BDO Pension Scheme – Defined Benefit & Defined Contribution Sections

Statements 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 September 2019 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 November 2019.

This Statement covers the period 1 July 2019 to 30 June 2020.

Investment managers and funds in use (Strategic asset allocation as at 30 June 2020)

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
Global equities	LGIM World Equity Index Fund	10.0%
Diversified Growth Funds	Insight Broad Opportunities Fund Invesco Global Targeted Return Fund	15.0% 15.0%
Multi Asset Credit	TwentyFour Strategic Income Fund	14.0%
Property	Threadneedle Pension Property Fund	5.0%
Diversified Alternatives	Partners Group Generation Fund Cohen & Steers Diversified Real Assets Fund	7.5% 7.5%
Liability Driven Investment – Nominal	LGIM Matching Core Fixed Short Fund LGIM Matching Core Fixed Long Fund	16.0% 3.0%
Liability Driven Investment - Real	LGIM Matching Core Real Short Fund LGIM Matching Core Real Long Fund	5.5% 1.5%
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
	Invesco	Global Targeted 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
Total		

DC Section – Default Investment Strategy

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.

Investment Strategy Review

DB Section

At the start of the review period, the Trustee's long-term investment policy was to invest 40% of the total assets in Global Equity, 23% in Government Bonds, 28% in Corporate Bonds, 2% in Hedge Funds, 5% in commodities and 2% in property. The Trustee implemented this investment policy through the use of a "funds of funds" arrangement with Cannacord Genuity Wealth Management.

The Trustee reviewed the Scheme's investment strategy and fund managers in June 2019 after considering advice from their Investment Consultant, Broadstone Corporate Benefits Limited ('Broadstone'), and subsequently agreed to the investment strategy as described in the table above. The investment strategy review involved redeeming all holdings with the previous manager, Cannacord Genuity Wealth Management, with proceeds invested in allocations to Global Equities, Property, Diversified Growth Funds, Diversified Alternatives (one Private Market and one Diversified Real Asset fund), Multi-Asset Credit and Liability Driven Investment Funds. The implementation of the new strategy was completed in November 2019.

The Trustee opted to implement the new strategy via the Mobius Life investment platform, in order to effect cost and operational efficiencies in the management of the assets. The Trustee utilises the Mobius Life platform to access all of the fund investments as detailed in the table above, apart from the Cohen & Steers Diversified Real Assets Fund, which is held off Platform.

As part of implementing the revised investment strategy, the Trustee did not place any specific restrictions relating to environmental, social and governance (ESG) issues on the changes made, and the changes were in line with the Trustee's policy on financially material considerations (see below).

DC Section

There have been no changes to either the investment managers or self-select options available to members in the DC Section over the year.

The Trustee periodically reviews the investment arrangements of the DC Section. In June 2017 the Trustee undertook a major review of the investment funds on offer to members and the investment charges they pay. This review resulted in the decision to transfer the investments to the Mobius Life investment platform. The decision was implemented during the 2017/2018 Scheme year and brought about both a reduction in fees and an increase in administrative efficiency. In September 2020 the Trustee completed a Value for Members assessment. While not completed by 30 June 2020, this was a significant piece of work and was in part undertaken during the 2019/2020 Scheme year. Further details are set out in the Annual Governance Statement.

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.

Statements of Investment Principles

The Statements of Investment Principles (SIPs) were updated in September 2019, for new investment regulations in relation to Environmental, Social & Governance (ESG) considerations. The SIP for the Defined Benefit section was also updated to set out the new investment strategy. Whilst falling just outside of the review year, the Trustee also reviewed the SIPs in July 2020 to take into account further new regulatory requirements.

The Trustee's 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.

The Trustee's policies on financially and non-financially material considerations were updated in the SIPs in force during the year (September 2019). The Trustee's policies on engagement and voting activities were not updated in the SIP in force during the year, but instead were updated in the SIPs dated July 2020.

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

Policy on financially material 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 Defined Benefit and Defined Contribution Section of the Scheme are managed in accordance with its 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 it is 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-financially material 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 their 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 its 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 it acknowledges that this limits its ability to directly influence each investment manager.

The Trustee has employed Broadstone to assist it in monitoring the voting and engagement activity of its investment managers, and a summary of this activity is provided to the Trustee on a periodic basis. The Trustee, with the assistance of Broadstone, concluded that the voting and engagement activity of its investment managers is in line with its policy on voting and engagement.

Within the current investment arrangements, the Scheme's holdings in Equities and Diversified Growth Funds contain equity holdings, and therefore have voting rights attached to these underlying equities.

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

The Trustee has delegated engagement activities to its 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 2019 to 30 June 2020, 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
LGIM	Pooled	ISS	Yes	59,858	82%	17%	1%
Insight*	Pooled	Minerva	No	1,503	94%	0%	6%
Invesco	Pooled	Glass Lewis /ISS	Yes	44,184	89%	10%	1%

*Voting data provided by Insight only covers the 2019 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. The Trustee will work with its investment managers to obtain this information in future years.

Notable engagement activities from the investment managers (where there are public equity investments held) over the last 12 months are shown below:

- **LGIM** put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. BP has announced new targets including net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

- **Insight** is engaging Enel to monitor their climate-reduction strategies. Insight believes there has been a noticeable improvement in their communication and leadership, particularly with the company issuing the market's first sustainability-linked bond.
- **Invesco** engaged with the board of Royal Dutch Shell over the period requesting more details on how the company could meet their decarbonisation plans without excessive reliance on offsetting. Invesco also raised concerns about Shell's lack of transparency around human capital management. Invesco believe Shell is making a concerted effort to produce a detailed strategy for their decarbonisation plans and have agreed in principal to improve disclosure on human capital management metrics in their 2020 reports. Invesco subsequently supported the management at the 2020 AGM, but continue to closely monitor the company to ensure its climate and disclosure promises are being fulfilled.

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.

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 twice yearly basis for the Defined Contribution Section to ensure the investment objectives set out in their SIPs are being met.

Signed:

Date: November 2020

On behalf of BDO Pension Trustees No2 Limited