

Baptist Pensions Trust Limited (the Trustee)

The Ethical Investment Policy applying to the assets of the Baptist Pension Scheme

Introduction

Prior to buy-in of the liabilities of the DB section of the Scheme on 30 June 2022, the Trustee's Ethical Policy focussed substantially on the DB section since this contained the significant majority of the assets and there was a greater degree of Trustee control. Most of the DB section assets were realised in 2022 and the proceeds paid to Just Retirement, leaving only some illiquid property holdings with CBRE. As part of the due diligence process, the Trustee considered the ethical investment policy of Just and was satisfied that in large part it corresponded with the Scheme's ethical policy.

With the support of its Investment Committee, the Trustee has revised its Ethical Investment Policy document to focus on the DC section of the Scheme.

Application to the DC section

Cost-effective DC pension provision for a scheme of our size requires the use of pooled funds where the Trustee cannot dictate specific ethical requirements to the fund managers. However, in selecting which pooled funds to make available the Trustee takes into account ethical issues.

Prior to the DB section buy-in, ethical guidance for the DC section was provided by the Trustee's DB Ethical Policy. Although this aligned substantially with the ethical investment policy of the Baptist Union of Great Britain (BUGB) it retained a degree of independence. From 2023, the Trustee will use BUGB's ethical investment policy (see Appendix) as its guide when selecting DC pooled funds.

The Trustee will seek to select funds for the DC section that comply as closely as possible with BUGB's ethical investment policy, taking into account availability of suitable funds and their management cost. Consequently, the funds offered in the range will not necessarily fully comply with BUGB's ethical investment policy, but ethical criteria will be a priority in the selection process. It is recognised that following an ethical investment policy is likely to lead to higher investment management costs and increased volatility of returns, compared to those for a non-ethical approach, with potential implications for members' ability to finance their retirement provision. The Trustee therefore seeks to achieve an acceptable balance in its DC fund range that will satisfy the financial expectation and the conscience of the Baptist constituency. Ultimately it is the members who then make their own choices from the fund range offered.

Default Funds

If members do not make a choice of investment funds, their pension account is invested in the default lifestyle strategy determined by the Trustee. The Baptist Pension Scheme's default lifestyle strategy uses ethical funds during the main growth phase. It is unusual for a DC pension scheme to adopt an ethical approach to its default but the Trustee considers it appropriate to do so considering the membership are predominantly ministers and staff of Baptist organisations.

Fund selection process

The Trustee has appointed an Investment Committee and a firm of professional investment advisers to support its decision-making process. The Investment Committee reviews fund performance regularly and considers advice from the professional consultants on the suitability of funds. It then reports to the Trustee with any recommendations. A full review of the DC investments strategy is performed at least every three years.

The advisers present an annual Responsible Investment Report to the Investment Committee focussed on ethical considerations. They also support the Investment Committee and the Trustee in complying with TCFD requirements.

In September 2022, the Trustee identified human rights and climate change as its two stewardship priorities. This has been communicated to our DC investment manager and will be an ongoing factor in fund retention and selection considerations.

This version of the ethical policy was agreed by the Trustee on 8 March 2023.

APPENDIX

The Ethical Investment Policy applying to the assets of the Baptist Union of Great Britain (BUGB)

Introduction

The purpose of an Ethical Investment Policy for the Baptist Union of Great Britain (BUGB) is to ensure that the investments held reflect our Christian values and ethos. We are committed to ensuring that such ethical investment considerations are integral to BUGB's stated object in the advancement of Christian Faith and Practice, especially by the means of and in accordance with the principles of the Baptist Denomination.

Striking a balance between risk, reward and ethical considerations is complex and subject to Trust and Charity law. Both the BUGB Trustees and the Pension Trustees must at all times satisfy themselves that their action in applying an ethical investment policy will not involve significant financial detriment. The Trustees therefore seek to achieve an acceptable balance that will satisfy this expectation and the conscience of the Baptist constituency.

The Finance and Audit Committee of BUGB is responsible for ensuring that the ethical investment policy is adhered to by our appointed Investment Managers, as part of its role in overseeing the Investment Manager(s) of BUGB.

In setting this Ethical Investment Policy it has been recognised that following an ethical investment policy may lead to higher investment management costs and increased volatility of returns, compared to those for a non-ethical approach.

Application of the Policy

This policy applies to the investments of BUGB. The Pension Trustees set their own ethical investment policy although it is expected to broadly align with this policy.

Investment Policy

Through its ethical investment policy, BUGB seeks a constructive engagement with the corporate world and through our Investment Managers, we seek to invest in companies that will successfully develop their business financially where responsible business practices and high standards of corporate behaviour are encouraged and supported.

The use of 'positive screening', 'negative screening' and 'stakeholder activism' will be applied in assessing companies that are included within our investment portfolios.

Positive Screening

This means investing in companies or sectors which reflect Christian values in areas like:

- environmental protection,
- supporting sustainable development,
- health, including healthy food
- education,
- employment,
- human rights, including addressing modern day slavery
- good corporate social responsibility,
- good governance,

- financial transparency,
- anti-corruption controls,
- safe working practices,
- natural justice and
- sensitivity towards the communities in which their business operates.

We seek, by applying our ethical investment policy, to encourage companies to act responsibly in the interests of their shareholders, employees and other stakeholders.

Negative Screening

This means avoiding investment in companies or sectors or companies undertaking a particular activity or operating in a way which may be harmful and inconsistent with our Christian values and ethos.

We will therefore avoid investment in companies with significant trading in:

- gambling,
- pornography,
- the supply of tobacco products,
- alcoholic beverages,
- armaments,
- high interest rate lending.
- generally, we will avoid companies involved in human embryonic cloning or genetically modified organisms (GMO), except where such research is regarded as absolutely necessary and ensuring the ethical imperatives in embryo research are never forgotten as science develops.
- we will also avoid investment in companies significantly involved in human exploitation or injustice.
- the production, extraction and refining of oil, gas, tar sands and coal

Significant trading or involvement is normally taken to mean greater than 10% of turnover.

No one investment (other than pooled funds or UK Government stocks) may represent more than 5% of each investment manager's portfolio at the time of acquisition or 6% at any subsequent time without the prior agreement of the Trustees.

Investment in derivatives is not permitted, except for hedging purposes as in investment in warrants and investment in assets not readily realisable. Hedging, where used, will be to reduce risk.

We will avoid investment where it is clear there is systematic abuse or harmful impact on community development. As stewards of the world in which we live, we will avoid investment in companies that act without proper regard to the environment.

Stakeholder Activism

This means where we, as a shareholder, seek to influence a company's policies towards those which better reflect our values and ethos. The Investments Committee does this in the following ways:-

- Membership of the Church Investors Group (CIG) - a group of investors connected with Churches and other Christian charities in Britain and Ireland with combined assets of c£20billion

- Regular reports from our Investment Managers on how they have exercised company voting rights
- Being aware of developments in other Christian denominations and charities in their ethical investment policies.

The purpose here is to see a desired improvement in the conduct of companies in which we invest and making known our values and ethos in the best practical ways possible.

Fund Management

The size of our investment portfolio requires that we invest through funds to get appropriate diversification to manage risks. It ensures we do not have too high a concentration in any particular company. Using funds presents additional challenges in implementing and ethical investment policy. Two main challenges are:

- Finding funds which match our ethical criteria. Whilst there are a range of ethical funds available, none will provide a complete match with our policy. We therefore need to accept investment in funds 'with best fit'. Our investments are too small to justify fund managers setting up a separate fund to match our criteria.
- Managing through our Investment Managers the activism of the fund managers in engaging with companies.

Summary

The world of business and investment is very sophisticated and complex. We acknowledge there is difficulty in ensuring that our ethical investment policy is adhered to in every respect especially given the complexity of global markets and the diversification of many companies. However, we will, through the relationship we have with our investment managers and our ecumenical partners, seek to exercise our Christian, as well as shareholder responsibility. In this way we will seek to communicate Christian concerns and help stimulate ethical awareness in business.

By revising the existing Ethical Investment Policy of BUGB, we have sought to further expand both positive and negative screening by applying Christian principles to our financial resources and seeking to engage more fully to the well-being of society as a whole with a pro- active and positive contribution.

Revised March 2021