

Baptist Pension 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 Statement of Investment Principles (SIP) dated January 2023 have been implemented. The SIP provides further background details on investment arrangements and should be read in conjunction with the Trustee's Chair Statement for 2023.

It also includes the Trustee's 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 Trustee, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 January 2023 to 31 December 2023.

Investment Objectives of the Scheme

DB Section

The Trustee's objectives for setting the investment strategy of the DB Section of the Scheme have been set broadly with regard to the Scheme's Statutory Funding Objective set out in the Statement of Funding Principles.

The primary objective for the DB Section is to ensure that the Scheme should be able to meet benefit payments as they fall due.

After purchasing a second bulk annuity policy in June 2022, the Trustee's secondary investment objective for the DB Section is to realise the remaining illiquid assets in a timely fashion, and maintain surplus assets in cash until the buy-in policy can be assigned to the individual members and the Section can be wound up.

DC Section

The Trustee's primary objectives for the DC Section are to provide members with access to:

- An appropriate range of investment options, reflecting the membership profile of the DC Section and the variety of ways that members can draw their benefits in retirement; and
- A main default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the main default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as retirement approaches.

Review of the SIP

The SIP was last reviewed in November 2022, with the revision formally adopted in January 2023. The Trustee updated the SIP to incorporate changes to the DB Section's investment strategy. This SIP has been made available to members to view online and can be found at <https://www.engage-members.broadstone.co.uk/BPS.cshhtml>.

The Trustee has a policy on financially material considerations relating to 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 later in this Statement and are detailed in the Trustee's SIP.

In March 2023, the Trustee updated its Ethical Investment Policy. Otherwise, there has been no other change to the Trustee's policies on financially and non-financially material considerations, or on engagement and voting activities. Further details on how the Trustee implements its engagement and voting policy is set out in the latest SIP.

Investment managers and funds in use

Details of the investment strategies and funds used for both the DB Section and DC Section are set out in the January 2023 SIP and the accompanying Investment Policy Implementation Document (IPID).

DB Section

For the DB Section, the Trustee purchased a second bulk annuity ('buy-in') policy with Just in June 2022, which combined with the first bulk annuity policy in December 2019 covers all DB Section members' guaranteed benefits. The Trustee met Just to discuss its views on environmental, social and governance issues prior to the purchase of the second buy-in policy.

At the end of the year, the Trustee's investment policy was to primarily invest in a buy-in policy managed by Just, as well as holdings in the CBRE Property Fund and surplus assets held in cash with LGIM. The Scheme's holdings in the CBRE UK Osiris Property Fund are in the process of being wound down and the Trustee is currently waiting on the remaining proceeds from this fund.

DC Section

The funds available to members under the DC Section are summarised in the table below:

| Manager | Fund |
|-----------------------------------|---|
| LGIM | AAA-AA-A All Stocks Corporate Bond Fund |
| LGIM | All Stocks Fixed Interest Gilt Fund |
| LGIM | All Stocks Index-Linked Gilt Fund |
| LGIM | Ethical Growth Fund |
| LGIM | Ethical Diversified Fund |
| LGIM | At Retirement Fund |
| LGIM | Cash Fund |
| LGIM | Dynamic Diversified Fund |
| LGIM | Diversified Fund |
| LGIM | Ethical Global Equity Fund |
| Columbia Threadneedle Investments | Columbia Threadneedle Responsible Global Equity Fund |
| LGIM | Low Carbon UK Transition Equity Fund |
| LGIM | Global Equity Mixed Weights (30:70) Index Fund (75% GBP Hedged) |
| LGIM | World Emerging Market Equity Fund |
| Newton Investment Management | Newton Real Return Fund |
| LGIM | Over 5 Year Index-Linked Gilt Fund |

There were no longer any members invested in the LGIM Global Equity Fixed Weights 50:50 Fund as at the end of the Scheme year. The fund formed part of the legacy lifestyle for members two or more years from retirement but has not been a self-select option since 2019. The Trustee has agreed to remove the fund from the self-select range.

Investment Governance

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 Trustee's Chair Statement.

The Trustee delegates investment decisions to its Investment Committee (IC). The IC appointed by the Trustee board is responsible for ensuring that the ethical investment policy is adhered to by the appointed Investment Managers within acceptable levels. The current guidelines are those set out in the Trustee's Ethical Investment Policy document, last revised in March 2023. The Trustee believes that this stance should not undermine the long-term objectives of the Scheme. The Trustee will take its ethical guidelines into account when appointing and reviewing all its investment managers.

The Trustee does not actively obtain views of the membership of the Scheme to help form its policies set out in the SIP, as the Trustee's primary objective is to meet the benefits of the Scheme as they fall due, and the current investment strategy in place is intended to meet this objective. However, members are able to provide their views and feedback directly to the Trustee (where required), and the Trustee is undertaking a review of its communication strategies and how it engages with members. This includes developing methods for members to express their views.

The Trustee has put in place strategic objectives for LCP, as the Trustee's investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were reviewed by the Trustee in December 2022. The next review is due by December 2025. 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.

In addition, the Trustee regularly reviews its advisers (including LCP as their investment consultant) on an ongoing basis, with the next formal review of LCP's appointment expected in 2025 following after the review of the Scheme's defined contribution arrangements and buy-out of the defined benefit section.

Trustee's Policies

The table below sets out how, and the extent to which, the relevant policies in the Scheme's SIP have been followed:

| Requirement | Policy | Implementation of Policy |
|--|---|--|
| Considerations in setting the investment arrangements | <p>When deciding how to invest the Scheme's assets, the Trustee considers a number of risks, including, but not limited to, those set out in Appendix 2 of the SIP in force. Some of these risks are more quantifiable than others, but the Trustee has tried to allow for the relative importance and magnitude of each risk.</p> <p>The considerations the Trustee takes into account for both sections of the Scheme are outlined on pages 5 and 6 of the SIP.</p> | No deviation from this policy over the year to 31 December 2023. |
| Implementation of the investment arrangements | The Trustee's policy on the implementation of the investment arrangements is set out on pages 6 and 7 of the SIP. | No deviation from this policy over the year to 31 December 2023. |
| Realisation of investments | <p>The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments.</p> <p>For the DB Section, the buy-in provider is obliged to deliver the cash flow stipulated in the contract, which is designed to pay member benefits in full and on time.</p> <p>For the DC Section the Trustee's policy is to invest in funds that offer daily dealing to enable members to readily realise and change their investments.</p> | No deviation from this policy over the year to 31 December 2023. |
| Financially and Non-Financially Material Considerations | The Trustee's 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 December 2023 (see below). |
| Engagement and Voting Rights | <p>The Trustee recognises its responsibility as the owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.</p> <p>The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with relevant persons such as issuers of debt and equity, stakeholders and other investors about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.</p> <p>The Trustee does not monitor or engage directly with issuers or other holders of debt or equity but it does engage with current and prospective investment managers on matters including ESG and stewardship. Further details are set out in Appendix 3 of the SIP in force.</p> | No deviation from this policy over the year to 31 December 2023 (see below). |

Financially and non-financially material considerations

The Trustee has considered how environmental, social and governance (“ESG”) considerations (including but not limited to climate change) should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee has limited influence over managers’ investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee has decided that the investment managers should adopt ethical guidelines where possible. The current guidelines are those set out in the Trustee’s Ethical Investment Policy document, which was updated in March 2023 to clarify how this Policy applies to the DC Section of the Scheme, as well as confirming that the Trustee will consider the sponsoring employer’s ethical policies when reviewing/updating the investment strategy of both Sections of the Scheme. The Trustee believes that this stance should not undermine the long-term objectives of the Scheme.

The Trustee will take its ethical guidelines into account when appointing and reviewing the investment managers, and for the DC Section when making funds available to invest in by members. The Trustee cannot usually directly influence investment managers’ policies on ethical factors where assets are held in pooled funds due to the collective nature of these investments.

Within the DC Section, the Trustee has chosen to invest the equity allocation of the Ethical Default Lifestyle strategy in a passively managed fund that tracks an index that has reduced exposure to ESG and ethical risks and increased exposure to ESG and ethical opportunities. Outside of the Ethical Default Lifestyle strategy, the DC Section offers an actively managed equity fund which invest in ESG and ethically screened equities as well as a passively managed equity fund which tilts the Fund in favour of companies with lower greenhouse gas emissions.

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

| Asset Class | Active or passively managed? | Comments |
|--|------------------------------|--|
| Equities | Active / Passive | <p>Where equities are actively managed, the Trustee expects the fund manager to integrate ESG factors into the selection, retention, and realisation of the stocks they hold where this is expected to have a material impact on returns. The Trustee also expects the fund manager to take into account ESG considerations when engaging with companies and by exercising voting rights. However, the exercise of rights and engagement activities should be consistent with, and proportionate to, the rest of the investment process.</p> <p>The Trustee has made the following funds available to invest in by members of the DC Section, where these funds have a focus on ESG factors:</p> <ul style="list-style-type: none"> • The LGIM Ethical Global Equity Index Fund is available to members, primarily through the Ethical Default Lifestyle. The fund aims to track the FTSE4Good Developed Index, which excludes companies that are involved in the manufacturing or production of tobacco, weapons, or coal, or investment trusts, and requires companies to have obtained a FTSE ESG rating of 3.3 or above to be included in the index. Therefore, the Trustee expects the investment manager to take a more in-depth account of ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies. • The Columbia Threadneedle Responsible Global Equity Fund is available to use by members. The fund aims to provide long-term capital growth by investing in companies screened against defined responsible and sustainable criteria, including exclusions on tobacco, alcohol, weapons, gambling, nuclear and pornography. The fund also requires companies to meet sector standards on social and environmental impacts, including systems for managing labour standards, human rights, supply chains, environmental impacts, water, waste and biodiversity. • The LGIM Low Carbon Transition UK Equity Index Fund is available as an additional default arrangement for members. The fund is designed to provide exposure to the UK equity market on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues. Companies that fail to meet LGIM's minimum standards on low carbon transition and corporate governance standards may be excluded from the fund. |
| Risk-controlled multi-asset funds | Active | <p>The Trustee expects the asset managers to take financially material ESG factors into account, given the active management style of the funds and the ability of the managers to use their discretion to generate higher risk adjusted returns. The Trustee also expects its investment managers 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.</p> |

| Asset Class | Active or passively managed? | Comments |
|-------------------------|------------------------------|---|
| 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. |
| Corporate bonds | Passive | The Trustee acknowledges that the investment manager must invest in line with specified index and, therefore, may not be able to disinvest from a particular bond issue if it has concerns relating to ESG. The Trustee also expect its investment manager to engage with investee companies, where possible, although it appreciates that fixed income assets do not typically attract voting rights. |
| 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 | 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. |
| Buy-in policy | Active | The Trustee expects the insurer to take financially material ESG factors into account, given the underlying assets held by the insurer are actively managed and the ability of the insurer to use its discretion to generate higher risk adjusted returns. The Trustee also expects the insurer to engage with investee companies, where applicable, although it appreciates that fixed income assets (which make up a large proportion of the buy-in policy) do not typically attract voting rights. |

Voting rights and engagement activities

The Trustee currently invests in pooled investment funds with the investment managers, and it acknowledges that this limits the ability to directly influence the investment managers.

However, the Trustee periodically meets with its investment managers, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustee. As part of this, the Trustee will seek to challenge the investment managers on these matters where it thinks this is in the best interests of members.

To complement this monitoring, the Trustee receives stewardship and governance reports from the investment managers on a quarterly basis.

DB Section

None of the assets held by the DB Section at the year-end hold any public listed equities or voting rights.

DC Section

The LGIM assets held in the DC Section contain publicly listed equity holdings. These funds have voting rights attached to the underlying equities held within the funds, and the Trustee has delegated these voting rights to LGIM, where LGIM sets its own voting policy.

All of the DC Section's assets are invested in pooled funds held with LGIM. LGIM do not use a proxy-voting service and voting is performed in-house. Where the underlying fund is managed by Columbia Threadneedle or Newton, both managers use ISS to assist with implementing any voting decisions made internally by the manager.

A summary of the votes made by the underlying investment managers from 1 January 2023 to 31 December 2023 on behalf of the Trustee for each fund made available by the Trustee under the DC Section during the year was requested from the investment managers. LGIM have been asked to provide voting data broken down into Environmental, Social and Governance categories. However, LGIM has confirmed that the data is not yet available in this format. The Trustee will continue to request the breakdown of this data in future periods. The data in the table below is therefore provided at total fund level.

| Manager | Fund | Resolutions Voted On | Resolutions Voted: | | |
|-----------------------------------|---|----------------------|--------------------|---------|-----------|
| | | | For | Against | Abstained |
| LGIM | Ethical Growth Fund* | 95,463 | 76.3% | 23.4% | 0.3% |
| LGIM | Ethical Diversified Fund* | 95,463 | 76.3% | 23.4% | 0.3% |
| LGIM | At Retirement Fund* | 94,231 | 76.3% | 23.4% | 0.3% |
| LGIM | Dynamic Diversified Fund | 101,131 | 76.6% | 23.1% | 0.3% |
| LGIM | Diversified Fund* | 94,231 | 76.3% | 23.4% | 0.3% |
| LGIM | Ethical Global Equity Fund | 16,786 | 81.3% | 18.5% | 0.2% |
| LGIM | World Emerging Markets Equity Index Fund | 33,998 | 80.5% | 18.6% | 0.9% |
| Columbia Threadneedle Investments | Columbia Threadneedle Responsible Global Equity Fund | 734 | 93.8% | 5.6% | 0.6% |
| LGIM | Low Carbon UK Transition Fund | 1,981 | 95.9% | 4.1% | - |
| LGIM | Global Equity Mixed Weights (30:70) Index Fund (GBP Hedged) | 72,845 | 81.0% | 18.5% | 0.5% |
| Newton Investment Management | Newton Real Return Fund | 1,378** | 74.6% | 24.8% | 0.6% |

* Composed of various underlying funds.

** Number of meetings attended where votes were made by the investment manager.

Since 1 April 2023, Newton have started to provide voting at the fund level, whereas the numbers in the table above are provided at the manager level. Over the period from 1 April 2023 to 31 December 2023, Newton voted on 1,033 proposals in respect of holdings in the Newton Real Return Fund, of which Newton voted 90.9% in favour and 9.0% against with the manager abstaining on the remaining 0.1% of proposals. The Implementation Statement for the year to 31 December 2024 will provide voting information for the Newton Real Return Fund for the full year.

Significant votes

The Trustee has requested details of the significant votes made on behalf of the Trustee by LGIM in respect of a fund in which the DC Section invests and has voting rights. In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at the manager's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an any manager engagement campaign, for example in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

The Trustee believes the following are the most significant votes undertaken on their behalf over the scheme year:

| SIGNIFICANT VOTE 1 | |
|---------------------------|---|
| Investment Manager | LGIM |
| Company | Shell Plc |
| Date of vote | 23 May 2023 |
| Resolution | Approve Shell Energy Transition Progress |
| Why significant | LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C temperate increase scenario. Given the high-profile of such votes, LGIM deem such votes to be significant particularly when LGIM votes against the transition plan. |
| Voting decision | Against |
| Manager comments | <i>"LGIM acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, LGIM remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations."</i> |
| Vote outcome | Resolution Passed |

SIGNIFICANT VOTE 2

| | |
|--------------------|--|
| Investment Manager | LGIM |
| Company | Eversource Energy |
| Date of vote | 3 May 2023 |
| Resolution | Elect Director Joseph R. Nolan Jr. |
| Why significant | LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO. |
| Voting decision | Against |
| Manager comments | <i>"A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns."</i> |
| Vote outcome | Resolution Passed |

Engagement activities

The Trustee has also delegated engagement activities to the investment managers. The notable engagement activities of the investment managers are 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 CSS 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.

- **CBRE** requested that all the underlying managers of the fund complete CBRE's annual ESG due diligence questionnaire (DDQ) during the year. Following CBRE's review of the results from the DDQ, in conjunction with data from the 2023 Global Real Estate Sustainability Benchmark (GRESB) assessments, the sustainability scorecard for each holding was fully updated. Through the scorecard CBRE identified potential areas of improvement, which led to engagement with each manager to understand how they intend to improve ESG performance relating to key areas such as building certifications, net zero carbon emission targets, and utility data coverage.

For the buy-in policy held under the DB Section, Just have put in place targets to reduce the carbon emission across its bulk annuity policies, as well as making a positive impact (in line with the United Nations' Sustainability Development Goals). These targets and policies are set out in Just's Responsible Investment Framework and reported on each year. Some of the key highlights are summarised below:

- Just have raised debt via green bonds and sustainability bonds to target investment of £825 million in green and social assets by 2025.
- Carbon emissions were reduced by 42% over 2023 across the investments held by Just.
- Just have partnered with EcoTree to plant 50,000 trees each year.
- Just have met their target to have women in 33% of senior leader positions in 2023.

Just's ESG and sustainability insight and reports can be found at the following web address <https://www.justgroupplc.co.uk/sustainability>.

The Trustee is comfortable with the approach used by investment managers and insurer 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 an investment manager's or insurer's policies on stewardship and engagement when selecting and reviewing investment managers or insurers.

Monitoring of Investment Arrangements

In addition to any reviews of the investment managers or their approaches, and direct engagement with the investment managers (as detailed above), the Trustee receives performance reports from LCP on a quarterly basis to ensure the investment objectives set out in their SIP are being met.

Signed:

Date: 25 June 2024

Signed by C Maggs (of CM Pensions Limited), as Moderator on behalf of the Trustee of the Baptist Pension Scheme