

British Board of Agrément Pension and Life Assurance Scheme

Statement of Investment Principles – Implementation Statement

The purpose of this Statement is to provide information which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustee's Statements of Investment Principles (SIP) dated June 2023 has been implemented.

It also includes the Trustees' voting and engagement policies, as well as details of any review of the SIP during the year, subsequent changes made and the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustees, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 April 2023 to 31 March 2024.

Investment objectives of the Scheme

The Trustees' objectives for setting the investment strategy of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objective set out in the Statement of Funding Principles. However, the Trustees also have regard to the Scheme's funding position on an indicative solvency funding basis, given the intention of the Trustees and Principal Employer to secure the liabilities of the Scheme in full by purchasing a bulk annuity contract with an insurer.

The Trustees' primary objectives are set out on page 2 of the SIP and are as follows:

- To adhere to the provisions contained within the Scheme's Statement of Funding Principles.
- To acquire suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from the Principal Employer, the cost of the benefits which the Scheme provides, as set out in the Trust Deed and Rules.
- To limit the risk of the assets failing to meet the Technical Provisions over the longer term, by considering the Scheme's liability profile when setting the asset allocation policy.
- To minimise the long-term costs of the Scheme by optimising the return on the assets whilst having regard to the objectives shown above.

The Trustees appreciate that these objectives are not necessarily mutually exclusive.

The Trustees also recognise that it is currently necessary to accept some risk in the investment strategy to achieve the overall funding objective.

Review of the SIP

The SIP was last reviewed in June 2023. The Trustees updated the SIP to reflect changes in the Scheme's investment strategy that were made during the previous Scheme year.

Prior to this, the SIP had last been updated in September 2020 to take account of earlier changes that were previously made to the investment strategy.

The Trustees have a policy on financially material considerations relating to Environment, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out later in this Statement and are detailed in the Trustees' SIP. The Trustees' policy on engagement and voting rights was updated in the SIP that came in to force towards the start of the Scheme year, though the other policies did not change in the revised SIP.

Investment managers and funds in use

During the year, the Trustees' investment strategy was as shown in the below table, which is reflected in the SIP dated June 2023 that came into force towards the start of the year. The key changes to the strategy compared to the SIP in force at the start of the year dated September 2020 were the removal of the growth asset (equity and multi-asset) allocation and introduction of LGIM corporate bonds, held on a 'buy and maintain' basis.

Asset Class	Fund	Target Asset Allocation
Corporate bonds	LGIM Buy & Maintain Credit Fund	40%
Liability Driven Investment ('LDI') solution	LGIM Matching Core Funds	60%
	LGIM Sterling Liquidity Fund	
Total		100%

Investment governance

The Trustees are responsible for making investment decisions, and seek advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP, as the Scheme is comprised of a diverse membership, which the Trustees expect to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

The Trustees have put in place strategic objectives for Broadstone, as the Trustees' investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were last reviewed by the Trustees in December 2022. These objectives cover demonstration of adding value, delivery of specialist investment consultancy services, proactivity of investment consultancy advice, support with scheme management, compliance and service standards.

Trustees' policies

The table below sets out how, and the extent to which, the relevant policies in the Scheme's SIP dated June 2023 (reflecting the investment strategy in force during the year) have been followed:

Requirement	Policy	Implementation of Policy
Selection of Investments	<p>The Trustees may select investments from a wide range of asset classes from time to time, including, but not restricted to UK equities, overseas equities, government bonds, corporate bonds, commercial property and alternative asset classes, such as hedge funds, private equity and infrastructure.</p> <p>The investments selected will generally be traded on regulated markets and, where this is not the case, any such investments will be kept to a prudent level.</p> <p>The Trustees may invest in products that use derivatives where this is for the purpose of risk management or to improve the efficiency of the management of the Scheme's investments.</p> <p>The Trustees may hold insurance policies such as deferred or immediate annuities which provide income to the Scheme, matching part or all of the future liabilities due from it.</p> <p>The Trustees may hold a working cash balance for the purpose of meeting benefit payments due to members and the expenses of running the Scheme.</p>	No deviation from this policy over the year to 31 March 2024.
Balance of Investments	<p>The Trustees will set a Target Asset Allocation from time to time, determined with the intention of meeting their investment objectives.</p> <p>The Target Asset Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustees' view of the Principal Employer's covenant, the nature of the Scheme's liabilities or relevant regulations governing pension scheme investment.</p>	No deviation from this policy over the year to 31 March 2024.
Delegation to Investment Managers	The Trustees will delegate the day-to-day management of the Scheme's assets to a professional investment manager and will not be involved in the buying or selling of investments.	No deviation from this policy over the year to 31 March 2024.
Realising Investments	The Trustees make disinvestments from the Investment Manager with the assistance of their administrators and investment adviser as necessary, to meet the Scheme's cashflow requirements.	No deviation from this policy over the year to 31 March 2024.
Maintaining the Target Asset Allocation and Target Hedge	The Trustees have responsibility for maintaining the overall balance of the asset allocation relative to the Target Asset Allocation and Target Hedging Ratios. The Trustees will monitor the asset allocation and hedging ratios on a regular basis with the assistance of their adviser, Broadstone, and will consider switching assets between funds should the asset allocation or hedging ratios move significantly away from the Target Asset Allocation or Target Hedging Ratios.	<p>No deviation from this policy over the year to 31 March 2024.</p> <p>The asset allocation and level of hedging exposure were broadly in line with their targets as at the year end.</p>

Requirement	Policy	Implementation of Policy
Performance Benchmarks and Objectives	<p>The corporate bond fund is managed on a buy and maintain basis, and the Investment Manager has an objective to deliver a return over and above comparable gilts from a diversified portfolio of corporate bonds, whilst minimising the risk of default losses.</p> <p>The cash fund aims to provide a cash-like return, comparable with its Sterling Overnight Index Average (SONIA) benchmark.</p> <p>The leveraged LDI funds have an objective to provide a prescribed level of hedging against changes in the value of liabilities for a typical defined benefit pension scheme caused by interest rate and inflation risks. The practical method of implementing this level of hedging is delegated to LGIM, with the expectation that LGIM will choose the most cost-effective method.</p>	The performance benchmarks and objectives were reviewed on a quarterly basis over the year to 31 March 2024.
Investment Management Charges	<p>The investment management charges of the funds used are set out on page 5 of the SIP and are as follows:</p> <ul style="list-style-type: none"> • LGIM Buy and Maintain Credit Fund: 0.150% p.a. • LGIM Sterling Liquidity Fund: 0.125% p.a. • LGIM Matching Core Funds: 0.240% p.a. <p>In addition, LGIM charge a flat fee of £1,000 p.a. where assets under management are in excess of £10 million but below £25 million.</p>	Charges were paid from the funds over the year to 31 March 2024.
Financially and Non-Financially Material Considerations	The Trustees' policy on financially and non-financially material considerations is set out on page 8 of the SIP and in full below.	No deviation from this policy over the year to 31 March 2024 (see below).
Engagement and Voting Rights	<p>The Trustees' voting and engagement policy is to use their investments to improve the Environmental, Social and Governance behaviours of the underlying investee companies. These ESG topics encompass a range of priorities, which may over time include climate change, biodiversity, the remuneration and composition of company boards, as well as poor working practices. The Trustees believe that having this policy, and aiming to improve how companies behave in the medium and long term, is in the members' best interests. The Trustees will aim to monitor the actions taken by the Investment Manager on their behalf and if there are significant differences from the policy detailed above, they will escalate their concerns which could ultimately lead to disinvesting their assets from the Investment Manager.</p> <p>The Investment Manager provides, on request, information to the Trustees on its actions in relation to engagement and use of voting rights. The Trustees are therefore aware of the policies adopted by the Investment Manager.</p>	No deviation from this policy over the year to 31 March 2024 (see below).
Additional Voluntary Contributions (AVCs)	The Scheme holds funds accumulated in respect of AVCs separately from the assets backing defined benefits, with Utmost Life & Pensions and the Prudential Assurance Society.	No deviation from this policy over the year to 31 March 2024.

Financially and non-financially material considerations

The Trustees recognise that ESG issues can and will have a material impact on the companies, governments and other organisations that issue or otherwise support the assets in which the Scheme invests. In turn, ESG issues can be expected to have a material financial impact on the returns provided by those assets. The Trustees delegate responsibility for day-to-day decisions on the selection of investments to the Investment Manager. The Trustees have an expectation that the Investment Manager will consider ESG issues in selecting investments, or will otherwise engage with the issuers of the Scheme's underlying holdings on such matters in a way that is expected to improve the long-term return on the associated assets.

The Trustees' views on how ESG issues are taken account of in each asset class used over the year is set out below:

Asset Class	Actively or Passive Managed?	Comments
Corporate bonds	Active	The Trustees expect the Investment Manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk-adjusted returns. The Trustees also expect their Investment Manager to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights.
LDI	Active	The underlying assets of the LDI funds consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.
Cash	Active	The Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

The Trustees do not currently impose any specific restrictions on the Investment Manager with regard to ESG issues, but will review this position from time to time. The Trustees receive information from the Investment Manager on its approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to the performance of the Scheme's investments associated with the impact of climate change, the Trustees take the view that this falls within their general approach to ESG issues. The Trustees regard the potential impact of climate change on the Scheme's assets as a longer term risk and likely to be less material in the context of the short to medium term development of the Scheme's funding position than other risks. The Trustees will continue to monitor market developments in this area with their investment adviser.

Voting rights

The Trustees currently invest in pooled investment funds with LGIM, and they acknowledge that this limits their ability to directly influence LGIM.

The Trustees have employed Broadstone to assist them in monitoring the voting and engagement activities of their Investment Manager. To complement this monitoring, the Trustees receive stewardship and governance reports from LGIM on a quarterly basis.

The funds used by the Scheme over the year do not contain equity holdings. Therefore, none of the Scheme's funds have voting rights attached.

Engagement activities

The Trustees have also delegated engagement activities to the Investment Manager. A notable engagement activity of the Investment Manager is provided below:

- **LGIM** met with the management team of Heidelberg Cement, a large international cement producer, during the year to discuss the progress and economic viability of the company's planned carbon capture and storage (CCS) projects. LGIM note that cement production is responsible for around 8% of global carbon emissions each year, and therefore believe the cement industry needs to decarbonise significantly for the world to reach net zero carbon emissions. As a result, the sector is designated as 'climate critical' by LGIM.

Heidelberg believes it has an industry leading decarbonisation policy as well as the first-mover advantage in CCS. LGIM raised questions regarding the relative costs and economics of CCS, external factors affecting viability of CCS projects (such as possible regulation or government subsidisation), and expectations of demand for 'carbon-free' cement.

LGIM will continue to engage with Heidelberg Cement as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg Cement, LGIM believe CCS will only become economical when met with either an increase in the price of permits for generating carbon emissions, or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management going forwards.

The Trustees also consider an investment manager's policies on stewardship and engagement when selecting and reviewing investment managers.

Monitoring of investment arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with the Investment Manager (as detailed above), the Trustees receive performance reports on a quarterly basis from LGIM, together with performance reports from Broadstone on a quarterly basis to ensure the investment objectives set out in their SIP are being met.

Signed:

Date: 25/10/2024

On behalf of the Trustees of the British Board of Agrément Pension and Life Assurance Scheme