Responsible Investment Policy

August 2019

B&CE

For people, not profit

Responsible investment

Policy statement

B&CE is a not-for-profit organisation committed to improving the financial welfare of all those working in construction and providing workplace pensions for employers of all sizes and from all sectors. We believe in responsible practices not only for ourselves but also for the entities in which we invest.

'Responsible investment' as a term can cover issues that present a major opportunity – or a genuine threat to members' interests – which we should rightly look to identify, understand and evaluate. It is, however, a broad term that needs to be treated with care, and one where we must ensure our focus is on the interests of our members rather than external interests.

Our policy is to ensure that the investment strategy is set in the interests of our members and being conscious of responsible investment issues where they're material to those interests. This means allocating governance time to debate and consider the issues, as far as this is reasonably practicable. These issues are multi-faceted and require systematic, fact-based analysis.

B&CE has an Investment Committee to govern the various pools of assets of the Group (B&CE Holdings Limited and its subsidiaries). To enable us to make high quality decisions, the fact-finding and analysis is delegated to the Chief Investment Officer of B&CE and our independent investment advisers.

Process

We see responsible investment as having three elements which are, as far as reasonably practicable, seeking to:

1. Exclude companies from investment portfolios if they don't meet certain minimum ethical criteria, and/or proactively seeking out investments which are likely to have a positive impact outside of the company
2. Shape portfolios to reflect environmental, social and governance (ESG) factors that could positively or adversely affect investment returns
3. Engage with companies in an investment portfolio regarding issues believed to have a material impact (both positive and negative) on future returns

We'll consider these three elements when setting and reviewing investment strategy and to take appropriate actions. Where we assess the impact of incorporating an investment approach into our portfolios is likely to have a material affect on outcomes, we consider its inclusion in our investment processes, either by seeking to exclude companies or reshape portfolios. Where we feel an issue should be raised, but that there is no clear path to altering our portfolios, we'll consider engagement with the relevant companies on these issues.

In deciding between these routes, we look to evaluate the:

- Expected impact on investment returns
- Likelihood of the measures having a material impact on the issue in wider society
- Cost, transparency and investment merit of the available implemented investment processes
- Ongoing governance challenges of the structures concerned

The significance of some factors is both scale and time dependant. Certain actions can't be implemented cost effectively until assets reach a certain size. This means that some actions may not be appropriate to pursue, either now or in the foreseeable future. We, therefore, believe it's good governance to try, wherever reasonably practicable, to:

- Ensure our research process can identify investment approaches which can have a positive material impact on both returns and, potentially, ESG issues
- Review proposals addressing issues from the perspective of our members' interests and returns
- Test and challenge such options before considering implementation, including commissioning further research where appropriate

We expect these principles to remain but recognise the approaches we develop and implement may be adjusted proportionately as the assets held by B&CE grows and also in response to market developments. For example, greater scale may enable us to devote resources to engagement or alternative investment approaches.

Current position and future plans

B&CE primarily invests through passively managed pooled investment vehicles where our assets represent only a small proportion of the capital invested by the passive manager.

Passive investing requires our managers to invest in line with indices and, therefore, passive managers are 'forced buyers' of all/most stocks in the indices being tracked. However, we recognise the important role that we have as an asset owner, and the opportunity to influence positive ESG standards both through the voting on key policies and decisions at general meetings. Opportunity also arises through our managers' ability to engage with the boards on our behalf, which we would influence and monitor.

Our investment manager, Legal & General Investment Management (LGIM), carries out the majority of our stewardship activity. We've established agreed ownership/voting principles with LGIM which are set out in Appendix 2.

Some assets within the B&CE structure are pension scheme assets and as such have a trustee board who retain responsibility for any decisions made about scheme assets. B&CE works in partnership with these boards but accepts they may take different views on topics as they arise, recognising their different characteristics, memberships and objectives.

We'll increase the amount of stewardship activity we carry out over time as we believe this can deliver enhanced value for money for cost-sensitive investors. Because our approach to responsible investment is evolving, this policy will be subject to change.

Appendix 1: Responsible investment – engagement principles

We've created a list of principles which we'll consider when measuring our managers.

We see ourselves as becoming an increasingly active owner, influencing both companies themselves and the policies of the asset managers we use.

We're looking for managers who are prepared to:

1. Be transparent and accountable – for example by
    - Engaging in dialogue, honest evaluation, continuous enhancement and increased transparency of their stewardship practices
2. Enhance and evolve ESG practices in markets – for example by
    - Applying higher voting standards where governance practices don't meet global investor expectations
    - Identifying clear engagement priorities that focus on sector, thematic and/or market specific issues
    - Collaborating with other investors when collective action is needed.
3. Develop long-term partnerships with companies and guide them through the evolution in ESG practices – for example by
    - Engaging constructively with management/boards to effect change in investee companies
    - Publishing thought leadership papers to inform directors on changing ESG practices
    - Communicating clearly our expectations and voting rationale during engagement

In addition, we'll consider whether our managers are signatories to the UNPRI and UK Stewardship code.

Legal & General Investment Management

We've agreed with LGIM, who manage the majority of assets held by the Group, that the building of relationships with the boards and management teams of investee companies and the monitoring of their performance is important in maximising the long-term value of its clients' investments. On behalf of B&CE, the Chief Investment Officer has evaluated – and will continue to evaluate – the breadth and capability of LGIM's function.

LGIM has a dedicated team of asset stewardship professionals who help it carry out its duties as a responsible investor. These duties include researching companies, identifying any issues and then engaging with them as necessary. Voting and engagement focuses on a range of themes including:

- Election of Directors and Boards
- Accounting and audit related issues
- Capital structure, reorganisation and mergers
- Compensation
- Environmental and social issues

The LGIM Corporate Governance team has responsibility for engaging and voting with listed companies to safeguard and enhance clients' assets, and identifying and engaging on emerging governance topics. The team is structured and supported in a way that aims to minimise potential conflicts of interest. However, when these arise LGIM is able to act to achieve the best outcome for all clients.

There are also a number of additional tools which LGIM use to put pressure on companies, such as engaging with the company's advisers and brokers, voting adversely at the company's general meeting and making public statements, although this is used as a last resort.

As we invest in funds alongside other investors, we recognise that LGIM's prioritisation of issues for engagement and voting may not be the same as ours. As far as practicable, we go through a formal engagement process with LGIM every year to ensure there is a good alignment of views and issues to prioritise over the coming year.

Monitoring and reporting on responsible investment

We receive and review reports on the voting activity of LGIM on our behalf and the engagement activity of LGIM on our behalf.

In addition, part of our analysis at present is to research quantitative ESG scoring processes to understand our aggregate exposure to ESG risks. This'll enable us to report on how elements of our investment approach reduce ESG risks relative to market averages.

We provide copies of this policy on our website.

APPENDIX 2: B&CE's proxy voting and engagement principles

When voting and engaging with companies in global markets, B&CE expects its managers, where reasonably practicable, to vote and engage in a way that protects and promotes good standards and practice and, therefore, the long-term economic value of our members' investments. Principally, we believe the primary responsibility of the board of directors of each of the underlying companies that our funds invest in, is to preserve and enhance shareholder value and protect shareholder interests.

These guidelines address our aspirations in relation to areas such as board structure, audit related issues, capital structure, remuneration, environmental, social and other governance related issues.

Directors and Boards of investee companies

We believe that a well constituted board of directors, with a good balance of skills, expertise and independence, provides the foundations for a well governed investee company. Director independence, director succession planning, board diversity, evaluations and refreshment, and company governance practices are all useful measures of board quality. We expect our managers to vote for the election/re-election of directors on a case-by-case basis after considering the various factors.

In principle, we believe independent directors are crucial to good corporate governance and help management establish sound corporate governance policies and practices. A sufficiently independent board will most effectively monitor management and perform oversight functions necessary to protect shareholder interests. Further, we expect boards of FTSE 350 listed companies wherever reasonably practicable to have at least one female board member.

B&CE's broad criteria for director independence in UK companies include factors such as:

- Participation in related-party transactions and other business relations with the company
- Employment history with the company
- Excessive tenure and a dominance of long-tenured directors
- Relations with controlling shareholders
- Family ties with any of the company's advisers, directors or senior employees
- If the company classifies the director as non-independent

Audit related issues

Companies should have robust internal audit and internal control systems designed for the effective management of any potential and emerging risks to company operations and strategy. The responsibility for setting out an internal audit function lies with the audit committee, which should include where possible independent non-executive directors.

Appointment of external auditors

B&CE believes that a company's auditor is an essential feature of an effective and transparent system of external supervision, and that shareholders should be given the opportunity to vote on their appointment or re-appointment at the annual meeting.

Managers should consider voting against members of the audit committee if they've concerns with audit related issues or if the level of non-audit fees to audit fees is significant. In certain circumstances, managers should consider auditor tenure when evaluating the audit process.

Shareholder rights and capital related issues

Share issuances

The ability to raise capital is critical for companies to carry out strategy, grow, and achieve returns above their cost of capital. The approval of capital raising activities is fundamental to shareholders' ability to monitor the amounts of proceeds and to ensure capital is deployed efficiently. B&CE supports capital increases that have sound business reasons and are not excessive relative to a company's existing capital base.

Share repurchase programmes

B&CE generally supports a proposal to repurchase shares, other than cases where:

- The issuer doesn't clearly state the business purpose for the programme
- A definitive number of shares to be repurchased
- Specify the range of premium/discount to market price at which a company can repurchase shares
- The timeframe for the repurchase.

Managers should consider voting against share re-purchase if any of these criteria are not adequately satisfied or for requests that allow share re-purchases during a takeover period.

Mergers and acquisitions

Company mergers or reorganisations often involve proposals relating to reincorporation, restructurings, mergers, liquidations, and other major changes to the corporation. We'd generally expect managers to support proposals that are in the best interests of the shareholders, demonstrated by enhancing share value or improving the effectiveness of the company's operations. In general, we'd expect managers not to support provisions that are not viewed as economically sound or are thought to be destructive to shareholders' rights.

We'd generally expect managers to support transactions that maximise shareholder value. Some relevant considerations include, but are not limited to, the following:

- Offer premium
- Strategic rationale
- Board oversight of the process for the recommended transaction, including, director and/or management conflicts of interest
- Offers made at a premium and where there are no other higher bidders
- Offers in which the secondary market price is substantially lower than the net asset value.

Remuneration

Executive pay

Despite the differences among the types of plans and awards possible, B&CE has a simple underlying philosophy – there should be a direct relationship between remuneration and company performance over the long term.

Shareholders should have the opportunity to assess whether pay structures and levels are aligned with business performance, including profit growth, balance sheet strength and risk management, and sustainable long-term shareholder value growth. When assessing remuneration policies and reports, we generally expect managers to have regard to factors such as:

- Adequate disclosure of different remuneration elements
- Absolute and relative pay levels
- Peer selection and benchmarking
- The mix of long-term and short-term incentives
- Alignment of pay structures with shareholder interests
- Corporate strategy and performance.

Equity incentives plans

B&CE may not support proposals on equity-based incentive plans where insufficient information is provided on matters such as grant limits, performance metrics, performance and vesting periods and overall dilution. B&CE doesn't generally support options under such plans being issued at a discount to market price or plans that allow for re-testing of performance metrics.

Non-executive director pay

Authorities seeking shareholder approval for non-executive directors' fees are generally not controversial. B&CE generally supports resolutions regarding directors' fees unless disclosure is poor and we're unable to determine whether they are excessive relative to fees paid by other companies in the same country or industry. Where possible, managers should evaluate on a company-by-company basis any non-cash or performance related pay to non-executive directors.

Risk management

B&CE believes that risk management is a key function of the board of any investee company, which is responsible for setting the overall risk appetite of that company and for providing oversight on the risk management process established by senior executives. Where possible, B&CE expects companies to disclose how the board provides oversight on its risk management system and to identify key risks facing the company. Boards should also review existing and emerging risks as they can alter with a changing political and economic landscape, or as companies diversify or expand their operations into new areas.

Environmental and social issues

B&CE considers the financial and economic implications of environmental and social issues first and foremost. In their public reporting, we expect companies to disclose wherever practicable information on relevant management tools and material environmental and social performance metrics. We support efforts by companies to try to demonstrate how sustainability fits into their overall strategy, operations and business activities. As far as practicable, managers should evaluate these risks and shareholder proposals relating to them on an issuer by issuer basis, understanding that environmental and social risks can vary widely depending on company industry, its operations, and geographic footprint. Managers should also consider acting against the re-election of members of the board if they have serious concerns over ESG practices and the company hasn't been responsive to shareholder concerns.

B&CE Holdings Limited
Manor Royal, Crawley, West Sussex, RH10 9QP. Tel 01293 586666. www.bandce.co.uk

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