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thebrickbusiness Pension Scheme Implementation Report

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Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that trustees detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an Implementation Report.

The Scheme is sectionalised into two sections (the Brickbusiness and Baggeridge Sections), which each share the same investment strategy. As such, this statement and the information included within it covers both Sections of the Scheme.

Statement of Investment Principles ('SIP')

The Scheme has updated its SIP in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the following web address:
https://www.wienerberger.co.uk/content/dam/wienerberger/united-kingdom/marketing/documents-magazines/reports/UK_DOC_The_Brick_Business_Pension_Scheme_SIP_%20September_%202020.pdf

Implementation Report

This Implementation Report is to provide evidence that the Trustees continue to follow and act on the principles outlined in the SIP. This report details:

- actions the Trustees have taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Trustees have followed policies on engagement, covering engagement actions with its fund managers and, in turn, the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 31 December 2021 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key investment strategy actions undertaken over the reporting year

- Over the reporting period the Scheme disinvested from the Legal & General long lease property holdings, which was completed in February 2021. The proceeds were held in the Baillie Gifford Diversified Growth Fund ahead of future reinvestment.
- The Scheme made a £14m commitment (across both sections) to a new illiquid credit mandate, the Partners Group Multi Asset Credit VI Fund,

which the Scheme entered in May 2021. This commitment is to be funded from a drawdown structure, with funds sourced from the Baillie Gifford holdings.

- During Q4 2021, the Scheme increased its target interest rate hedge from 75% to 80% of Technical Provisions liabilities. However, following the reporting period, the target interest rate hedge was further increased to 100% in March 2022 to capture the increase in nominal gilt yields seen during Q1 2022.

Implementation Statement

This report demonstrates that the thebrickbusiness Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed by: Peter McDonald

Position: Chair of Trustees

Date: 25/03/2022

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions
Interest rates and inflation	The risk of a mismatch between changes in the value of the Scheme's assets and the present value of its liabilities due to changes in interest rates and inflation expectations.	To maintain target hedge ratios of 80% against interest rates and 95% against inflation expectations.	During the period, the reference yield has been monitored on a monthly basis relative to previous trigger levels. In Q4 2021 the interest rate hedge was increased from 75% to 80% of Technical Provisions liabilities.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members' benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.	The Scheme holds both liquid and illiquid mandates. The Baillie Gifford Diversified Growth Fund (DGF) acts as the first source of capital for LDI capital calls, with Schroders holding power of attorney over these assets to allow for automatic rebalancing. This Fund is the first port of call for all liquidity requirements with the Scheme maintaining a prudent allocation in this Fund.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away unrewarded risks, where practicable.	While the Trustees are satisfied that the strategy is suitably diversified, they are considering reducing the concentration of the Baillie Gifford DGF holdings by introducing a liquid credit mandate, which was formalised post year end.
Credit	Experiencing losses due to defaults on payments owed as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently	During the reporting period, the Scheme reallocated to an illiquid credit mandate with Partners Group. This manages credit risk by maintaining the allocation to an existing manager which positions its funds defensively relative to peers.

		compensates the Scheme for the risk of default.	
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To delegate to investment managers the consideration of ESG factors in determining the appropriate holdings within their portfolios. The Trustees do not impose social, environmental or ethical constraints on the investment managers in relation to the selection, retention and realisation of investments.	ESG actions undertaken: • This updated ESG policy was reviewed by the Trustees as part of the SIP update in September 2019 In future, the Trustees will consider obtaining Impact Assessments, which are formal summaries of each investment manager's approach to and capabilities within ESG.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Invest in GBP share classes where possible to avoid direct currency risk. The Trustees have a preference towards managers which hedge currency risk in underlying assets.	The Scheme's investment holdings are all GBP denominated, avoiding any direct currency risk. Underlying currency risk within each pooled vehicle is also hedged at a fund level where appropriate.
Funding	The risk of adverse asset performance leading to the Scheme's deficit increasing and deviating significantly from the journey plan agreed.	Invest in suitable asset classes to generate an overall portfolio with the required expected return consistent with the recovery plan, while managing downside risk such that an expected downside scenario (measured using a 3 year 95% value at risk figure) doesn't exceed £20m across both Sections combined (exceeding longevity risk).	The Trustee currently runs the same investment strategy across both Sections but is aware that differences between the two Sections (e.g. funding levels) may require separate strategies to be used in the future as both Sections evolve.

Please note the above policy reflects the Scheme position as at 31 December and reflects changes made over the course of 2021, any further changes made after 31 December 2021 will be covered in the next iteration of this document.

Changes to the SIP

Over the 12 months to 31 December 2021, the SIP was updated to reflect the Baillie Gifford Diversified Growth Fund fee reduction.

Manager	Fund Name	Benchmark	Target outperformance	Fees (% p.a.)
Baillie Gifford & Co.	Diversified Growth Fund	UK Bank of England Base Rate	3.5% p.a. (net of fees)	0.55[1]

[1] Fee quoted represents the first tier of annual management charge, applied to the first £30m of assets. The fee structure operates on a tiered scale, with 0.45% p.a. charged on the next £90m, 0.40% p.a. on the next £480m and 0.35% p.a. thereafter.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustees' policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's current assessment criteria used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustees may wish to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement:
Environmental, Social, Corporate Governance factors and the exercising of rights	• The Trustees delegate monitoring of each investment manager's ESG policies to Isio as investment advisors.	• Managers have not acted in accordance with their policies and frameworks. • A manager's policy is not in line with the Trustees' policy in this area, whether in its current form or if revised.

Example areas of assessment

The table below outlines example areas on which the Scheme's investment managers could be assessed when evaluating their ESG policies and engagements.

Risk Management	1. ESG factors such as climate change are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees. 2. The Trustees believe that ESG integration leads to better risk adjusted outcomes and want a positive ESG tilt to the investment strategy.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will seek to allocate to these sectors. 5. The Trustees consider the ESG values and priority areas of the stakeholders and sponsor and use these to set ESG targets.
Reporting & Monitoring	6. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 7. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Voting & Engagement	8. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 9. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 10. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Collaboration	11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD. 12. The Trustees should sign up to a recognised ESG framework to collaborate with other investors on key issues.

Engagement

As the Scheme invests via pooled funds managed by external fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 31 December 2021. Please see below for a summary relating to the Funds the Scheme had exposure to over this period.

Fund name	Engagement summary	Commentary
Apollo Total Return Fund	Total engagements: 43 Broad-based ESG: 22 Environment: 13 Social: 3 Governance: 5	Apollo have a clear due diligence and engagement framework. The team regularly engage with portfolio companies through dialogue with management. These engagements each year have been a key element in the production of formal company ESG reports using both qualitative & quantitative key performance indicators. As bond investors, Apollo's engagement rights are limited however, making it more difficult to engage with portfolio companies in comparison to equity investors. Examples of significant engagements include: **Banco General** – Apollo engaged with the company to encourage reporting on greenhouse gas emissions. Following this engagement, the management team provided some explanations on their progress in relation to ESG and they are now considering measuring greenhouse gas emissions. **StoneCo Ltd –** Apollo met with the company's treasurer to discuss the bank's disclosure of its performance. They urged the bank to host calls for investors to allow for questions and to improve upon its disclosure. Following this discussion, the treasurer agreed to host calls with investors and improve quarterly disclosures.
Baillie Gifford Diversified Growth Fund	Total engagements: 43 Environmental and Social: 22 Governance: 21	Baillie Gifford have an established firm wide ESG policy. The Fund invests in several sub-funds managed by Baillie Gifford, which follow a bottom-up stock picking approach. As such, ESG is well integrated within the selection of many holdings with ESG issues being considered on a case-by-case basis. Baillie Gifford list the primary reasons for ESG engagement as: fact finding, monitoring progress, exerting influence and supporting the management team.

		Examples of significant engagements include: **The Renewables Infrastructure Group (TRIG) –** Baillie Gifford engaged with the company on a variety of ESG topics including dividend resiliency, a diverse senior management and board succession. With regards to ESG, the company discussed how the board calibrates ESG risks in their overall investment decision-making. As such, they explained that TRIG's credit facility being linked to ESG means it is core to the business and is linked to everything they do. Following this engagement, Baillie Gifford were pleased to learn that ESG risks also feature on TRIG's overall risk register: reputational risk, social risk, governance risk, regulatory risk. **Greencoat UK Wind (Renewables Investment Manager) –** Baillie Gifford met Greencoat's Chairman and Senior Independent Director to discuss the board's approach to valuation assumptions. Additionally, they wanted to understand the extent to which the board engages with and challenges the investment manager and portfolio operator's carbon footprint. Baillie Gifford were encouraged by the Chairman's explanation the fund's focus on maintaining oversight of the pipeline of possible deals and its rigorous approach to assessing potential new acquisitions for the portfolio. Despite increased optimism from Baillie Gifford following the engagement, they hope to see improvements in the board's oversight of - and challenge to – the management of the portfolio's operational carbon performance.
Partners Group Market Credit Strategies 2016 **Partners Group MAC VI**	Total engagements: N/A, Partners Group were unable to disclose the number of engagements for the reporting period	Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group aim to have a seat on the advisory board to enhance engagement capabilities beyond that of a typical debt investor and formulate a dialogue with portfolio companies to monitor investment decisions. Partners Group were unable to provide meaningful examples of ESG related engagements during the period.
The Partners Fund	Total engagements: N/A, Partners Group were unable to disclose the number of engagements for the reporting period	Partners Group aim to have a seat on the advisory board to assist with the engagement with the private corporations in which they invest in. The group aim to formulate a dialogue with portfolio companies to monitor investment decisions. The Fund only invests in private assets but maintains exposure to both equity and debt investments within its investment approach. Due to the ownership rights which come with equity positions, engagement rights

		are typically stronger. However, we note positively the use of board positions to improve engagement in debt positions. In private equity investments, Partners Group can typically exert greater influence over the board than public equity managers can as a smaller investor in much larger public corporations. Partners Group were unable to provide meaningful examples of ESG related engagements during the period.
Schroders LDI	Total engagements: N/A	Schroders do not consider direct engagement data to be relevant to these Funds due to the underlying holdings being passively held cash and gilts. Cash and gilt holdings typically have no engagement rights attached to them, as such the Funds' overall engagement influence is relatively low. However, Schroders believe applying an approach which incorporates the effects of ESG trends is a key element in reducing liability risk. This includes inflation and interest rate risk. Further to this, Schroders engaged on RPI reform and the LIBOR transition as they believe in actively engaging on industry initiatives and regulation. Additionally, Schroders engaged with a wide range of market participants over the period including existing and potential counterparty banks, the Bank of England, the Debt Management Office, governments, and clearing houses.

Voting (for equity/multi asset funds only)

As the Scheme invests in pooled funds via third party fund managers, the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 December 2021. The managers also provided examples of any significant votes. Please see below for a summary relating to the relevant funds the Scheme had exposure to over this period.

Fund name	Voting summary	Examples of significant votes	Commentary
Baillie Gifford Diversified Growth Fund	Meetings voted: 132 Votes cast: 1,336 Votes 'for' management: 1,283 Votes 'against' management: 45 Vote 'abstain': 8	Examples of significant votes include: **Six Flags Entertainment Corporation**: Baillie Gifford opposed the executive's remuneration report, due to several aspects not being in line with best practice. Baillie Gifford's primary concern was the size of the long-term incentive award paid to the CEO, which was equal to the previous year against a backdrop of company-wide salary reductions and employee lay-offs. Although the proposal was passed, 41% of shareholders opposed it. Baillie Gifford communicated these concerns to the company and plan to continue engaging on this topic. **Vonovia SE**: Baillie Gifford opposed two resolutions which sought the authority to issue equity. Baillie Gifford noted that the resulting dilution levels would not be in the interests of shareholders. Prior to the AGM Ballie Gifford contacted the company for assurance on the matter and were not provided with any, therefore they plan to continue engaging on this matter. Although the proposal was passed, over 20% of shareholders opposed it.	Baillie Gifford's Governance and Sustainability team oversees their voting analysis and execution in conjunction with their investment managers. They analyse all meetings in-house in line with their Governance & Sustainability Principles and Guidelines and they endeavour to vote every one of their clients' holdings in all markets. All voting decisions are made by Baillie Gifford's Governance & Sustainability team together with investment managers. They do not regularly engage with clients prior to submitting votes. If a vote is particularly contentious, they may reach out to clients prior to voting to advise them of this. Voting rights are strongest within the Fund's equity holdings, which made up c.20% of the portfolio as at 31 December 2021.

The Partners Fund	Meetings voted: 63 Votes cast: 744 Votes 'for' management: 674 Votes 'against' management: 40 Vote 'abstain': 30	Partners Group were unable to provide meaningful voting examples for The Partners Fund	Partners Group's voting rights are a particularly useful tool for managing ESG risks within their private equity holdings within their portfolio. However, their debt positions do not carry any voting rights and are more reliant on any engagement rights Partners Group can establish. As mentioned above for engagement, as a larger shareholder in smaller private companies, Partners Group's vote carries more weight and can drive more action than other managers can in larger public corporations.