Reporting includes monitoring the Scheme's asset allocation, reviewing the performance of the investment managers versus relevant benchmarks and their stated objectives, and monitoring investment risks.

The Trustee keeps the Scheme's SIP under regular review. There were no changes to the SIP during 2022. After year-end, the Trustee updated its SIP to meet further regulations around ESG engagement and Stewardship.

Implementation Statement

This statement demonstrates that the Trustee of the Atradius UK Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Risk management policies and implementation

As outlined in the SIP, the Trustee adopts an integrated risk management approach. The three key risks associated with this framework and how they are managed are stated below. Further, a summary of the actions the Trustee has taken to implement this framework over the 12-month period to 31 December 2022 is included.

| Risk | Definition | Policy | Actions taken in implementing the policy |
|------------|---|--|--|
| Investment | The risk that the Scheme's position deteriorates due to the assets underperforming. | <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> The Trustee monitors the performance of the Scheme's assets versus the investment objective on an ongoing basis. |
| Funding | The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows. | <ul style="list-style-type: none"> Funding risk is considered as part of the investment strategy reviews and the actuarial valuations. 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. | <ul style="list-style-type: none"> The Trustee receives regular funding updates. As part of the Actuarial Valuation process, the Trustee receives funding advice from the Scheme Actuary. The funding basis is agreed based on, amongst other considerations, the investment strategy. |
| Covenant | The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme. | <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> The Trustee receives regular updates on the financial performance of the sponsoring company. As part of the Actuarial Valuation process, the Trustee assesses the company covenant. |

Risk management policies and implementation: continued

As outlined in the SIP, the Scheme is exposed to a number of underlying risks and financially material considerations relating to the Scheme's investment strategy.

The Trustee's policies in respect of these issues, including how financially material considerations are taken into account in the selection, retention and realisation of investments are summarised below. A summary of the actions the Trustee has taken to implement the policies over the 12-month period to 31 December 2022 is also included.

| Risk | Definition | Policy | Actions taken in implementing the policy |
|------------------------------|---|---|--|
| Interest rates and inflation | The risk of mismatch between the value of the Scheme's assets and present value of liabilities from changes in interest rates and inflation expectations. | To hedge broadly 100% of the Scheme's liability interest rate and inflation risk. | The target hedge remained c.100% over the year to 31 December 2022. The hedge was rebalanced in March 2022 to reflect updated liability information and help to maintain the alignment between assets and liabilities. |
| 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 portfolio. | The Trustee monitors the level of liquid assets available to the LDI portfolio on an ongoing basis. The Trustee continues to hold sufficient liquidity to ensure all cashflow requirements are met in a timely and cost-efficient manner. |
| 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. | The Trustee maintained a de-risked strategy over the year to 31 December 2022. |
| 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. | The Scheme's investment adviser engages with the Scheme's credit manager on a regular basis to monitor portfolio risk. The Trustee met with the credit manager, Insight, during 2022 to review the manager's performance. Insight maintains a high-quality credit portfolio |

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| | | | with a bias towards less cyclical companies with a long-term robust business plan. |
| Environmental, Social and Governance (“ESG”) | Exposure to ESG factors, including but not limited to climate change, which can affect the performance of the Scheme’s investments. | To appoint a manager who satisfies the following criteria, unless there is a good reason why the manager does not satisfy each criteria: <ol style="list-style-type: none"> 1. Responsible Investment 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 manager on an ongoing basis.</p> | ESG actions undertaken included ongoing training and discussions with the investment adviser and meeting with Insight to discuss their ESG policies and practices. The Trustee’s investment adviser monitors the ESG policies of the investment manager on an ongoing basis In 2022, the investment adviser presented the Trustee with a review of Insight from an ESG perspective (building on a review presented in 2021) alongside actions which were communicated to Insight for future improvement on ESG. The Trustee will monitor Insight’s progress versus the actions, which to date have included a notable improvement in ESG reporting. |
| Currency | The potential for adverse currency movements to have an impact on the Scheme’s investments. | Hedge currency risk on overseas exposure. | Insight and the Scheme’s investment adviser monitor currency risk on an ongoing basis. The vast majority of currency risk was hedged over the period. |
| 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. | The Trustee address non-financial matters on an ongoing basis where required. |

Changes to the SIP

The Trustee keeps the Scheme's SIP under regular review. There were no changes to the SIP during 2022. After year-end, the Trustee has updated its SIP to meet further regulations around ESG engagement and stewardship.

The additional wording in relation to the investment management arrangements for the Scheme was, for the Voting Policy:

- The Trustee monitors the voting policies that are implemented by the Scheme's investment managers on their behalf.

And the Engagement Policy:

- The Trustee monitors the engagement policies that are implemented by the Scheme's investment managers on their behalf.
- The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
- Example stewardship activities that the Trustee have considered are listed below.
 - Selecting and appointing asset managers – the Trustee will consider potential managers' stewardship policies and activities.
 - Asset manager engagement and monitoring – on an annual basis, the Trustee assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustee's investment decision making.

And on Engagement:

- The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.

Current approach and implementation of ESG and Stewardship policies

ESG as a financially material risk

The SIP describes the Scheme's policy with regard to ESG as a financially material risk.

As outlined in the 'Investment Manager Arrangements' section of the SIP, all decisions about the day-to-day management of the assets have been delegated to the investment manager, Insight. This includes decisions about:

- Selection, retention, and realisation of investments including taking into account all financially material considerations in making these decisions.
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes the investment manager's policies in the above respects into account when monitoring the investment manager.

Environmental, Social, Governance ('ESG') factors and the exercising of rights

The framework for monitoring the manager from an ESG perspective is set out in the SIP as outlined below.

Method for monitoring and engagement:

- The Trustee's investment manager provides annual reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.
- The Trustee receives information from its investment adviser on the investment manager's approach to engagement.
- **The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.*

**This wording has been added in 2023, after the scheme year ending 31 December 2022.*

Circumstances for additional monitoring and engagement:

- The manager has not acted in accordance with their policies and frameworks.
- The manager's policies are not in line with the Trustee's policies in this area.
- There are significant changes made to the investment strategy.

Through the engagement described above, the Trustee will work with the investment manager to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

The Trustee has reviewed Insight's approach to ESG through discussions with Insight and the investment adviser and the Trustee is comfortable that Insight's ESG policies and practices satisfy requirements.

The Scheme's investment adviser engages with Insight on a regular basis including on ESG factors.

The Trustee expects Insight to engage with investee companies, including on ESG factors.

ESG summary

During 2022, the Trustee conducted an ESG review of Insight. The review builds on the previous annual ESG reviews and includes an update on the actions set for Insight following the 2021 review. Key findings of the report have been summarised below.

Key findings:

- Both the Credit and LDI portfolios satisfy requirements from an ESG perspective.
- This is believed to be a good position considering the bar for ESG integration continues to be raised, notably by fund managers with specific ESG Objectives.
- Insight have demonstrated that ESG analysis forms part of their overall credit risk analysis, which aims to assess the potential impact of material ESG risks.
- Insight have developed their own ESG ratings framework which is able to provide an ESG score for each corporate issuer within the portfolios. However, the Credit portfolio's ESG score is relatively modest due to the portfolio having no specific ESG mandate, and the focus being on a broad financial assessment.
- Whilst Insight, as manager of a credit portfolio, does not have voting rights, they are able to evidence their engagement with the underlying companies. This engagement activity covers various issues across E, S & G.
- At a firm level, Insight understands the importance of ESG integration in investment decision-making. They actively participate in industry-wide discussions on ESG related topics.
- Insight have shown they have a good understanding and capability to assess the extent of ESG risks on counterparty exposure for LDI mandates. They are willing to collaborate with wider market participants on various ESG topics, particularly those within the LDI space.
- Insight has significantly improved the level of ESG reporting for the Scheme, which is now ahead of peers in terms of detail and deliveries.
- Since the 2021 ESG review of Insight, Insight has considerably increased the volume and frequency of ESG reporting, which now makes up a significant part of the Scheme's regular reporting. Insight provide ESG metrics which are required by TCFD requirements, which may be required in future for the Scheme.
- Insight presented to the Trustee in detail on their ESG policies in 2022.

Engagement

The Trustee delegates the day-to-day management of the Scheme’s assets to the investment manager, Insight. Details of Insight’s engagement actions, including a summary of the engagements for the year to 31 December 2021, are included below.

| Manager/portfolio | Engagement summary | Commentary |
|----------------------------------|---|--|
| Insight Buy & Maintain Portfolio | <p>Total engagements: 129</p> <p>Of which included the following:</p> <p>Environment: 66</p> <p>Social: 32</p> <p>Governance: 84</p> <p>Climate: 64</p> <p>Note some engagements cover multiple topics noted above.</p> | <p>As bond investors, Insight do not have voting rights and therefore company engagement is a key part of the ESG process. Engagements are carried out on an ongoing basis throughout the year.</p> <p>It is the responsibility of Insight’s credit analysts to identify areas of engagement for each issuer and engagements are supported by the in-house ESG team.</p> <p>Examples of engagements over the period include:</p> <p>Heathrow: During Q3 2022, Insight encouraged Heathrow to strengthen and consolidate its net zero strategy particularly on Scope 3 emissions. Insight also encouraged participation in the Climate Disclosure Programme(CDP) and the Science Based Targets Initiative (‘STBI’), which enables ambitious private sector companies to set ambitious science-based emissions reduction targets.</p> <p>Insight notes that CO2 poses a significant challenge for this sector given the materiality of its Scope 3 emissions and the lack of any clear technological solution to decarbonise the sector. Although Heathrow faces challenges in its effort to decarbonise, the company is targeting achieving net zero by 2030 including Scope 3.</p> <p>Heathrow were aware of CPD and keen to understand how the data is used, and Insight will encourage them to participate going forwards. Heathrow are also working to gain STBI approval; Insight will monitor developments.</p> <p>BT: During Q4 2022, Insight engaged with BT on social and governance matters following its release of a new sustainability strategy.</p> <p>Insight queried the poor MSCI score for labour relations due to allegations of workplace discrimination and a recent vote to strike. BT offered employees a flat pay rise of £1,500 which the Union, which represents around 50% of BT’s workforce, found insufficient. BT has stated negotiations continue.</p> <p>Insight also queried how BT protects against data breaches. BT expressed that security was one of the core products offered by the firm, resulting in its security team preventing around 6,500 attacks. BT is removing Huawei components by 2027 in line with the Government’s timeline. Insight has pushed BT to improve its disclosures around security and data breaches, with KPI’s and metrics not currently being reported.</p> |

Following queries on pricing given the rising cost of living in the UK, BT believes its inflation-linked pricing, at CPI+3.9%, is fair given usage increases since COVID 19 lockdowns. It also stated its rivals have similar pricing plans and believes its pricing is fair. Insight has stated it will communicate with BT on improving transparency with customers regarding potential price increases.

ENGIE: During Q4 Insight engaged with ENGIE, a French multinational utility company, on their net zero approach. ENGIE's net zero objective includes exiting coal by 2027, carbon price integration and carbon objectives to match incentives.

ENGIE stated it does not want to sell gas or coal plants to competitors where possible as it believes itself a good steward of these assets. On its coal exit, the sale of its Brazil and Moroccan sites was announced due to the local governments indicating social issues may arise from shutting down the plants. This is due to the reliance of local communities on both plants; ENGIE expressed that the sale of coal assets is the least preferred option and ENGIE will only do so where the local community is very reliant on it, and a total shutdown is not an option.

ENGIE is positioning itself to be part of the production of green hydrogen. Its decarbonisation journey has 3 levers: renewables, biomethane, and longer-term hydrogen developments.

Insight concluded that ENGIE is on a positive environmental trajectory and is aligning to net zero according to Insight's proprietary model.

Total engagements: 24

Insight have a dedicated Responsible Oversight Committee who are responsible for overseeing a working group of LDI specialists. The group reports directly to the Head of Responsible Investment Research.

Insight engages on two areas within LDI; counterparties and the broader financial stability of markets.

Examples of engagements over the period include:

UK Debt Management Office (DMO): In Q2 2022 Insight engaged with the DMO, the issuer of UK Government Bonds, to raise several issues related to green gilt issuance and other sustainability topics. These included encouraging the DMO to increase the frequency of reporting on green gilts to annually, in line with the requirement for some UK pension funds to complete TCFD reporting on an annual basis.

The DMO expressed the frequency of reporting on green gilts is unlikely to increase in the near term. Insight has stated it will continue its ongoing engagement with the DMO on a wide range of issues and will keep engaging on ESG topics Insight deems relevant.

World Bank: In Q2 2022 Insight engaged with the World Bank, one of the largest issuers of green bonds with \$18 billion issued in 25 currencies since 2008. Insight aimed to understand its experiences issuing in the green bond market over the last 14 years, and to discover how it sees the development of impact investing within fixed income.

The World Bank expressed they were looking to use their position and influence in the financial markets to bring in capital to help tackle worldwide environmental and social challenges. They would look to partner with NGOs such as UNICEF, who do not have access to capital markets to increase private capital.

Insight LDI Portfolio

They highlighted that biodiversity was trailing in the green bond space, with most capital targeting climate change, and so the World Bank issued its Wildlife Conservation Bond in March 2022.

Insight have resolved to continue discussions with the World Bank to aid the development of the green bond market and impact investments and provide support from an investor perspective.

Bank of America (BOA): During Q3 2022, Insight engaged with BOA as part of its counterparty engagement programme, which aims to provide a high level overview of performance regarding ESG themes, and follow up on areas of underperformance.

Although in line with many other US banks, BOA's performance on Insight's sustainability questionnaire was behind its European peers. BOA's representatives stated this was consistent with feedback from stakeholders.

BOA is one of a minority of banks surveyed that has not signed up to the UN's Principles for Responsible Banking. Although targeting greater female representation in senior management roles across Europe, the Middle East and Africa by 2025 – 33% up from the current 30% - the target is not ambitious compared to its peers.

BOA's impact bond framework received a red rating from Insight and is therefore excluded from Insight's Responsible Horizons strategies. This was due to issues identified including the poorly defined use-of-proceeds categories, and if improvements are made to the framework the rating could be upgraded to light green.

After discussing improvement areas, BOA indicated the approach from ESG ratings agencies poses a challenge given its size and the complexity. Insight has organised a more detailed meeting with BOA representatives to discuss its climate strategy and fossil fuel financing policies in more detail and will provide feedback following the meeting.

Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 31 December 2022. The Scheme's assets are credit based, not equity, and therefore there are no voting rights attached.

Some of the information provided in this report is provided by the Scheme's investment manager, and so we are reliant on these third parties for the accuracy of these data sets. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the situation.