B&CE Staff Pension Scheme

Statement of Investment Principles

Date prepared: June 2024

Date signed:

Contents

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 1 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 Appendix 1 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 Appendix 1 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 Appendix 1 to this Statement and is monitored on a regular basis by the Trustees.
Investment manager risk	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.
Governance risk	Each asset manager is expected to undertake good stewardship and positive engagement in relation to the assets held. The Trustees monitor these and will report on the managers' practices in their annual Implementation Statement.
ESG/Climate risk	The Trustees have 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 Appendix 2.
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).

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 Trustees will meet the Scheme's investment managers from time to time, 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. **Equity** – the Trustees believe that ESG issues will be financially material to the risk-adjusted returns achieved by the Scheme's equity fund managers. The investment process for each equity fund manager should take ESG issues into account when selecting holdings or benchmarks. The approach and level of ESG integration may differ depending on the nature of the fund. 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. The Trustee expects their manager to engage with relevant stakeholders in respect of these holdings.

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 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 Trustees 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.

9.8. 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.

9.9. 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.

9.10. 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.

9.11. 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.

9.12. 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.

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

10.7. 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.

10.8. 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.

10.9. 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

10.10. 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.

10.11. 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.

10.12. 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.

10.13. 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

10.14. 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.

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

10.16. 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.

10.17. 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

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

10.19. 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

10.20. 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 June 2024 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	**Equity**	**30.0**
Protection portfolio	**Pooled LDI***	**45.0**
	Buy and Maintain bond fund	**25.0**
Total		**100.0**

*The 'Pooled LDI funds' consist of LGIM's Matching Core LDI Funds 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 Trustees seek to maintain a balance between maintaining the asset allocation in line with its benchmark and limiting the costs of rebalances. The Trustees will consider rebalancing from time to time.

2. Choosing investments

The Trustees have appointed Legal & General Investment Management (LGIM) to carry out the day-to-day investment of the Scheme:

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	SONIA	To provide diversified exposure and a competitive return in relation to the benchmark
	Matching Core Liability Driven Investment Funds	Gilt and swap composite index	To reduce risk exposure to changes in interest rate and inflation rates
	Buy & Maintain Credit Fund	n/a*	To 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.
	Future World Global Equity Index Fund (GBP currency hedged)	Solactive L&G ESG Global Markets Index - GBP Hedged	To track the performance of the benchmark to within +/- 0.60% p.a. for two years out of three.
	Future World Global Equity Index Fund	Solactive L&G ESG Global Markets Index	To track the performance of the benchmark to within +/- 0.60% p.a. for two years out of three.

*This fund has no formal benchmark. The Markit iBoxx £ Corporates index is used as a broad comparator for monitoring purposes.

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 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

June 2024

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Overview

The B&CE Staff Pension Scheme ("the Scheme") is a registered occupational defined benefit pension scheme providing pension, ill health and death benefits for its members and their dependants. The Trustees of the Scheme ("the Trustees") 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 Trustees also wish to encourage companies to behave in a more sustainable way for the benefit of society and the world members retire into.

The Trustees believe 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 approach[1]
- A limited use of exclusions, where it is practical and appropriate to do so[2]

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

The Trustees have 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 Trustees have 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 Trustees' responsible investment objective and beliefs and the strategic framework through which this Policy will be implemented. This Policy was approved by the Trustees in June 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.

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[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 Trustees.

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 Trustees' "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 Trustees also wish to encourage companies to behave in a more sustainable way for the benefit of society and the world members retire into.

The Trustees believe 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 approach[3]
- A limited use of exclusions, where it is practical and appropriate to do so [4]

The Trustees have 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 term[5].

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

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

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[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 Trustees will give consideration to these approaches when setting and reviewing investment strategy and to consider appropriate actions. Where the Trustees assess 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 Trustees 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 Trustees 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 Trustees do not believe that large-scale exclusions are consistent with its RI objectives, which focus primarily on potential financial factors. On balance, the Trustees believe 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.

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 priorities[6] 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

[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)

- 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 Trustees have identified **Climate Change, Nature, and Human Rights** as its Stewardship Priorities.

As the Trustees invest 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 Trustees expect 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 Trustees 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	• Exercise voting rights on the Trustees' behalf in companies in which the Scheme has holdings (baseline expectation) • Stewardship activity is reasonably aligned with the Scheme's stewardship priorities
ESG Integration and Exclusions	• 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 Trustees acknowledge 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 Trustees, 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 Trustees 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 Trustees have 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 systems[7].
- 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 stewardship[8], 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 2020[9] 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)