

Building & Civil Engineering Benefits Scheme

Statement of Investment Principles

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, as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010. 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 its managers against those targets. In doing so, the Trustee considers the advice of its 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 has discussed key investment objectives in light of an analysis of the Scheme’s liability profile. 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.

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 managers' performance on a regular basis in addition to having meetings with each manager from time to time as necessary. The Trustee has a written agreement with each fund manager, which contains a number of restrictions on how each fund manager may operate.

Governance risk Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustee monitors these and will report on the managers' practices in its annual Implementation Statement.

ESG/Climate risk The Trustee has considered long-term financial risks to the Scheme and ESG factors as well as climate risk are potentially financially material. Further details are set out in the Responsible Investment Policy in the Appendices.

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 its 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 from time to time as necessary, 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.

Fixed income – the Trustee believes ESG issues should be considered in a manager's investment process as they have the ability to materially impact risk-adjusted returns. The Trustee recognises that fixed income assets do not include voting rights, however, support engagement from its 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.

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 expects its managers to engage with relevant stakeholders in respect of these holdings.

The Trustee is comfortable that all of the investment managers are managing its respective funds with ESG taken into account in a reasonable way for that particular asset class and in accordance with its 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 acknowledges the importance of ESG and climate risk within its investment decision making framework. The Scheme invests in some pooled funds with other investors and for these investments the policy is therefore framed around how the Trustee interacts with, monitors, and may seek to influence, the pooled fund managers. The Trustee has a greater ability to influence the approach to ESG and climate risk in respect of the bespoke pooled fund it invests in, where it is the only investor. When delegating investment decision making to its investment managers the Trustee provides its 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 managers are 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 its 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 its 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 managers 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 managers 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. For the avoidance of doubt, the Responsible Investment Policy forms part of the Scheme's Statement of Investment Principles.

Asset manager arrangements

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 is much shorter term in nature. The Trustee has acknowledged this in its investment management arrangements.

Incentivising alignment with the Trustees' investment policies

Prior to appointing an 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 its 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 its 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 an investment manager ceases to meet the Trustee's 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.

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 managers make decisions based on an appropriate time horizon. Where a fund may have an absolute return or shorter term target, this is generally supplementary to a longer term performance target. 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 Trustee 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 managers in an effort to achieve any short-term targets.

Method and time horizon for assessing performance

The Trustee monitors the performance of its 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 in pooled funds. The investment managers are 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 managers 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 managers are 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 30 April 2024 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;
- Legal & General Investment Management Limited;
- Insight Investment.

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;
- Corporate Bonds
- Liquidity/Cash;
- 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 <i>(SSGA International (Developed 100% Hedged) Screened Index Equity)</i>	FTSE World ex UK ex Controversies Ex CW ex Tobacco ex Thermal Coal (10%) Index , with 100% of the non-Sterling currency exposure hedged back to Sterling	To track the return on the benchmark
BNY Mellon	Multi-asset <i>(Newton Real Return Fund)</i>	SONIA (30-day compounded)	SONIA (30-day compounded)+4% pa over 5 years before fees
Legal and General	Liquidity <i>(LGIM Sterling Liquidity Fund)</i>	SONIA	To provide diversified exposure and a competitive return in relation to the benchmark
Insight Investment	Liability Driven Investment ("LDI") and Buy & Maintain Credit <i>(Insight bespoke pooled fund)</i>	Bespoke liability benchmark (for LDI sub-portfolio)	Mitigate the impact on the Scheme's funding level due to changes in interest rate expectations and provide exposure to corporate bonds
	Liquidity <i>(Insight Liquidity Fund)</i>	SONIA	To provide investors with stability of capital and daily liquidity, as well as offering an income comparable to short-term sterling interest rates

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 Trustee seeks to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Trustees considers rebalancing from time to time.

Fund manager	Strategic asset allocation
Growth portfolio	17.5%
BNY Mellon	5%
State Street	5%
<i>Legal and General*</i>	7.5%
Protection portfolio	82.5%
Insight Investment**	82.5%
Total portfolio	100%

* Please note that this holding is a temporary holding, pending an ongoing review and manager selection process.

**The majority of this allocation is to the bespoke pooled fund, with a separate pooled liquidity fund holding for operational purposes.

Realisation of investments

The Scheme's cash flow requirements are expected to be met by disinvestments 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 30 April 2024 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:

Fund manager	Asset class	Benchmark	Objective
State Street	Equities (SSGA International (Developed 100% Hedged) Screened Index Equity)	FTSE World ex UK ex Controversies Ex CW ex Tobacco ex Thermal Coal (10%) Index , with 100% of the non-Sterling currency exposure hedged back to Sterling	To track the return on the benchmark
BNY Mellon	Multi-asset (Newton Real Return Fund)	SONIA (30-day compounded)	SONIA (30-day compounded)+4% pa over 5 years before fees
Legal & General	Liquidity	SONIA	To provide diversified exposure and a competitive return in relation to the benchmark

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 below. 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 and considers rebalancing from time to time.

The asset allocation between the protection and surplus portfolios is rebalanced each year such that the value of members' accounts after the annual bonus declaration is held in the protection portfolio, and the remainder in the surplus portfolio.

Fund manager	Strategic asset allocation
Surplus portfolio	
BNY Mellon	50%
State Street	50%
Fund manager	Strategic asset allocation
Protection portfolio	
Legal and General	100%

Realisation of investments

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

Appendix 3 Responsible Investment Policy



B&CE Benefits Pension Scheme Responsible Investment Policy

May 2024

Table of Contents	
Overview	3
The Scheme’s Responsible Investment Approach	4
Introduction	4
What Responsible Investment means to the Scheme	4
Responsible Investment Objective and Beliefs.....	4
Strategic Framework.....	5
Pillar 1: Portfolio Construction.....	5
Pillar 2: Stewardship	7
Pillar 3: Reporting.....	8
Appendix	9

Overview

The B&CE Benefits Scheme (“the 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. The Trustee of the Scheme (“the Trustee”) acts as fiduciary for the Scheme.

The primary objective of the Scheme’s responsible investment (RI) approach is to add financial value and resilience to the Scheme’s position through its portfolio construction and stewardship approaches. As a complement to the primary objective, the Trustee also wishes to encourage companies to behave in a more sustainable way for the benefit of society and the world members retire into.

The Trustee believes that it can achieve these complementary objectives by:

- Prioritising Environmental, Social, Governance (“ESG”) risks and opportunities where the investment case for financial materiality over the expected lifespan of the Scheme is strongest.
- Identifying ESG issues that contribute value to wider society and embedding them into the Scheme’s stewardship approach¹
- A limited use of exclusions, where it is practical and appropriate to do so²

The Trustee has concluded that its fiduciary duty is to address these issues as part of its investment decision making.

The Trustee has identified the importance of considering and managing ESG risks and opportunities as part of its portfolio construction alongside and connected to a stewardship policy that focusses on holding its asset managers to account. Due to the breadth and scope of these issues, prioritisation is essential. The Trustee has chosen to focus on issues that relate to climate, nature, and human rights as these are deemed to be most material to the Scheme’s stakeholders.

This Responsible Investment Policy (“the Policy”) highlights the Trustee’s responsible investment objective and beliefs and the strategic framework through which this Policy will be implemented. This Policy was approved by the Trustee in May 2024. It will be reviewed and updated at least every 3 years or following any significant change in approach, policy, or liability profile of the Scheme.

¹ So long as there is no material financial detriment in pursuing this activity. Also refer to Glossary for the Scheme’s definition of stewardship, which does not include portfolio construction.

² As above, so long as there is no material financial detriment in its use, in alignment with the [Law Commission’s recommendation](#) regarding exclusions.

The Scheme's Responsible Investment Approach

Introduction

The Policy describes the framework governing the approach of the Scheme in integrating ESG and stewardship considerations into its investment decision making. The Policy is approved by the Trustee.

As a primary directive, the Policy has been developed to ultimately serve the Scheme's members, as beneficiaries. The main audiences for this document are the Scheme's service providers which include its asset managers and its independent investment adviser. This is because the document sets out the Trustee's "asks" of these stakeholders.

This Policy should be read in conjunction with the following associated Scheme policies and reporting:

- Statement of Investment Principles, which outlines the Scheme's investment strategy, objectives, policies and governance arrangements in which this Policy is included as an Appendix (and therefore forms part of).
- The Scheme's Yearly Implementation Statement which provides a high-level summary of its stewardship activities and how the Scheme's stewardship policies have been followed over the accounting year.

What Responsible Investment means to the Scheme

Responsible Investment Objective and Beliefs

The primary objective of the Scheme's RI approach is to add financial value and resilience to the Scheme's funding position through its portfolio construction and stewardship approaches. As a complement to the primary objective, the Trustee also wishes to encourage companies to behave in a more sustainable way for the benefit of society and the world members retire into.

The Trustee believes that it can achieve these complementary objectives by:

- Prioritising ESG risks and opportunities where the investment case for financial materiality over the medium to long term is strongest.
- Identifying ESG issues that contribute value to wider society and embedding them into the Scheme's stewardship approach³
- A limited use of exclusions, where it is practical and appropriate to do so⁴

The Trustee has concluded that its fiduciary duty is to address these issues as part of its investment decision making. The investment beliefs that underpin the aforementioned RI objectives are outlined below.

- Many ESG issues within investee companies have the ability to impact upon member outcomes, both financial and non-financial.

³ So long as there is no material financial detriment in pursuing this activity. Also refer to Glossary for the Scheme's definition of stewardship, which does not include portfolio construction.

⁴ As above, so long as there is no material financial detriment in its use, in alignment with the [Law Commission's recommendation](#) regarding exclusions.

- Well-governed companies that manage material ESG risks and opportunities in their operations and supply chains such as those that impact employees, suppliers, customers, communities and the environment are expected to enhance value for shareholders including the Scheme over the long term⁵.

Strategic Framework

The Scheme has developed a strategic framework to guide its RI approach. It consists of a set of principles divided into three pillars: **Portfolio Construction, Stewardship and Reporting**. In summary, the Trustee has committed to:

Portfolio Construction

- Consider and manage ESG risks and opportunities as part of the Scheme's portfolio construction (Principle 1).

Stewardship

- Prioritise ESG issues with the greatest potential for impact (Principle 2).
- Integrate ESG and stewardship considerations into how the Scheme selects, appoints and monitors its asset managers and other service providers (Principle 3). Expectations for asset managers would include:
 - Holding investee companies to account for the actions they are taking to address business-material ESG risks and opportunities.
 - Holding key industry players and policy makers to account to ensure they are able to help the Scheme achieve its RI objectives.
 - Collaborating with other like-minded investors and stakeholders to increase influence.
 - Annually reporting on their progress against the above noted Principles to aid in the Scheme's reporting obligations.

Pillar 1: Portfolio Construction

Principle 1: Consider and manage ESG risks and opportunities as part of the Scheme's portfolio construction.

The Trustee has elected to invest the Scheme's assets through pooled funds. The choice of underlying funds is made by the Trustee after taking advice from their independent investment advisor.

The Trustee incorporates the assessment and management of ESG risks and opportunities into the investment decision making process using two main approaches: integration and exclusions.

⁵ [2018-10-03_AlexEdmans_PurposefulBusiness-T.pdf \(gresham.ac.uk\)](#). Note that enhancing shareholder (and stakeholder) value stems from having a robust process for prioritising stakeholders, as there will inevitably be trade-offs: [Microsoft Word - 1. Business Purposev3.docx \(alexedmans.com\)](#)

The Trustee will give consideration to these approaches when setting and reviewing investment strategy and to consider appropriate actions. Where the Trustee assesses that the impact of incorporating an investment approach into its portfolios is likely to have a material effect on outcomes, it will consider its inclusion in its investment processes. In deciding between these routes, the Trustee will 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. The Trustee therefore believe it is good governance to try, wherever reasonably practicable, to:

- ensure their independent investment adviser's 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 the Scheme and our members' interests; and
- test and challenge such options before considering implementation, including commissioning further research where appropriate.

In general, the Trustee does not believe that large-scale exclusions are consistent with its RI objectives, which focus primarily on potential financial factors. On balance, the Trustee believes that a robust stewardship programme will influence corporate behaviour more effectively than divestment. There are, however, certain issues where exclusions may be considered appropriate for certain asset classes. This may include controversial weapons, very severe ESG controversies (e.g. UN Global Compact violations), severe environmental controversies, thermal coal extraction and mining, as examples.

Asbestos exclusions

The Trustee has taken a decision to avoid investing in asbestos related investments where possible. This is not expected to have an impact on risk-adjusted returns. Given the membership of the Scheme and the negative impact of asbestos on employees in the construction industry, the Trustee believes it is appropriate to make this exclusion where possible. The Trustee, with the help of its independent investment adviser, will continue to work with its asset managers to ensure they are able, on a best-efforts basis given data constraints, to exclude any companies which are involved in this area should the need arise. The Trustee accepts that this is not likely to be feasible when using pooled investment vehicles with other investors.

Pillar 2: Stewardship

Principle 2: Prioritise ESG issues with the greatest potential for impact

Stewardship has the potential to create long-term value for the Scheme. To maximise effectiveness, stewardship priorities⁶ underpinned by a robust prioritisation process are key. The Scheme has used the following criteria in deciding where to allocate its stewardship resources:

- Prioritise ESG issues which are considered to be systemic risks
- Focus on stewardship asks where a connection can be made to generating shareholder value in a way that aligns with value to the Scheme, its members, as well as wider society
- Focus on stewardship asks that are part of established industry-wide frameworks with existing momentum and track-record behind them

Using the above prioritisation framework, the Trustee has identified **Climate Change, Nature, and Human Rights** as its Stewardship Priorities.

As the Trustee invests in funds alongside other investors, it recognises that its asset managers' prioritisation of issues for engagement and voting may not be the same as the Scheme's. As far as practicable and appropriate for the size of the holdings with the asset manager, the independent investment adviser considers alignment of views on an annual basis. This is described further in the next section.

Principle 3: Integrate ESG and stewardship considerations into how the Scheme selects, appoints and monitors asset managers and other service providers

The Scheme will continue to evaluate the ESG and stewardship competency and capabilities of service providers, particularly our asset managers and the Scheme's independent investment adviser, to reduce the risks those entities could pose to the Scheme.

As a minimum requirement, the Trustee expects all of its asset managers and its independent investment adviser to become a signatory of, and remain compliant with the 2020 UK Stewardship Code or an equivalent local stewardship code applicable in their jurisdictions.

As part of its ongoing monitoring program, the Trustee will annually review all the Scheme's asset managers to evaluate whether their approach to RI continues to meet the minimum requirements as outlined above as well as demonstrates reasonable progress against the expectations outlined in the below table.

Topic	Asset Manager Expectations
Purpose	Broad alignment with the Scheme's RI objectives and beliefs
Governance	Robust governance systems that drive effective stewardship
Voting and Engagement Activities	<ul style="list-style-type: none"> • Exercise voting rights on the Trustee's behalf in companies in which the Scheme has holdings (baseline expectation) • Stewardship activity is reasonably aligned with the Scheme's stewardship priorities

⁶ DWP also recommends stewardship priorities in its June 2022 guidance. [Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance - GOV.UK \(www.gov.uk\)](#)

ESG Integration and Exclusions	<ul style="list-style-type: none"> • Robustness of how the Scheme's stewardship priorities are embedded into the investment process, where applicable to the mandate • Robustness of exclusions process where applicable and appropriate to the mandate
Industry and Policy Engagement	Conduct industry, collaborative and policy engagement on the Scheme's stewardship priorities
Quality of Client Reporting	Provide appropriate stewardship reporting

The Trustee acknowledges that some managers may be on a journey to achieve these expectations. If significant gaps are identified, asset managers will be put on notice to improve within agreed timelines. If those timelines are not met, and collaboration with the asset manager is deemed unsuccessful by the Trustee, their appointment will be reviewed which may result in a redirection of new investments or their contract may be terminated.

The minimum requirements and expectations will be reviewed by the Trustee in conjunction with their independent investment adviser periodically to ensure alignment with industry developments.

Pillar 3: Reporting

Principle 4: Annually report on the Scheme's voting and engagement activities.

The Scheme's activities will be publicly reported on as part of its annual Implementation Statement. The Scheme's Statement of Investment Principles outlines the monitoring and reporting of which the Trustee has oversight.

Appendix

Glossary

Responsible Investment

The Scheme defines **responsible investment** as an approach to investment that explicitly acknowledges the relevance to the investor, from both a financial and non-financial perspective of environmental, social, governance factors at investee companies, as well as the long-term health and stability of the market as a whole. Responsible Investment recognises that:

- The generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental, and economic systems⁷.
- Companies can choose to create value for shareholders in ways that create harms to wider environment or society which detract from member outcomes in non-financial ways

Stewardship

While the Scheme supports the Financial Reporting Council's definition of stewardship⁸, given the risk of conflation between the term "stewardship" and "responsible investment" and the activities that underpin them, for the purpose of this Policy, the term "stewardship" and its remit will be defined by the RI Strategic Framework as outlined in this Policy.

The UK Stewardship Code 2020⁹ sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.

⁷ Source: [Principles for Responsible Investment](#)

⁸ [UK Stewardship Code \(frc.org.uk\)](#)

⁹ [UK Stewardship Code \(frc.org.uk\)](#)