Schroders
solutions

Bellway p.l.c. 1972 Pension Scheme ('Scheme')

31 July 2023 Implementation Statement

December 2023

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the Bellway p.l.c. 1972 Pension Scheme (the 'Scheme') in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was amended once during the year ending 31 July 2023 following the appointment of the new Fiduciary Manager, Schroders IS Limited. This SIP came into force from March 2023.

A copy of the current SIP signed and dated 17 March 2023 can be found here https://www.bellwayplc.co.uk/media/2339/sip-march-2023.pdf.

This Implementation Statement covers the Scheme year from 1 August 2022 to 31 July 2023 (the "Scheme Year"). It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A new set of guidance ("the Guidance") from the Department for Work and Pensions ("DWP") has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustee of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme's SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Scheme, with the help of the Scheme's Fiduciary Manager, has complied with the statutory guidance set by DWP.

A copy of this Implementation Statement is available on the following website: https://www.bellwayplc.co.uk/investor-centre/governance/statements.

2. How the Trustee's policies on exercising voting rights and engagements have been followed over the Scheme Year

The Trustee uses the Fiduciary Management service of **Schroders IS Limited** as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then.

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Engagement Blueprint awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021

The Fiduciary Manager can appoint other investment managers to manage part of the Scheme's assets (these are referred to as "**Underlying Investment Managers**"). The Scheme invests in some assets with voting rights attached (e.g. equities) and with engagement possible in relation to most asset classes. Whilst the Trustee has delegated responsibility to the Fiduciary Manager and Underlying Investment Managers for voting and engaging on its behalf, the Trustee regularly reviews the approach and stewardship policies of the Fiduciary Manager to ensure they are aligned with the Trustee's beliefs and objectives.

A copy of the Scheme's SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee's investment policies when providing Fiduciary Management services. However, given that the investments with the Underlying Investment Managers are generally made via pooled funds (where the Scheme's investments are pooled with those of other investors) through the investment platform provided by Mobius Life Limited, the Fiduciary Manager does not have direct control over voting or engaging with the companies that issue the underlying securities. This process lies with the Underlying Investment Manager, who may have different engagement priorities than the Trustee. Therefore, the Trustee requires the Fiduciary Manager to integrate stewardship activities such as voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, into the selection or monitoring of Underlying Investment Managers. The Trustee believes it is appropriate to delegate the decision of appointing and monitoring Underlying Investment Managers to the Fiduciary Manager, who will be able to influence the Underlying Investment Manager's voting and engagement policies. Consequently, the Trustee can largely exercise their stewardship policy as set out in the Scheme's SIP.

On behalf of the Trustee, the Fiduciary Manager carried out regular investment and operational due diligence on the Underlying Investment Managers to monitor voting and engagement policies concerning the Scheme's investments. Additionally, with the help of the Fiduciary Manager, the Trustee monitors the performance of the Underlying Investment Managers against the agreed performance objectives at Trustee meetings held during the Scheme Year.

Given the activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the DWP Guidance over the Scheme Year.

The Trustee has identified areas in which it can enhance its stewardship activities in the following Scheme Year by:

- Documenting engagement priorities in the SIP to aid in stewardship and focus engagement.
- Reviewing the Fiduciary Manager’s (Schroders Solutions) ESG annual update to ensure the Fiduciary Manager is carrying out the voting and engagement activities in line with its policies.
- Continuing to review the Underlying Investment Managers on voting and engagement examples.

3. Voting and Engagement Summary

On behalf of the Trustee, the Fiduciary Manager exercises voting rights in relation to the pooled funds managed by the Underlying Investment Managers, in line with its voting policy, where possible to do so.

Most voting rights and engagement regarding the Scheme's investments relate to underlying securities within these pooled funds. At a general meeting of a company, the Underlying Investment Managers exercise voting rights and engage with the company issuing the security in line with their policies, which the Fiduciary Manager may have influenced. Nonetheless, the pooled funds themselves often confer certain rights around voting or policies, which the Fiduciary Manager exercises on behalf of the Trustee, and we cover these here.

Within the Scheme's portfolio, the **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in equity assets, with equity being the only asset class to hold voting rights. The Trustee reviewed the BNYM semi-annual proxy voting reports (links included in Appendix) and noted that BNYM prioritised stewardship with each of their underlying holdings on areas broadly in line with Schroders Solutions' engagement themes.

In relation to the liability hedging, the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by several factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustee has considered the voting statistics and behaviour set out in this Implementation Statement, along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio and the liability hedging portfolio, and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers, and some good progress has been achieved such that many of the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activity over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- In this Implementation Statement, the Trustee considered relevant examples in relation to voting and engagement. Examples are provided in the appendix.

Summary Voting Statistics

The Fiduciary Manager uses c. 9 Underlying Managers; however, the equity holdings are the only asset class with voting rights. Below are the voting statistics as at 30 June 2023 for the most material equity funds held on behalf of the Trustee that had voting rights during the period.

	BNY Mellon Global Equity Fund	Legal & General Europe ex UK	Legal & General World Equity Index Fund	BlackRock Aquila Connect	NinetyOne Global Strategy Fund

		Equity Index Fund		Japanese Equity Fund	
Votes in total	11,331	9,700	36,631	5,801	328
% of votes with management	93%	80%	79%	96%	92%
% of votes against management	7%	19%	21%	3%	9%
% of votes abstained	1%	0%	0%	0%	0%

Source: Mobius, Underlying Investment Managers

Note:

- BlackRock, BNYM, NinetyOne and L&G use Institutional Shareholder Services, "ISS", for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of "Abstain" is also considered a vote against management.

The Trustee is satisfied that the voting and engagement activities undertaken by the Underlying Investment Managers align with the stewardship policy the Trustee has determined during the Scheme Year. The Trustee is looking to update the SIP in the next scheme year to include an enhanced stewardship policy developed under DWP Guidance.

Appendix 1 – Engagement Examples

1. Engagement by the Fiduciary Manager (Schroders IS) in relation to underlying pooled funds held on behalf of the Trustee

In addition to the voting outlined in section 3 above, over the Scheme Year, the Fiduciary Manager also:

- engaged with the core credit manager, Neuberger Berman, regarding some particularly high emitting companies within the fund that was leading to higher than benchmark carbon footprint metrics;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager was not satisfied with the quality of data previously provided.

2. Examples of voting and engagement carried out by the Underlying Investment Managers

Climate – PACCAR Inc

At the annual PACCAR Inc meeting on 25 April 2023, BNY Mellon voted in favour of the shareholder proposal for the Board of Directors to annually issue a report describing how the company's lobbying activities align with the goal of the Paris Agreement. This vote was considered "most significant" as it focuses on climate-related topics and the manager believes PACCAR is not transparent in disclosing their activities in this area. This vote failed, and Mellon will continue to engage with PACCAR and encourage them to disclose more information on lobbying generally, and specifically related to climate.

Corporate governance - Boeing

Neuberger Berman, one of the credit managers, have spent 4 years engaging with Boeing following MSCI assigned Boeing a Very Severe Controversy Flag which put the company in the manager's engagement priority list. Neuberger Berman communicated with the issuer on concerns related to product safety of its 737 Max aircraft following two disasters that resulted in the deaths of passengers and crew and engaged with the company on their internal risk controls, oversight procedures, and governance structure given the revelation of design flaws with the 737 Max and inadequate attempts by the company to address the issue.

The engagement process was led by credit analyst within the team and included 13 discussions over a period of 4 years with the senior management including the CFO, Treasurer, and Investor Relations team. The issues raised included Boing's risk controls, lack of oversight and inadequate governance structure. While the initial actions taken by Boeing were not always adequate, through manager's continued engagements, Boeing has addressed our concerns regarding its governance and risk controls.

Neuberger Berman consider this engagement w=as a successful example as Boeing made the following changes:

- Boeing Improved its safety oversight standards through the creation of the independently managed "Aerospace Safety Committee" with responsibility to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of aerospace products and services.
- Implemented an enterprise-wide Safety Management System "SMS" and established a Quality Management System "QMS" to fully embed safety and quality across total production process -Named a new chief aerospace safety officer with accountability to Boeing's Aerospace Safety Committee and created 4 operations councils overseeing all BA manufacturing, quality, supply chain and program management teams.

- Executive compensation changed with an increased focus on operational performance tied to product safety, employee safety, quality along with climate area.

Neuberger Berman will continue future engagements to address additional improvements that can and should strengthen BA’s product safety and risk oversight systems. While the manager has and will continue to raise concerns regarding greater risk oversight procedures, ultimately the changes implemented by Boeing along with design improvements allowed the 737 Max to be recertified globally.

Climate change - Carnival

NinetyOne engaged Carnival (CCL), the largest cruise line operator in the world with over 90 ships sailing under nine well-known brands. While CCL has been an industry leader on various sustainability initiatives (described in more detail under our Top 3 contributors' section), an area of weakness identified through the transition alignment evaluation was a lack of commitment to an independently verified net zero target (such as SBTi).

The manager engaged with CCL to specifically question why this was the case, especially given its various sustainability initiatives elsewhere. Their engagement included its Chief Maritime Officer, Sustainability Director and a representative from the Investor Relations team. Through the engagement they learnt that CCL has had multiple conversations with SBTi and is considering committing to its targets. The company however hasn’t committed yet because it is concerned with SBTi’s methodology. CCL believes that to achieve SBTi long term targets, alternative fuel sources would be needed, which technology today does not yet allow for. CCL could reach short term SBTi targets but doesn’t want to run the risk of missing longer-term targets if the technology gap remains over the next several years.

With that said, the company is looking at alternative options with well-known SBTi peers (though declined to specify which) and acknowledges that there is value in having a third party oversee sustainability progress. No hard timeline was given, but CCL expects to announce a commitment/partnership by year end 2024 (whether to SBTi or an alternative organization).

On other sustainability matters, the company’s liquified natural gas (LNG) powered ship rollout is going well, with 8 LNG ships already in service and 3 to be delivered. Those 11 ships would represent 20% of total capacity. To achieve net zero however, the industry would need to find additional long term green fuel sources. Biofuel and e fuel (e.g., hydrogen, carbon) are the most likely next sources according to CCL. Biofuel has been tested but is too expensive today. For hydrogen/carbon, the sector will need to find a way to produce those fuels without creating emissions which would defeat the purpose. Electric powered engines are unlikely for ocean going vessels due to long range requirements.

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement polices for both Investment Manager and Underlying Investment Managers of the Scheme's largest holdings can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	schroders-esg-policy.pdf https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html
Neuberger Berman	https://www.nb.com/en/global/esg/engagement
Stone Harbor	https://www.shipemd.com/assets/files/25/esg-policy-09.20.2023.pdf
Ninety One	https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf