

## **Repsol Sinopec Pension and Life Scheme**

### **Implementation Statement**

#### **Background**

The Department for Work and Pensions (“DWP”) has increased regulation to improve the disclosure of financially material risks. The regulatory changes recognise that Environmental, Social and Governance (“ESG”) factors are financially material to the Scheme, stating that pension scheme trustees are required to consider how these factors are managed as part of their fiduciary duty.

The regulatory changes require that the Trustee details its policies in relation to financially material risks and stewardship in its Statement of Investment Principles (“SIP”), and to demonstrate its adherence to these policies in an Implementation Report.

#### **Statement of Investment Principles**

Over the accounting year, the Scheme’s Statement of Investment Principles (“SIP”) was updated in September 2022 to reflect a number of strategic changes over June and July 2022. The latest SIP can be found online at the following address:

<https://www.repsolsinopecuk.com/files/statement-of-investment-principles.pdf>

The Trustee updated the Scheme’s SIP post-year end (June 2023) to account for the full Scheme buy-in completed in April 2023. This update also incorporated new regulations required by the DWP in relation to voting and engagement policies.

#### **Implementation Report**

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

- actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP;
- the Trustee’s current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Trustee 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; and
- voting behaviour of the investment managers (where relevant) covering the reporting year up to 31 March 2023 for and on behalf of the Scheme.

## Summary of key actions undertaken over the Scheme's reporting year

Over the accounting year, the Trustee disinvested the Scheme's equity and diversified growth allocations, moving to a lower-risk, liquid credit portfolio in preparation of a full Scheme buy-in with an insurer. As part of this, the Scheme introduced a liability hedging portfolio via a leveraged LDI allocation to manage interest rate and inflation risk in the interim period until the insurer's pricing basis was confirmed.

In March 2023, the Trustee agreed to proceed with a full Scheme buy-in with Rothesay. Once the insurer's pricing basis was known, the Trustee disinvested the Scheme's assets to a portfolio of UK Government Bond funds to match the insurer's pricing basis, with residual assets invested in a liquidity fund (with the exception of a small dividend re-investment in a UK corporate bond fund).

## Implementation Statement

This report demonstrates that the Trustee of the Repsol Sinopec Pension and Life Scheme has adhered to its investment principles and its policies for managing financially material considerations, including ESG factors and climate change.

## Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions over reporting period
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of the liabilities from changes in interest rates and inflation expectations.	To hedge 100% of the insurer's pricing basis sensitivity to interest rates and inflation.	<p>The Scheme introduced a liability hedging portfolio in July 2022, designed to hedge 100% of the Scheme's liabilities on a Gilts-flat basis. The Scheme maintained this hedge throughout the gilt market crisis in September and October 2022.</p> <p>In preparation for the full Scheme buy-in, the hedging portfolio was restructured in March 2023 to hedge 100% of the insurer's pricing basis.</p>

			<p><b>Activity in relation to the full Scheme buy-in will be reflected in the next SIP update.</b></p>
Liquidity	Ability to raise sufficient cash when required without adversely impacting the fair market value of the investment.	To invest in fully liquid assets in preparation for transfer to an insurer as part of a full Scheme buy-in.	<p>Over the accounting period, the Trustee actioned a number of investment strategy changes. All funds are either daily or weekly dealt, in preparation of the full Scheme buy-in.</p> <p><b>Activity in relation to the full Scheme buy-in will be reflected in the next SIP update.</b></p>
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.	<p>Over the accounting period, the Trustee moved to a lower risk strategy, disinvesting from equity and diversified growth to low-risk credit in preparation of the full Scheme buy-in.</p> <p>At the accounting year-end, market risk was negligible owing to the price lock portfolio.</p> <p><b>Activity in relation to the full Scheme buy-in will be reflected in the next SIP update.</b></p>

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.	At the accounting year-end, the Scheme held primarily UK government bonds and money market instruments, which have minimal credit risk.  <b>Activity in relation to the full Scheme buy-in will be reflected in the next SIP update.</b>
Environmental, Social and Governance ("ESG")	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: <ol style="list-style-type: none"> <li>1. Responsible Investment ('RI') Policy / Framework</li> <li>2. Implemented via Investment Process</li> <li>3. A track record of using engagement and any voting rights to manage ESG factors</li> <li>4. ESG specific reporting</li> <li>5. UN PRI Signatory</li> <li>6. UK Stewardship Code signatory</li> </ol> The Trustee monitors the managers on an ongoing basis.	Further detail provided later in this report.  <b>No new actions over accounting year-period.</b>

## ESG as a financially material risk

The SIP describes the Trustee's policies with regards to ESG as a financially material risk.

The table below outlines the areas which the Scheme's investment managers were assessed on over the accounting year-period when evaluating their ESG policies and engagements.

Area	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none"> <li>• The investment managers provide annual reports on how they have engaged with investee companies regarding ESG issues.</li> <li>• The Trustee receives information from Isio on the investment managers' approaches to engagement.</li> </ul>	<ul style="list-style-type: none"> <li>• The investment manager has not acted in accordance with their policies and frameworks.</li> <li>• The investment managers' ability to abide by the Trustee's ESG policies ceases due to a change in the manager's ESG policies.</li> </ul>

Post the accounting-year end, the Scheme's liabilities were transferred to an insurer as part of a full Scheme buy-in. Therefore, ESG risks are no longer applicable to the Scheme.

## ESG summary and engagement

Over the accounting year, the Trustee did not undertake a formal ESG review of the Scheme's investment managers, either directly or indirectly via Isio as the Scheme's investment adviser.

However, Isio continued to engage with the Scheme's investment managers on their ESG policies to ensure they meet a set of minimum criteria, as defined by Isio.

## Engagement activity

At the accounting year-end, the Scheme's remaining mandates were managed by Insight.

At a firm level, Insight are key collaborators within a number of ESG initiative groups and have clear goals for integrating ESG into investment decision making. Furthermore, Insight made enhancements over the accounting year-period to their counterparty engagement process with the objective of achieving a greater level of impact in their engagements with counterparties.

### **Voting activity**

At the accounting year-end, all assets were invested in either fixed income assets or money market instruments. Voting activity is significantly limited given the nature of these holdings.