Implementation Statement

Arcadia Group Pension Scheme

Purpose of this statement

This implementation statement has been produced by the Trustee of the Arcadia Group Pension Scheme ("the Scheme") to set out how the Trustee's policies on exercising rights (including voting rights) and engagement activities have been followed over the 18-month period to 30 September 2021.

How voting and engagement policies have been followed

Based on the information provided by the Scheme's investment managers, the Trustee believes that its policies on voting and engagement have been met in the following ways:

- The Scheme delegates responsibility for carrying out voting and engagement activities to the Scheme's fund managers.
- The Trustee receives and reviews engagement policies from the asset managers, which they review to ensure alignment with their own policies.

The Scheme has no exposure to equity investments, so there is no need to include details regarding the voting activity of the Scheme's investment managers. This also means there is no use of proxy voting advisers.

Prepared by the Trustee of the Arcadia Group Pension Scheme
March 2022

Fund level engagement

The investment managers may engage with investee companies on behalf of the Trustee. The table below provides a summary of the engagement activities undertaken by each manager during the period for the relevant funds.

Engagement activities are limited for the Scheme's LDI and cash funds due to the nature of the underlying holdings, so engagement information for these assets have not been shown.

Manager	Angelo Gordon	Arcmont	Insight*	Insight
Fund name	Direct Lending Fund 3	Direct Lending Fund III Senior Loan Fund 2	Buy & Maintain Credit Fund	Liquid ABS Fund High Grade ABS Fund Global ABS Fund Secured Finance II
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes	Yes	Yes
Number of entities engaged on behalf of the holdings in this fund in the year	Data not provided	Data not provided	88	Data not provided
Number of engagements undertaken at a firm level in the year	Data not provided	Data not provided	793	

*The engagement statistics for Insight covers the 12 month period to 30 June 2021.

Examples of engagement activity undertaken over the 18 months to 30 September 2021

Angelo Gordon

Angelo Gordon engaged with a company founded in 1993, which is a collector, recycler, and manufacturer of polyethylene ("PE") films that specializes in blending postconsumer recycled resin and virgin resin. The Company has developed a "closed loop" model within the agricultural end market whereby it collects used PE from farmers (used for irrigation), washes/recycles the film and uses the recycled PE (i) to manufacture the same product for sale back to farmers and (ii) to manufacture postconsumer recycled products for other end markets.

Through the "closed loop" model the Company transforms discarded plastics into quality products. The Company has recovered, cleaned and processed more than 150 million pounds of material each year, diverting 1.5 billion pounds of waste material from landfills since its founding. The Company also saves more than 100 billion gallons of water annually with its pipe planner irrigation planning software.

The Investment Committee approved this deal.

BARNETT WADDINGHAM
beyond the expected

Arcmont

Engelmann, Promoting Human Capital Development

A leading system solution provider for the measurement, collection and transmission of heat and water consumption data. The company produces meters which are mainly used in shared residential buildings, where they measure the amount of heat i.e., energy or water consumed by each tenant to enable consumption-based billing.

Engelmann depends on a scarce supply of highly skilled employees, especially for newer technologies. As such attraction, development and retention of talent is key to the business. However, during due diligence, Arcmont became aware that the company had been involved in a relatively high number of employee disputes, and did not have formal training and development programmes in place. At the time of investment, the company had 170 Full-time equivalent (FTE) employees.

The company has historically been involved in 16 employee disputes, a limited number of which included legal proceedings (5), 4 of which were settled and 1 withdrawn. In addition, while the company has a dedicated HR function, it has historically only conducted personnel development on a case-by-case basis without company-wide policies and development guidelines.

Arcmont put in three improvement targets to help the company develop a robust approach to address a significant financially material ESG issue for the firm, whilst creating a more satisfied, productive, and engaged workforce.

- Implement employee training and development guidelines and document them in a company-wide policy which will also outline the HR function's responsibilities
- Develop a staff dispute mechanism to manage employee issues, resolve disputes and avoid legal proceedings
- €125 budget per FTE per year for training or further qualification. To be taken up by at least 50% of FTEs

These targets are tested annually, over the life of the loan.

Insight, Buy & Maintain Credit Fund

Transport for London (TFL)

TFL is embedded in the local authority finance regime and is legally required to maintain a balanced budget. They can only borrow to invest in capital assets not to cover revenue shortfalls. They have upgraded their network increasing capacity and reducing London's carbon footprint. TFL will be expanding the Ultra Low emission Zone in 2021 which is expected to reduce traffic further in central London. The Underground is fully electric and the focus for TFL is how they can explore lower carbon electricity sources like offshore wind.

Insight engaged with TFL to discuss their overall carbon transition plans and their overall ESG strategy. Insight started the discussion asking about their transition plans for their bus fleet. They have the largest bus fleet in the world and are targeting a fully electric fleet by 2037. Insight asked the reason for the long transition period preferring a more aggressive programme to move to electric. The rationale is the £1bn cost to scrap the bus fleet earlier and have 7/14 year private lease contracts. TFL also pointed out they are trialling hybrid buses and electric buses already.

The engagement confirmed that TFL are making convincing strides to transition to a lower carbon footprint. Covid has hit TFL hard to near term plans to issue a green bond to help with this transition has been temporarily shelved. Overall Insight were encouraged with the transition plans and the governance framework to ensure they are met.

Insight, Liquid ABS Fund, High Grade ABS Fund, Global ABS Fund and Secured Finance II

Together Financial Services

Together Financial Services is a UK based financial services company providing residential, commercial and buy-to-let mortgages as well as providing bridging loans and auction finance. The company has been in operation for over 40 years.

Insight had a one to one meeting with senior management at Together to discuss their responses to Insight's ESG template. The two areas of weakness where Insight focused their discussions were environmental and impact. Regarding environmental the senior management have not done much regarding monitoring risks or stress testing the business for future risks. They do not incorporate any climate risks on their loans beyond standard business practice. As with most originators carbon data and environmental metrics are limited or absent.

Regarding social impact Insight would like to see Together doing more on ensuring borrowers have flexible terms with a change in circumstances. The policies regarding third party servicers needs to be better governed with complaints independently evaluated.

Think Tank

Think Tank group is a large Australian property lending specialist established in 2006 and focused on commercial and residential lending. Insight engaged with Think Tank senior management to get a better understanding of the governance and social risks involved in their origination and servicing business.

The only areas that could be strengthened are the number of board members and some aspects of the remuneration policy. Servicing policies were of particular interest. Insight discussed the compensation and its linkage to the amounts of products sold as well as the collection recovery targets. They expressed some concerns about the complaint's governance process and the lack of independent review. Regarding environmental disclosure they have requested additional environmental metrics on the collateral pool.

Insight requested they consider implementing an environmental assessment for all new loans. This engagement is ongoing. Insight are comfortable with the overall ESG risks and they are expecting to see improvements in servicing governance and environmental disclosure going forward.