Implementation Statement

Arcadia Group Senior Executives Pension Scheme

Purpose of this statement

This implementation statement has been produced by the Trustee of the Arcadia Group Senior Executives 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 12-month period to 30 September 2022.

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 Senior Executives Pension Scheme
December 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 information for the Angelo Gordon Direct Lending Fund 3 and Arcmont Direct Lending Fund III and Senior Loan Fund 2 have not been included in the table below as the Scheme sold its holdings in these funds on 1 October 2022. 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 has also not been shown.

Manager	Insight	
Fund name	Buy & Maintain Credit Fund	Secured Finance II
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes
Number of different entities engaged on behalf of the holdings in this fund in the year	82	~30
Number of different entities engaged at a firm level in the year	609	

Examples of engagement activity undertaken over the 12 months to 30 September 2022

Insight Buy & Maintain Credit Fund

Severn Trent

Insight engaged with Severn Trent as part of their annual review in which they discussed a range of topics, predominantly around financials and environmental issues with an aim to understand Severn Trent's carbon and water management plans given their high climate risk rating of 4.9. This engagement is aligned to the following Sustainable Development Goals (SDGs): 13. Climate Action, 16. Peace Justice and Strong Institutions and 6. Clean water and sanitation.

Insight met with Severn Trent to discuss the work they are doing in reducing carbon emissions and water stresses. Insight were satisfied with their carbon update and results, but will continue to monitor their progress on water management.

Insight Secured Finance II

CVC - Cordatus

Insight engaged with CVC in addition to the standard credit underwriting process that was conducted as an integral part of their due diligence process.

Insight identified material concerns through the credit research process including:

1. Governance and permitted investment activity within the Collaterised Loan Obligation (CLO) enabled the CLO manager undue freedom to run inappropriate levels of concentration risk within the structure. Greater exposures to Second lien loans were also permitted compared to previous deals.

2. ESG restrictions within the CLO were too wide. Initial documentation permitted exposure to any obligor as long as under 50% of their revenues came from problematic sectors such as the production or marketing of pornography or prostitution, opioid manufacturing and distribution, fossil fuel extraction by unconventional sources, fracking or coal mining.

Insight started engagement in March 2022, which included discussions with both the CLO manager (CVC) and the lead broker on the deal (Jeffries). Engagement was largely written in nature and was led by a member of the secured finance team.

Given the nature of the instrument, there are no implications for voting behaviour.

As a result of Insight's direct engagement, the obligor agreed to amend the terms of the new issue and resolved all of their underlying concerns. This included the following:

1. Investment restrictions were tightened, leading to a stronger governance control over the permitted investment flexibility of the CLO manager. Second lien loan limits were materially reduced, bringing the deal in line with previous deals.

2. The CLO manager reduced the revenue limit for problematic from 50% to 5% in line with Insight's requirements.

The engagement was concluded satisfactorily, although Insight continue to engage with the issuer more broadly as part of their wider engagement.

Kensington

Insight engaged with Kensington to understand their ESG-related initiatives and to provide feedback on Kensington's alignment with Insight's commitment to engaging on climate change.

Insight spoke at length around the initiatives that Kensington currently have, including a recent AAA green ABS bond issuance which is used to fund the financing of A/B EPC rated properties. Whilst Insight agreed this was only partially green, it is a welcome step in ensuring the market focuses on its environmental obligations.

Kensington have also launched a green mortgage product, however take up rate has been slow, primarily because the costs involved for energy upgrades remain prohibitively high. Insight discussed ways they could improve structures in the Residential Mortgage Backed Security (RMBS) market to address ESG obligations, such as an environmental cash reserve, which could be used to provide borrowers in the pool very cheap financing solutions for energy upgrades, paid for by the AAA investor.

Kensington are also in the process of creating a database of EPC and environmental data stats for each loan, which they should be able to provide to the market for both new issue and existing asset pools.

Insight met with Kensington to discuss their concerns and will continue to monitor their progress against initiatives.

Pepper

Pepper are the largest Australian non-bank lender offering home, car, commercial and equipment loans. They have A$5bn of loan and lease assets under management and commenced operations in 2001.

Insight's overall ESG assessment of Pepper is positive, with an ESG rating of 2.5.

From a governance perspective this is a well-managed business with a diverse board. The Chairman and the CEO roles are separate and they have an independent risk, audit and compensation committee. From a social perspective Pepper also score highly. They have comprehensive policies in place to deal with changes in borrowers circumstances including a forbearance policy and have an independent complaints handling policy.

However, their environmental risk management was identified as an area of weakness as a result of their responses to Insight's proprietary questionnaire. Insight engaged with the issuer to improve the quality of data provided as well as details as to how environmental risks are assessed and overseen. The engagement commenced in Q3 2021. Insight raised a number of areas for discussion, but with a focus on how they manage environmental risks and how these are overseen at board level. Data disclosures are also poor, and they do not monitor the carbon impact of their mandate.

Engagement was positive, with Pepper confirming that they are in the process of improving how they gather and track environmental metrics for use in future disclosures. They have confirmed they will revert to Insight as they bring future deals as to how they are making progress in including environmental assessments as part of the future underwriting process.

Given the Australian market's vulnerability to climate risks (especially fires and flooding), this is likely to remain a key topic for engagement. However, from a credit perspective the underlying collateral has appropriate insurance in place before receiving finance or is not typically in areas vulnerable to wildfires. As such, credit impact from climate risks is, at present, limited. However, understanding these risks should form part of their credit assessment and Insight will continue to engage to help encourage changes to their underwriting process to ensure that these risks are properly captured.