Building & Civil Engineering Benefits Scheme

Statement of Investment Principles

November 2024

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.

Equity funds – the Trustee believes 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. 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 polices

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 by:

08 January 2025 | 11:43:45 GMT

Signed:...6D12D0878CEB4B1.. **Date:** ....

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

Appendix 1 Note on investment policy of the Scheme as at November 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:

- 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;
- 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
Legal and General	Equities (LGIM Future World Global Equity Index Fund (100% currency hedged and unhedged versions)	Solactive L&G ESG Global Markets Index (hedged/unhedged)	To track the return on the benchmark
Insight Investment	Liability Driven Investment ("LDI") and Buy & Maintain Credit *(Insight bespoke pooled fund)*	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 *(Insight Liquidity Fund)*	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%**
Legal and General*	17.5%
Protection portfolio	**82.5%**
Insight Investment**	82.5%
Total portfolio	**100%**

*Split 50/50 between currency-hedged and unhedged funds.
**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 closer to the strategic allocation.

Appendix 2 Note on investment policy of the AVC assets of the Scheme as at November 2024 in relation to the current Statement of Investment Principles

Choosing investments

The Trustees have appointed Legal & General Investment Management Limited to carry out the day-to-day investment of the AVC fund.

Legal & General Investment Management Limited 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;
- Liquidity/Cash.

The balance between different kinds of investment and rebalancing

The asset allocation has been agreed after considering the Scheme's benefit profile, 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
Legal & General	Liquidity (Sterling Liquidity Fund)	SONIA	To provide diversified exposure and a competitive return in relation to the benchmark
Legal & General	Equity (Future World Global Equity Index Fund)	Solactive L&G ESG Global Markets Index	To track the return on 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	
LGIM Future World Global Equity Index Fund	100%

Fund manager	Strategic asset allocation
Protection portfolio	
Legal and General Sterling Liquidity Fund	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