Implementation Statement

Atradius UK Pension Scheme – Year to 31 December 2021

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.

The SIP can be found online at the web address https://atradius.co.uk/documents/atr-pension-statement-sept-2021.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

The main change to the investment strategy over the period was the full redemption of the BlackRock UK Property Fund (c.5% of Scheme assets) which was disinvested on 31 March 2021. The disinvestment further de-risked the Scheme's portfolio by removing exposure to property market risk. The disinvestment represented the final step in transitioning the portfolio to a 100% allocation to a low-risk Cashflow Driven Investment ('CDI') strategy with Insight Investments ('Insight').

After considering a range of options, the Trustee decided to invest the proceeds of the BlackRock property sale into the Buy and Maintain corporate bond portfolio. The top up to the Buy and Maintain corporate bond portfolio was completed in May 2021.

The Trustee updated its SIP and Investment Implementation Document 'IID' in September 2021, reflecting the transition from the BlackRock property fund to the Insight Buy and Maintain corporate bond portfolio.

After the year end, 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 on a Technical Provisions basis. The rebalancing is aimed at maintaining broad alignment of the liability hedging portfolio with the Scheme's Technical Provisions, to reduce funding level risk.

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.

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 2021 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.	• 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.	• 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.	• 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.	• The Trustee receives regular funding updates. • As part of the 31/12/2020 Actuarial Valuation process, the Trustee received funding advice from the Scheme Actuary. The funding basis was 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.	• 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.	• The Trustee receives regular updates on the financial performance of the sponsoring company. • As part of the 31/12/2020 Actuarial Valuation process, the Trustee completed an assessment of the company covenant and concluded that the covenant is strong.

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 2021 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 100% of the Scheme's interest rate and inflation risk on a Technical Provisions basis.	The target hedge remained c.100% of TPs over the year to 31 December 2021. After the year end, 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 increased liquidity within the portfolio over the reporting year following the disinvestment from the property mandate. 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 2021. In Q1 2021, the Trustee removed the allocation to property which has further

			reduced exposure to market risk. The asset allocation is now in line with the Trustee's 'CDI' strategy, combining a broadly 100% liability hedge on a Technical provisions basis alongside a high quality, diversified credit portfolio.
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 2021 to review the manager's performance. Insight maintains a high-quality credit portfolio 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: 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 The Trustee monitors the manager on an ongoing basis.	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 2021, the investment adviser presented the Trustee with a review of Insight from an ESG perspective 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. In 2022, the investment adviser shared an updated ESG review of Insight. This review is carried out on an annual basis.

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 updated the Scheme's SIP in September 2021, reflecting the disinvestment of the BlackRock UK Property Fund and the top-up of the Insight Buy and Maintain corporate bond portfolio.

The IID that sits alongside the SIP was also updated in September 2021, reflecting the disinvestment from BlackRock.

Previously the Trustee has updated the Scheme's SIP to reflect the CDI strategy and detailed policies on the approach to ESG.

The SIP is reviewed regularly by the Trustee.

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.

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

After the Scheme year-end, the Trustee conducted an ESG review of Insight. The review builds on the 2021 ESG review of Insight 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.
- 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.
- 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.
- 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 the future for the Scheme.
- Insight presented to the Trustee in detail on their ESG polices in 2021.

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	**Total engagements: 88** Governance: 11 Environmental, Social and Governance: 34 Social and Governance: 4 Environmental and Governance: 22 Other: 17	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. 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. Examples of engagements over the period include: **Volkswagen:** Insight continues to have regular and constructive engagement with the company due to lingering controversy and corporate governance concerns related to the diesel emission scandal. Insight are of the view that the issues are now somewhat backward looking and the ESG ratings should improve. **Nutrien:** Insight continues to engage with the agricultural chemical producer on their carbon emissions and targets. The company expects to share sustainability goals and targets within the next year. The company is also exploring the disclosure of Scope 3 GHG emissions. **Pfizer:** Insight engaged with the company following their "social" rating falling due to a high number of product recalls relative to the industry. On initial engagement, Insight found the company very open about the steps they are taking to limit the number of recalls they have in the future.
Insight LDI Portfolio	**Total engagements: 20**	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: **Department for Work and Pensions (DWP):** In Q4 2021 Insight attended the second consultation on climate related reporting- an extension of the existing DWP rules that went live in October 2021, to include both portfolio-aligned metrics and further

stewardship obligations for pension schemes. Insight submitted a response and is generally supportive of the proposals.

Financial Conduct Authority (DWP): In Q4 2021 Insight engaged with the FCA and other industry associations on the FCA's proposal of new entity and product level disclosures of sustainability product labelling. Insight is supportive of the proposal but recommended that there needs to be an additional sustainable category to capture all products. Insight submitted a response to the FCA discussion paper on the topic, which they believe successfully influenced the outcome.

Voting

There were no voting rights attached to the Scheme's investments over the 12-month period to 31 December 2021. The Scheme's assets are credit based, not equity, and therefore there are no voting rights attached.

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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.