B&CE Staff Pension Scheme

Statement of Investment Principles

Date prepared: September 2020

Date signed:

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Introduction

1.1. This is the Statement of Investment Principles prepared by the Trustees of the B&CE Staff Pension Scheme ("the Scheme"). This statement sets down the principles which govern the decisions about investments that enable the Scheme to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010.
- the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

1.2. In preparing this statement the Trustees have consulted B&CE Holdings Limited, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustees' investment consultants. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority.

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

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

1.5. The investment powers of the Trustees are set out in Clause 12 of the Definitive Trust Deed & Rules, dated 24 October 2011. This statement is consistent with those powers.

2. Choosing investments

2.1. The Trustees' policy is to set the overall investment target and then monitor the performance of their managers against that target. In doing so, the Trustees consider the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.2. The day-to-day management of the Scheme's assets is delegated to one or more investment managers. The Scheme's investment managers are detailed in the Appendix to this Statement. The investment 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.

2.3. The Trustees review the appropriateness of the Scheme's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment managers with respect to performance within any guidelines set. The Trustees will also consult the Principal Employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustees have discussed key investment objectives in light of an analysis of the Scheme's liability profile as well as the constraints the Trustees' face in achieving these objectives. As a result, the Trustees' main investment objectives are:

- to make sure that sufficient funds are available to meet benefit obligations of the Scheme under the Trust Deed and Rules as they fall;
- to manage the expected volatility of the returns achieved in order to control the level of volatility in the Scheme's required contribution levels;
- to invest in assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the participating employer, the cost of current and future 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.

3.2. The Trustees are aware of the relationship that exists between the particular investment portfolio that is held and the level of funding of the Scheme's liabilities. The Trustees have obtained exposure to investments that they expect will meet the Scheme's objectives as best as possible.

4. Kinds of investments to be held

4.1. The Scheme is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

4.2. The Trustees monitor from time-to-time the employer-related investment content of their portfolio as a whole and will take steps to alter this should they discover this to be more than 5% of the portfolio. Typically this check is carried out annually by the Scheme's auditors.

5. The balance between different kinds of investments

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

5.2. The Trustees consider 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 Appendix to this Statement.

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

5.4. The Trustees are 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.

6. Risks

6.1. The Trustees have considered the following risks for the Scheme with regard to its investment policy and the Scheme's liabilities, and considered ways of managing/monitoring these risks:

Risk versus the liabilities	The Trustees will monitor and review the investment strategy with respect to the liabilities in conjunction with each actuarial valuation. The investment strategy will be set with consideration to the appropriate level of risk required for the funding strategy as set out in the Scheme's Statement of Funding Principles.
Covenant risk	The creditworthiness of the employer and the size of the pension liability relative to the employer's earnings are monitored on a regular basis. The appropriate level of investment risk is considered with reference to the strength of the employer covenant.
Solvency and mismatching	This risk is addressed through the asset allocation strategy and ongoing triennial actuarial valuations. The Trustees are 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.
Asset allocation risk	The asset allocation is detailed in the Appendix to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	The B&CE Investment Committee (on behalf of the Trustees) monitor the performance of each of the Scheme's investment managers on a regular basis in addition to having meetings with each manager from time to time as necessary, usually on an annual basis. The Trustees have a written agreement with each investment manager, which contains a number of restrictions on how each investment manager may operate.
Concentration risk	Each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.
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 cashflow requirements. The Scheme's administrators assess the level of cash held in order to limit the impact of the cashflow requirements on the investment policy.
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. Currency hedging is employed to manage the impact of exchange rate fluctuations.
Loss of investment	The risk of loss of investment by each investment manager and custodian is assessed by the Trustees. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The B&CE Investment Committee (on behalf of the Trustees) undertake an annual review of the internal controls and processes of each of the investment managers.

7. Expected return on investments

7.1. The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are 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 investment managers.

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

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

7.4. Having established the investment strategy, the Trustees monitor the performance of each investment 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 B&CE Investment Committee (on behalf of the Trustees) will meet the Scheme's investment managers as frequently as is appropriate, normally on an annual basis, in order to review performance.

8. Realisation of investments

8.1. The Trustees have delegated the responsibility for buying and selling investments to the investment managers. The Trustees have considered the risk of liquidity as referred to above.

8.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. In this situation, the Trustees are 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.

9. Environmental, Social and Governance considerations and investment stewardship

9.1. The Trustees believe 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 Trustees appreciate that the method of incorporating ESG within an investment strategy and process will differ between asset classes. A high-level summary on the Trustees' views on ESG integration within each asset class the Scheme invests in is outlined below:

9.2. **Multi-asset funds** – the Trustees believe 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.

9.3. **Fixed income** – the Trustees believe ESG issues should be considered in a manager's investment process as they have the ability to materially impact risk-adjusted returns. The Trustees recognise that fixed income assets do not include voting rights, however, support engagement from their managers to identify ESG risks and opportunities. The process for incorporating ESG issues should be consistent with, and proportionate to, the rest of the investment process.

9.4. **LDI and money market**– the Trustees believe 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 Trustees require 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 Trustees expect 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.

9.5. The Trustees are 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.

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

9.7. The Trustees have not taken into account any "non-financial considerations" in deriving their investment strategy.

9.8. The Trustees acknowledge 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 Trustees provide 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.

9.9. The Trustees are 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 Trustees also recognise 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.

9.10. The Trustees consider 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 Trustees also consider 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 Trustees expect 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.

9.11. 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 Trustees confident that the investment manager recommendations they make are free from conflict of interest.

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

9.13. 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.

10. Asset manager arrangements

Incentivising alignment with the Trustees' investment polices

10.1. Prior to appointing the investment manager, the Trustees discuss 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 Trustees' own investment aims, beliefs and constraints.

10.2. 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 Trustees also consider how ESG and climate risk are integrated into these. If the Trustees deem 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.

10.3. The Trustees carry 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 Trustees monitor the investment managers' approach to ESG and climate related risks on an annual basis.

10.4. In the event that the investment manager ceases to meet the Trustees' desired aims, including the management of ESG and climate related risks, using the approach expected of them, the Trustees 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 Trustees, their appointment may be reviewed or terminated. The investment managers have been informed of this by the Trustees.

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

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

10.6. The Trustees are 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 Trustees have acknowledged this in their investment management arrangements.

10.7. When considering the management of objectives for an investment manager (including ESG and climate risk objectives), and then assessing their effectiveness and performance, the Trustees assess these over mutually agreed rolling timeframes. The Trustees believe 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 Trustees expect this to be sufficient to ensure an appropriate alignment of interests.

10.8. The Trustees expect 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 Trustees do 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

10.9. The Trustees monitor 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 Trustees' investment aims, beliefs and constraints. The investment consultant assists the Trustees in this monitoring process.

10.10. The Scheme invests exclusively in pooled funds. The investment manager is remunerated by the Trustees based on the assets they manage on behalf of the Trustees. As the funds grow, due to successful investment by the investment manager, they receive more and as values fall they receive less.

10.11. The Trustees believe 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.

10.12. The Trustees ask 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

10.13. 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.

10.14. The Trustees recognise that there are circumstances when turnover costs are unavoidable e.g. changing manager.

10.15. The Trustees recognise 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.

10.16. The Trustees acknowledge 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

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

10.18. The suitability of the Scheme's asset allocation and its ongoing alignment with the Trustees' 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.

Responsible Investment Policy

10.19. 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.

11. Agreement

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

Signed:...   **Date:**.....................

On behalf of the B&CE Staff Pension Scheme

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

1. The balance between different kinds of investment

The Scheme's current asset allocation is as set out in the table below, which has been agreed after considering the Scheme's liability profile, funding position, expected return of the various asset classes and the need for diversification.

Target allocation

The table below sets out the long term target asset allocation for the Scheme:

Portfolio	Asset class	Allocation (%)
Growth portfolio	**Diversified Growth**	**15.0**
	Equity	**11.25**
	Bonds	**3.75**
Protection portfolio	**Pooled LDI***	**45.0**
	Buy and Maintain bond fund	**25.0**
Total		**100.0**

*The 'Pooled LDI funds' consist of the Matching Core Fixed Long fund, Matching Core Real Long fund, the Matching Core Real Short fund and the Sterling Liquidity Fund. The allocation across these funds will vary over time, in line with market movements.

The Trustees recognise 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 Trustees) 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, usually on a quarterly basis.

2. Choosing investments

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

- Legal & General Investment Management (LGIM)

- BNY Mellon Investment Management
- State Street Global Advisors

The Trustees also have AVC contracts with Aviva and Utmost for the receipt of members' Additional Voluntary Contributions (AVCs).

The investment managers and AVC providers are authorised and regulated by the Financial Conduct Authority.

The investment benchmarks and objectives for each investment manager and AVC provider are given below:

Investment manager	Fund	Benchmark	Objective
LGIM	Sterling Liquidity Fund	LIBID GBP 7 day	To provide liquidity and work as a 'near-cash' account alongside the LDI funds.
	Matching Core Liability Driven Investment Funds	Gilt and swap composite index	Reduce risk exposure to changes in interest rate and inflation rates
	Buy & Maintain Credit Fund	Markit iBoxx Sterling Non-Gilts Index (duration target)	Duration target within ±1.0% pa of duration target. Capture the credit risk premium within a globally diversified portfolio of predominantly investment grade credit and to preserve value over the course of the credit cycle.
State Street	International Equity (100% Hedged) Index Sub-Fund	FTSE World ex-UK Index, 100% Hedged to Sterling	To track the return on the benchmark
	Global Aggregate Bond Index Fund	Bloomberg Barclays Global Aggregate Bond Index (GBP Hedged)	To track the return on the benchmark
BNY Mellon	Real Return Fund	1-month GBP LIBOR	To outperform the benchmark by 4% p.a. over rolling 5 year periods (before fees)

AVC provider	Fund	Benchmark	Objective
Aviva	With-Profit 1 S2	N/a	Potential for returns higher than those from an average bank account or building society account, smoothed over the long term.
Aviva	Mixed Investment (40-85% Shares) S2	Mixed Investment (40-85% Shares) S2	Provide a good return through a combination of capital growth and investment income, investing in a wide range of assets to spread and manage risk.
Aviva	Aviva Deposit S2	LIBID GBP 7 days	Aims to protect capital by investing typically in deposit investments and similar assets with governments, first class banks and major companies. Aim is to provide a lower risk return.
Utmost	Money Market Fund – this is the default fund for members that did not choose another option	n/a	To preserve capital whilst aiming to provide a return in line with prevailing short term money market rates

The performance of the investment managers will be monitored as frequently as the B&CE Investment Committee (on behalf of the Trustees) consider appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

The AVC arrangement is reviewed from time to time.

3. Investments and disinvestments

Investments and disinvestments are usually made so as to move the actual asset allocation between the growth and protection portfolio more in line with the long-term target allocation set out above.

Appendix 2 Responsible Investment Policy

B&CE Staff Pension Scheme Responsible Investment Policy

September 2020

Responsible Investment

POLICY STATEMENT

The B&CE Staff Pension Scheme is a registered occupational defined benefit pension scheme providing pension, ill health and death benefits for its members and their dependants.
"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 currently invests with two asset managers across a number of different asset classes:

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

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.

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

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 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.