Building & Civil Engineering Benefits Scheme

Statement of Investment Principles

September 2020

Introduction

This is the Statement of Investment Principles prepared by the Directors of the Building and Civil Engineering Benefits Scheme Trustee Limited ("the Trustee") of the Building and Civil Engineering Benefits Scheme ("the Scheme"). This statement sets down the principles governing decisions about investments for the Scheme to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004, and of the Occupational Pension Schemes (Investment) Regulations 2005. It also incorporates changes as required by The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

In preparing this statement the Trustee has obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority.

This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates), and Scheme Funding legislation.

The Trustee will review this statement at least every three years or if there is a significant change in the policy on any of the areas covered by the statement.

The investment powers of the Trustee are set out in Clause 8 of the Definitive Trust Deed & Rules, dated 24 February 1982. This statement is consistent with those powers.

The combined assets of the Scheme include both the assets held in the Scheme for the Lump Sum Retirement Benefits ("LSRB assets") and the assets of the AVC Fund ("AVC assets").

Because the Scheme has operated as a closed fund since April 2001, contributions have ceased from that date and the future development of the value of the Scheme assets is therefore wholly dependent on investment performance.

Choosing Investments

The Trustee has segregated the AVC assets from LSRB assets and invests these independently.

The Trustee's policy is to set the overall investment targets for the LSRB assets and the AVC assets and then monitor the performance of their managers against those targets. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

The day-to-day management of the Scheme's assets is delegated to the fund managers. The Scheme's fund managers are detailed in the Appendices to this Statement. The fund managers are authorised and regulated by the Financial Conduct Authority, and are responsible for stock selection and the exercise of voting rights, as noted later in this statement.

The Trustee reviews the appropriateness of the investment strategies of the Scheme on an ongoing basis. This review includes consideration of the continued competence of the fund managers with respect to performance within any guidelines set.

Investment Objectives

The Trustee's main investment objectives are:

- To invest assets prudently to ensure the lump sum retirement benefits promised to members can be provided as far as can reasonably be expected.

- to ensure that they can meet the members' entitlements under the Trust Deed and Rules as they fall due;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet the cost of current benefits which the Scheme provides;
- to reduce the risk of the assets failing to meet the liabilities over the long term;
- to minimise the long-term costs of the Scheme by maximising the return on the assets whilst having regard to the above objectives.
- To invest assets prudently to ensure the AVC Fund benefits promised to members can be provided as far as can reasonably be expected.

The Trustee is aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities at any time. The Trustee has obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

Kinds of investments to be held

The Scheme can invest in a wide range of asset classes including:

- Equities;
- Bonds;
- Cash;
- Property;
- Alternatives, including private equity, private debt, private real estate, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives;
- Annuity policies.

Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risks in the portfolio or for the purposes of efficient portfolio management.

In setting the investment strategy, the Trustee has taken account of the Scheme's liability profile as well as the constraints the Trustee's face in achieving their objectives.

The balance between different kinds of investments

The Scheme invests in assets that are expected to achieve the Scheme's objectives. The allocation between different asset classes is contained within Appendices 1 and 2 to this Statement.

The Trustee considers the merits of both active and passive management for the various elements of the portfolio and may select different approaches for different asset classes. The current arrangements are set out in the Appendices to this Statement.

From time to time the Scheme may hold cash and therefore deviate from its strategic or tactical asset allocation in order to accommodate for any short term cashflow requirements or any other unexpected items.

The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and therefore the Scheme's asset allocation will be expected to change as the Scheme's liability profile matures.

Risks

The Trustee has considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities and considers the majority of these risks in a qualitative rather than quantitative manner:

Risk versus the liabilities The Trustee will monitor and review the investment strategy with respect to the liabilities following each actuarial valuation. The investment strategy will be set with consideration of the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.

Asset Allocation risk The asset allocation for the LSRB assets is detailed in Appendix 1 and the asset allocation for the AVC assets is detailed in Appendix 2 to this Statement and is monitored on a regular basis by the Trustee.

Fund manager risk The Trustee monitors each of the Scheme's fund manager's performance on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

Concentration risk Each fund manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

Loss of investment The risk of loss of investment by each fund manager and custodian is assessed by the Trustee.

Liquidity risk The Scheme invests in assets such that there is a sufficient allocation to liquid investments that can be converted into cash at short notice given the Scheme's cash flow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.

Solvency and mismatching Risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustee is aware that the asset allocation required to minimise the volatility of the solvency position may be different from that which would minimise the volatility on the Scheme's funding basis.

Currency risk The Scheme's liabilities are denominated in sterling. The Scheme may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management.

Operational risk The Trustee has sought to minimise the risk of fraud, poor advice or acts of negligence by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Expected return on investments

The Trustee has regard to the relative investment return and risk that each asset class is expected to provide. The Trustee is advised by their professional advisors on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investments is delegated to the fund managers.

The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

In considering the expected return from investments, the Trustee recognises that different asset classes have different long-term expected returns and expected volatilities relative to the liabilities.

Having established the investment strategy, the Trustee monitors the performance of each fund manager against an agreed benchmark as frequently as appropriate according to market conditions (further information is provided later in this statement) and the Scheme's funding position. The Trustee meets the Scheme's fund managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

Realisation of investments

The Trustee has delegated the responsibility for buying and selling investments to the fund managers. The Trustee has considered the risk of liquidity as referred to above.

Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value shown in the Scheme accounts.

Environmental, Social and Governance considerations and investment stewardship

The Trustee believes that Environmental, Social and Governance ("ESG") considerations, including climate change (referred to together as "ESG issues"), have the potential to have a financially material impact over the long time period in which benefits are expected to be paid – the Trustee appreciates that the method of incorporating ESG within an investment strategy and process will differ between asset classes. A high-level summary of the Trustee's views on ESG integration within each asset class the Scheme invests in is outlined below:

Multi-asset funds – the Trustee believes that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's multi-asset fund managers. The investment process for each multi-asset fund manager should take ESG issues into account when selecting holdings. The approach and level of ESG integration may differ depending on the nature of the fund and the types of underlying investments made. Further to this, the process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

LDI and money market– the Trustee believes there is often less scope for ESG issues to improve risk-adjusted returns in these asset classes because:

- of the high level of exposure to government bonds within the Scheme's LDI holdings;
- of the short-term nature of the assets within money market funds.

It is worth noting that when transacting in LDI and money market funds, the Trustee requires due diligence is undertaken to assess the credit worthiness of the counterparty both initially and ongoing, whilst at the same time looking to achieve best execution. The Trustee expects this to be more relevant for longer term trades compared to shorter term trades and should incorporate ESG factors where these assist with the credit worthiness assessment.

The Trustee is comfortable that all of the investment managers are managing their respective funds with ESG taken into account in a reasonable way for that particular asset class and in accordance with their views on financially material factors, as set out in this statement, in particular with regards to the selection, retention, and realisation of the underlying investments held. Each of the Scheme's fund managers will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk.

The Trustee will consider ESG issues when appointing and reviewing managers to ensure that they are appropriately taken into account given the asset class involved.

The Trustee has taken a decision to avoid investing in any asbestos mining related investments, but accepts that this may not always be possible when using pooled investment vehicles. This is not expected to have a material impact on the risk-adjusted returns. Aside from the above, no other "non-financial considerations" are taken into account when deriving the investment strategy.

The Trustee acknowledges the importance of ESG and climate risk within their investment decision making framework. The Scheme invests exclusively in pooled funds at present and this policy is therefore framed around how the Trustee interacts with, monitors, and may seek to influence, the pooled fund managers. When delegating investment decision making to their investment managers the Trustee provides their investment managers with a benchmark they expect the investment managers to either follow or outperform. The benchmarks to be used reflect the positioning the investment manager is expected to take within an investee company's corporate structure.

The Trustee is firmly of the belief that ESG and climate risk considerations extend over the entirety of a company's corporate structure and activities i.e. that they apply to equity, credit and property instruments or holdings. The Trustee also recognises that ESG and climate related issues are constantly evolving and along with them so too are the products available within the investment management industry to help manage these risks.

The Trustee considers it to be a part of their investments managers' roles to assess and monitor developments in the capital structure for each of the companies in which the manager invests. The Trustee also considers it to be part of their investment managers' roles to assess and monitor how the companies in which they are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Scheme. The Trustee expects the investment manager to employ the same degree of scrutiny for pooled funds as if the investment had been made on a direct basis. Should an investment manager be failing in these respects, this should be captured in the regular monitoring of the managers' activity.

The Scheme's investment consultant is independent and no arm of their business provides asset management services. This, and their FCA Regulated status, makes the Trustee confident that the investment manager recommendations they make are free from conflict of interest.

The Trustee expects all investment managers to have a conflict of interest policy in relation to their engagement and ongoing operations. In doing so the Trustee believes they have managed the potential for conflicts of interest in the appointment of the investment manager and conflicts of interest between the Trustee/investment managers and the investee companies.

Further details on aspects of the above, together with the Trustee's policies in relation to the stewardship of investments, including engagement with investee firms and the exercise of the voting rights associated with the investment are contained in the attached "Responsible Investment Policy" appendix.

Asset manager arrangements

Incentivising alignment with the Trustees' investment polices

Prior to appointing the investment manager, the Trustee discusses the investment manager's benchmark and approach to the management of ESG and climate related risks with the Scheme's investment consultant, and how they are aligned with the Trustee's own investment aims, beliefs and constraints.

When appointing an investment manager, in addition to considering the investment manager's investment philosophy, process and policies to establish how the manager intends to make the required investment returns, the Trustee also considers how ESG and climate risk are integrated into these. If the Trustee deems any aspect of these policies to be out of line with their own investment objectives for the part of the portfolio being considered, they will consider another manager for the mandate.

The Trustee carries out a strategy review at least every 3 years where they assess the continuing relevance of the strategy in the context of the scheme and their aims, beliefs and constraints. The Trustee monitors the investment managers' approach to ESG and climate related risks on an annual basis.

In the event that the investment manager ceases to meet the Trustee' desired aims, including the management of ESG and climate related risks, using the approach expected of them, the Trustee will expect to work with the investment manager to improve the alignment of their objectives. Should the collaboration with the investment manager be deemed unsuccessful by the Trustee, their appointment may be reviewed or terminated. The investment managers have been informed of this by the Trustee.

Incentivising assessments based on medium to long-term, financial and non-financial considerations

Investment manager ESG policies are reviewed in the context of best industry practice and feedback is/will be provided to the investment manager.

The Trustee is mindful that the impact on performance of ESG and climate change may have a long-term nature. However, they are aware that the risk associated with them may be much shorter term in nature. The Trustee has acknowledged this in their investment management arrangements.

When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustee assesses these over mutually agreed rolling timeframes. The Trustee believes the use of rolling timeframes, typically 3 to 5 years, is consistent with ensuring the investment manager makes decisions based on an appropriate time horizon. In the case of assets that are actively managed, the Trustee expects this to be sufficient to ensure an appropriate alignment of interests.

The Trustee expects investment managers to be voting and engaging on behalf of the fund's holdings and the Scheme monitors this activity within the Implementation Statement in the Scheme's Annual Report and Accounts. The Trustee does not expect ESG considerations to be disregarded by the investment manager in an effort to achieve any short-term targets.

Method and time horizon for assessing performance

The Trustee monitors the performance of their investment managers over the medium to long time periods that are mutually agreed with the investment managers, and are consistent with the Trustee's investment aims, beliefs and constraints. The investment consultant assists the Trustee in this monitoring process.

The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustee based on the assets they manage on behalf of the Trustee.

The Trustee believes that this fee structure enables the investment manager to focus on long-term performance without worrying about short term dips in performance significantly affecting their revenue.

The Trustee asks the Scheme's Investment Consultant to assess if the asset management fee is in line with the market when the manager is selected, and the appropriateness of the annual management charges are considered as part of the review of the investment strategy, at least every three years.

Portfolio turnover costs

During the investment manager appointment process, the Trustee considers both past and anticipated portfolio turnover levels. Overall performance is assessed as part of the regular investment monitoring process, which can be impacted by turnover costs. The Trustee recognises that there are circumstances when turnover costs are unavoidable e.g. changing manager.

The Trustee recognises that turnover costs are necessary where they are incurred to ensure the scheme remains in investments that will provide, rather than detract from performance over the long term. They are mindful that high turnover costs have the potential to adversely affect overall performance. When monitoring turnover costs both the level and reason behind them are considered and, if necessary, investigated further.

The Trustee acknowledges that for some asset classes, such as LDI, a higher turnover of contracts such as repurchase agreements, can be beneficial to the fund from both a risk and cost perspective.

Duration of arrangement with asset manager

For the open-ended pooled funds in which the Scheme invests, there are no predetermined terms of agreement with the investment managers.

The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustee's investment aims, beliefs and constraints is assessed every three years, or when changes deem it appropriate to do so more frequently. As part of this review the ongoing appropriateness of the investment managers, and the specific funds used, is assessed.

Agreement

This statement was agreed by the Trustee, and replaces any previous statements. Copies of this statement and any subsequent amendments will be made available to the fund managers, the actuary and the Scheme auditor upon request.

Signed:.. Date: ....

On behalf of the Building & Civil Engineering Benefits Scheme Trustee Limited

Appendix 1 Note on investment policy of the Scheme as at 31 August 2020 in relation to the current Statement of Investment Principles

Choosing investments

The Trustee has appointed the following fund managers to carry out the day-to-day investment of the fund:

- State Street Global Advisors
- BNY Mellon Investment Management;
- Partners Group
- Legal & General Investment Management Limited.

The fund managers are authorised and regulated by the Financial Conduct Authority. The Trustee has appointed Barnett Waddingham LLP to advise on investment matters.

Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes:

- Equities;
- Multi-asset funds investing in a range of asset classes;
- Liability Driven Investment.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification. The investment benchmarks and objectives for each fund manager are given below:

Fund manager	Asset class	Benchmark	Objective
State Street	Equities	FTSE World ex-UK Index, 100% Hedged to Sterling	To track the return on the benchmark
BNY Mellon	Multi-asset	1-month LIBOR	1-month LIBOR+4% pa over 5 years before fees
Legal & General	Liability Driven Investment ("LDI")	Bespoke liability benchmark	Mitigate the impact on the Scheme's funding level impact to changes in interest rate expectations
Partners Group	Multi-asset	N/A	8 – 10% pa absolute (net)

The performance of fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The Scheme has a current strategic asset allocation as set out in the table below (this is currently under review). The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The B&CE Investment Committee (on behalf of the Trustee) seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Investment Committee will consider rebalancing from time to time.

Fund manager	Strategic asset allocation
Growth portfolio	**17%**
Partners Group	10%
BNY Mellon	3.5%
State Street	3.5%
Protection portfolio	**83%**
Legal and General	83%
Total portfolio	**100%**

Realisation of investments

The Scheme's cash flow requirements are expected to be met by disinvestment of some of the investments, disinvestments, usually to move the overall allocation between the growth and protection portfolios closer to the interim strategic allocation .

Appendix 2 Note on investment policy of the AVC assets of the Scheme as at 31 August 2020 in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have appointed the following fund managers to carry out the day-to-day investment of the AVC fund:

- State Street Global Advisors
- BNY Mellon Investment Management;
- Legal & General Investment Management Limited.

The fund managers are authorised and regulated by the Financial Conduct Authority.

The Trustee has appointed Barnett Waddingham LLP to advise on investment matters.

Kinds of investments to be held

The Trustee has considered all asset classes and has gained exposure to the following asset classes:

- Equities;
- Multi-asset funds investing in a range of asset classes;
- Liquidity/Cash.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's benefit profile, funding position, expected return of the various asset classes and the need for diversification.

The investment benchmarks and objectives for each fund manager are given below (in the process of being implemented):

Fund manager	Asset class	Benchmark	Objective
State Street	Equities	FTSE World ex-UK Index, 100% Hedged to Sterling	To track the return on the benchmark
BNY Mellon	Multi-asset	1-month LIBOR	To outperform the benchmark by 4% pa over rolling 5 year periods before fees
Legal & General	Cash/Liquidity	7 day LIBID	To track the benchmark return

The performance of fund managers will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short term and long term performance.

The current asset allocation of the AVC Fund as at 31 August 2020 is set out in the table below (this is currently under review). The Trustee recognises that the asset allocation of investments in different asset classes will vary over time as a result of market movements. The Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances.

Fund manager	Current asset allocation
Growth portfolio	**18.7%**
BNY Mellon	10.3%
State Street	8.4%
Protection portfolio	**81.3%**
Legal and General	81.3%
Total portfolio	**100.0%**

Realisation of investments

The AVC Fund's cash flow requirements are expected to be met by disinvesting from the Legal and General assets held.

Appendix 3 Responsible Investment Policy

B&CE Benefits Scheme Responsible Investment Policy

September 2020

Responsible Investment

POLICY STATEMENT

The Benefits Scheme is a registered occupational pension scheme established in 1982 by trust deed to provide death and retirement benefits to members who worked in the construction industry. The rules set out in a schedule to the trust deed, cover lump sum retirement benefits, voluntary contributions and death benefits. From 9 April 2001 the Benefits Scheme closed to new lump sum retirement benefit and voluntary contribution members and from 30 October 2010 the Benefits Scheme also closed its death benefits for deaths occurring after this date. "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 therefore to ensure that investment strategy is set in the interests of our members and being conscious of Responsible Investment issues where they are material to those interests. This means allocating governance time to their debate and consideration, as far as this is reasonably practicable. These issues are multi-faceted and require systematic, fact-based analysis.

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 do not 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; and
3. Engage with companies in an investment portfolio regarding issues believed to have a material impact (both positive and negative) on future returns.

Our policy is to give consideration to these three elements when setting and reviewing investment strategy and to consider appropriate actions. Where we assess that the impact of incorporating an investment approach into our portfolios is likely to have a material effect 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 will consider engagement with the relevant companies on these issues.

In deciding between these routes, we look to evaluate:

- the expected impact on investment returns;
- the likelihood of the measures having a material impact on the issue in wider society;
- the cost, transparency and investment merit of the available implemented investment processes; and
- the ongoing governance challenges of the structures concerned.

The significance of some factors is both scale and time dependant: certain actions cannot be implemented cost effectively until assets reach a certain size. This means that certain actions may not be appropriate to pursue, either now or in the foreseeable future. We therefore believe it is 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; and

- test and challenge such options before considering implementation, including commissioning further research where appropriate.

Appendix 1: Responsible Investment – engagement principles

We have created a list of principles which we will consider when measuring and selecting our managers.
We are looking for managers who are prepared to:
Be transparent and accountable – for example by

- engaging in dialogue, honest evaluation, continuous enhancement and increased transparency of their stewardship practices

Enhance and evolve ESG practices in markets – for example by

- Applying higher voting standards where governance practices do not meet global investor expectations;
- Identifying clear engagement priorities that focus on sector, thematic and/or market specific issues; and
- Collaborating with other investors when collective action is needed.

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; and
- Communicating clearly our expectations and voting rationale during engagement

In addition, we will take into account whether our managers are signatories to the UN backed PRI and UK Stewardship Code.

Asset Managers and Responsible Investment

The Scheme current invests with several asset managers across a number of different asset classes:

- Legal & General Investment Management
- State Street Global Advisors
- BNY Mellon
- Partners Group

The Scheme primarily invests through managed pooled investment vehicles where our assets may represent only a small proportion of the capital invested by the manager. So we understand that we may in some cases be constrained by the policies of the manager.
However, we recognise the important role that we have, as an asset owner, and the opportunity to influence positive ESG standards through our managers' ability to engage with the boards on our behalf, which we would influence and monitor. For each asset class held by the Scheme we expect our chosen manager to meet the following principles:
Public Equities & Fixed Interest

We have established agreed ownership/voting principles with our managers which are set out in Appendix 2. These principles 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

As we invest in funds alongside other investors, we recognise that our chosen managers 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 each manager every year to ensure that there is a good alignment of views and issues to prioritise over the coming year.

Real Estate & Property

We expect our managers to be committed to responsible investment and sustainability in their property portfolio and aim to achieve good practice through the acquisition, development and management activities. These activities include:

- Protection of the environment, including prevention of pollution, sustainable resource use, climate change mitigation through adoption of best practice.
- Meet and where appropriate exceed legislative and other requirements, including ensuring long term efficiency targets are aligned with ratified EU targets.
- Report and disclose sustainability and environmental performance of our portfolios.

Private Equity & Private Debt

Within this asset class Responsible Investment policies can have a greater impact and offer more opportunity for direct management because of the additional control and influence through all phases of ownership.

Acquisition / Screening
- Understand the impacts on markets and industries of sustainability megatrends (e.g. climate change, demographics and water constraints).
- Negative screening of illegal and harmful products/services

Holding Period
- Complete ESG assessment
- Identify and mitigate material ESG risks
- Use ESG-related issues to generate value

Exit
- Reflecting the value of ESG programmes in the exit price
- Identify and meet ESG-related market requirements (e.g. IPO sustainability standards)

Monitoring and reporting on Responsible Investment

We receive and review reports on:
- The voting activity of our managers.
- The engagement activity of our managers.

We will review these reports and ensure that managers used by the Scheme continue to meet our standards in this area. Where any material areas of disagreement are identified these will be highlighted to the Trustee.

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

When voting and engaging with companies in global markets, the Scheme 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.

The 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 company;
- Excessive tenure and a preponderance of long-tenured directors;
- Relations with controlling shareholders;
- Family ties with any of the company's advisers, directors or senior employees; and
- If the company classifies the director as non-independent.

<u>Audit Related Issues</u>

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.

<u>Appointment of External Auditors</u>

We 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 have 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

<u>Share Issuances</u>

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 Programs

B&CE generally supports a proposal to repurchase shares, other than cases where the issuer does not clearly state the business purpose for the program, a definitive number of shares to be repurchased, specify the range of premium/discount to market price at which a company can repurchase shares, and 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 would 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 would expect managers not to support provisions that are not viewed as economically sound or are thought to be destructive to shareholders' rights.

We would generally expect managers to support transactions that maximize share-holder 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; and
- 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 as well as with 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 does not 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 are 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 at the company. 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 change 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 taking action against the re-election of members of the board if they have serious concerns over ESG practices and the company has not been responsive to shareholder concerns.