BDO Pension Scheme – Defined Benefit & Defined Contribution Sections

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 Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations. In particular, it confirms how the investment principles, objectives and policies of the Trustee's Statement of Investment Principles (SIP) dated July 2020 for the DC section and December 2021 for the DB section have been implemented. The SIP provides further background details on investment arrangements and should be read in conjunction with the Trustee's Chair's Statement dated 30 June 2022.

This Statement covers the period 1 July 2021 to 30 June 2022.

Investment managers and funds in use

The investment funds that are used for the Defined Benefit (DB) Section and that are available for use in the Defined Contribution (DC) Section are set out in the tables below:

DB Section

Asset Class	Fund	Target Asset Allocation
Investment Grade Corporate Bonds	M&G All Stocks Corporate Bond Fund	47.6%
Diversified growth funds	Insight Broad Opportunities Fund LGIM Retirement Income Multi Asset Fund	12.3%
Multi asset credit	TwentyFour Strategic Income Fund	7.0%
Property	Threadneedle Pension Property Fund	4.7%
Diversified alternatives	Partners Group Generation Fund Cohen & Steers Diversified Real Assets Fund	12.6%
Liability driven investment – Nominal	LGIM Matching Core Fixed Short Fund LGIM Matching Core Fixed Long Fund	8.5%
Liability driven investment - Real	LGIM Matching Core Real Short Fund LGIM Matching Core Real Long Fund	7.3%
Total		**100.0%**

DC Section

Asset Class	Manager	Fund
Global Equities	HSBC	Islamic Global Equity Index Fund
	LGIM	World (ex UK) Equity Index Fund
	LGIM	UK Equity Index Fund

	LGIM	Ethical UK Equity Index Fund
Emerging Market Equities	LGIM	World Emerging Market Equity Index Fund
Diversified Growth Funds	LGIM	Multi Asset Fund
	BNY Mellon	Newton Real Return Fund
Property	LGIM	Managed Property Fund
Absolute Return bonds	BNY Mellon	Global Dynamic Bond Fund
Corporate Bonds	LGIM	Pre-Retirement Fund
	Blackrock	Aquila Connect Corporate Bond All Stocks Fund
Government Bonds	LGIM	All Stocks Gilt Index Fund
	LGIM	All Stocks Index-Linked Gilt Index Fund
Cash	Blackrock	Aquila Connect Cash Fund

The DC Section closed in 2011 and the Trustee has not historically used a default fund as the Scheme has not been used for auto-enrolment qualifying purposes. Under the current strategy members are free to choose from a pre-selected list of funds from the Mobius Life platform, which the Trustee has a fiduciary duty to monitor to ensure they perform as expected and represent good value for members' money. The Trustee understands the switch to the Investment Platform may have created a de facto default fund, the Invesco Perpetual Global Targeted Returns Fund at that time, which has subsequently been replaced with the Bank of New York (BNY) Mellon Real Return Fund.

Strategy Review

An investment strategy review was conducted for the DB Section during the third quarter of 2021, and the revised investment strategy was implemented in late September/ early October 2021. In October 2021, the Trustee activated a funding level and de-risking monitoring mechanism against a long-term self-sufficiency (Gilts + 0.25%) measure that targets full funding in 2031.

The DB Section hit a funding level trigger in May 2022. The portfolio structure was subsequently adjusted in June 2022 so as to reduce the net expected return from Gilts + 1.7%p.a. to Gilts + 1.45%p.a., in line with the agreed de-risking policy.

As part of the investment strategy, the DB Section currently aims to hedge 85% of the interest rate risk, and 100% of the inflation rate risk. The Trustees agreed to reduce the nominal 85% interest rate target to 80% in September 2022 and this is expected to be implemented in October 2022

Over the year to 30 June 2022, the sharp increase in yields triggered several recapitalisation events for the DB Section's LDI funds. The required capital calls were met by transitioning funds from the TwentyFour Strategic Income Fund to the LDI funds and acted to preserve the scheme's hedging position which is part of the overall investment strategy.

There were no changes made to the DC Section over the year to 30 June 2022.

Scheme Governance

DB Section

The Trustee board is responsible for making investment decisions, and seeks advice from Broadstone, as the Trustee's investment consultant.

DC Section

Governance arrangements, in terms of the constitution of the trustee board, service level agreements with providers, processing of core financial transactions, costs and charges and investment arrangements, are detailed in the Annual Governance Statement.

There were no changes to the objectives put in place for Broadstone which were last reviewed in December 2019. The Trustee is due to formally review these objectives by December 2022, or earlier.

Trustee Knowledge and Understanding

DC Section

The Trustee board has the appropriate knowledge and understanding to ensure its policies on financially and non-financially material considerations, as well as engagement and voting activities, are and remain appropriate for the Scheme. The Trustee has developed their knowledge and understanding over the year, and further details are set out in the Annual Governance Statement.

Statement of Investment Principles

The Trustee reviewed the Statement of Investment Principles (SIP) for the DB Section in December 2021, to incorporate the new de-risking policy. The de-risking mechanism seeks to systematically reduce the expected return of the portfolio from Gilts + 1.7%p.a. to a long-term self-sufficiency target of Gilts + 0.25% based on the prevailing funding level. A given de-risking stage is triggered if the funding level exceeds a certain minimum threshold. The DB Section targets full funding in 2031.

The Trustee previously reviewed the SIPs for both the DB and DC Sections in July 2020, for new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustee has a policy on financially material considerations relating to Environmental, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustee has a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out below and are detailed in the Trustee's SIPs.

There were no departures from the policies set out in either of the SIPs, including the Trustee's policies on financially and non-financially material considerations, during the year.

Policy for taking into account financially material ESG considerations

Trustee's Policy: ***The Trustee believes that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee***

(delegating to the Investment Consultant where appropriate) assesses the ESG integration capability of its Investment Managers.

There have been no changes to the Trustee's policy, nor any departures from its policy, during the year.

The Trustee notes that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustee is satisfied that the funds currently invested in by the Scheme are managed in accordance with their views on financially material considerations, as set out below, and in particular with regards to the selection, retention, and realisation of the underlying investments held.

This position is monitored periodically. As part of the monitoring process, the Trustee has access to updates on governance and engagement activities by the investment managers and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

The Trustee acknowledges that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers given they are investing in pooled funds.

A summary of the Trustee's views for each asset class in which the Scheme invests is outlined below.

Asset Class	Actively or Passively Managed?	Comments
Global equities	Passive	The Trustee acknowledges that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if it has concerns relating to ESG. The Trustee does expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
Diversified growth Funds	Active	The Trustee expects 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 Trustee also expects its investment manager to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.
Multi asset credit	Active	The Trustee expects 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 Trustee also expects its investment manager to engage with investee companies, where possible, although it appreciates that fixed income assets do not typically attract voting rights.

Absolute return bonds	Active	The Trustee expects 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 Trustee also expects its investment manager to engage with investee companies, where possible, although it appreciates that fixed income assets do not typically attract voting rights.
Corporate bonds	Passive	The Trustee believes 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 and the need for the investment manager to invest in line with specified indices. The Trustee does expect its investment managers to engage with investee companies where possible, although it appreciates that fixed income assets do not typically attract voting rights.
Property	Active	The Trustee believes 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. However, the Trustee expects the investment manager to have regard to ESG issues when properties are being sold and purchased within the portfolio, together with any opportunities to re-develop existing properties with ESG issues in mind.
Diversified alternatives	Active	The Trustee expects 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. Given the nature of the investments held in this asset class, the Trustee expects the investment manager to use its position of controlling interest to apply ESG considerations to the underlying investments.
Liability driven investment (LDI)	Passive	The underlying assets of the LDI solution consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustee believes 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.
Government bonds	Passive	The Trustee believes 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	Passive	The Trustee believes there is limited scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the investment.

Policy for taking into account non-financial ESG considerations

Trustee's Policy: ***Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG and***

ethical views) in relation to the selection, retention and realisation of investments.

There have been no changes to the Trustee's policy, nor any departures from its policy, during the year.

Policy on the exercise of voting rights and engagement activities

Trustee's Policy: ***The Trustee wishes to encourage best practice in terms of activism. The Trustee accepts that by using pooled investment vehicles the day-to-day application of voting rights will be carried out by the Investment Managers. Consequently, the Trustee expects the Scheme's Investment Managers to adopt a voting policy that is in accordance with best industry practice.***

The Trustee believes that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, it must act as a responsible asset owner. The Trustee expects its Investment Managers to exercise its ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustee assesses the stewardship and engagement activity of its Investment Managers.

There have been no changes to the Trustee's policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the Trustee does not have any legal right to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

The Trustee currently invests in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager.

The Trustee has employed Broadstone to assist them in monitoring the voting and engagement activity of their investment managers, and a summary of this activity is provided to the Trustee each quarter. The Trustee, with the assistance of Broadstone, concluded that the voting and engagement activity of their investment managers is in line with their policy on voting and engagement.

Within the current investment arrangements, the Scheme's holdings in equity and diversified growth funds contain equity holdings, and therefore have voting rights attached to these underlying equities.

All managers use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third proxy voters used are confirmed in the table below.

The Trustee has delegated engagement activities to their investment managers, and each investment manager reports to the Trustee on how they have voted on behalf of the Trustee for the underlying holdings.

A summary of the votes made by the investment managers on behalf of the Trustee (where the investment owns equities) is provided in the table below from 1 July 2021 to 30 June 2022, based on the latest information available from each investment manager.

Manager	Pooled or Segregated?	Third Party Proxy Voter	Manager uses own voting policy	Resolutions Voted On	Resolutions Voted		
					For	Against	Abstained
BNY Mellon (Newton)	Pooled	ISS	Yes	2,432	39%	60%	1%
LGIM	Pooled	ISS	Yes	68,315	80%	19%	1%
Insight*	Pooled	Minerva	No	1,491	93%	0%	7%
Cohen & Steers	Pooled	ISS	Yes	2,427	91%	8%	1%

*Voting data provided only covers the 2021 calendar year, further information was not available at this time.

The votes above are at the company level, rather than being scheme or fund specific.

Notable engagement activities of the investment managers are provided below:

- **BNY Mellon** engaged with Unilever as part of the Climate Action 100+ investor engagement group to discuss the recently published Net-Zero Company Benchmark which is being developed as a framework to evaluate corporate decarbonisation disclosures. Unilever expressed its overall support for the initiative and believes that it performs well across some indicators, but is aware that it does not meet others. The manager will continue to engage with Unilever and monitor their progress in respect of this Benchmark.

- **LGIM** put forward a shareholder proposal to Moderna requesting that the company publicly disclose how its receipt of government financial support for the development and manufacture of a COVID-19 vaccine is being considered when making decisions that affect access to such products, such as setting prices. The company is contesting the inclusion of the proposal on its agenda at the 2022 Annual General Meeting and have indicated that they will publish such a report prior to the Annual General Meeting. LGIM are currently engaging with the company.

- **Insight** met with Severn Trent as a part of their annual review, discussing a range of topics from financial performance to environmental issues. Insight wanted to discuss water stress as they had identified a significant risk in this area as part of their Climate Risk process. Severn Trent are investing in river quality through the WINEP scheme, with over £500 million being invested over 5 years. They have also announced 'Get River Positive' – a commitment to protect and enhance the health of rivers in the region. They are also one of only two companies in the UK to have verified and approved Science Based Targets in line with the 1.5C pathway to reduce certain Greenhouse Gas emissions by 46.2% over the next 10 years.

- **Cohen & Steers** engaged with a U.S. utility provider over their decarbonisation timeline, discussing ways to accelerate the pace of their transition away from coal by replacing with renewables. The CEO was receptive to expectations on the company to have a clearer focus on renewables and the company advocated for legislation that would ease the energy transition through new financing tools. The company's latest integrated resource plan also represented a more aggressive decarbonisation strategy, featuring coal shutdown in 2023 alongside wind and solar additions over the 2023-2025 time period.

The Trustee is comfortable with the investment managers' approach for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

Signatories to the UNPRI (United Nations Principles for Responsible Investment) will receive an overall 'score' which represents how well ESG metrics are incorporated into managers' investment processes. Investment managers will submit a transparency report on their processes across different categories which is then assessed by the UNPRI and graded in a formal report. Scores are presented in performance bands ranging from 'A+' to 'E'. The latest UNPRI scores of the investment managers are outlined in the table below.

Manager	UNPRI Score
BlackRock	A+
BNY Mellon	A+
Cohen & Steers	B
Insight	A+
LGIM	A+
M&G	A+
Partners	A+
Threadneedle	A+
TwentyFour	n/a - became a signatory in 2020, will first be assessed for the 2023 reporting cycle
Median Score	*A*

The Trustee also considers the investment managers' 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 investment managers (as detailed above), the Trustee receives valuation reports from the platform provider Mobius Life and investment manager Cohen & Steers on at least a quarterly basis. The Trustee receives performance reports from Broadstone on a quarterly basis for the Defined Benefit Section and a biannual basis for the Defined Contribution Section to ensure the investment objectives set out in their SIPs are being met.

Signed: R J Faulkner - Trustee Director

Date: 6 January 2023

On behalf of BDO Pension Trustees No2 Limited