

isio.

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

Implementation Statement

This implementation statement is to provide evidence that the Trustees continue to follow and act on the principles outlined in the Statement of Investment Principles (SIP).

The SIP can be found online at the web address: <u>UK_DOC_thebrickbusiness_Pension_Scheme_SIP_April_2023.pdf</u> (<u>wienerberger.co.uk</u>)

The SIP was updated during the year to incorporate updated guidance provided by the Department for Work and Pensions (DWP) around the voting and engagement policies, further detail is available later in this report.

The Implementation Statement details:

- actions the Trustees has 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 has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate
- voting behaviour covering the reporting year up to 31 December 2023 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its hehalf

Summary of key actions undertaken over the reporting year

- The Trustees implemented a plan to disinvest from the Scheme's illiquid holdings in The Partners Fund. Funds from the disinvestment continued to settle in the Trustee bank account through the year. The rationale for the disinvestment was to de-risk the investment strategy and provide additional liquidity to the Scheme.
- The Trustees have gradually increased the liability hedge ratio up to 90% through the reporting year to provide stability to the Scheme's funding position.
 Funds from The Partners Fund disinvestment were utilised to re-establish liquidity within the Scheme to support the LDI mandate.
- Towards the latter end of the reporting period the Scheme began to wind down its holdings in Ares. This was due to unexpected termination of the fund announced by the fund manager. By Q1 2024, Ares have reimbursed 64% of the

- $30\ September\ 2023\ NAV$ to the Scheme. Remaining payments are scheduled to be paid out over the next few years.
- Post-reporting period, the Trustees are considering a proposal from the investment advisors to invest excess funds in the Trustee Bank Account into the Scheme's Secured Credit mandate with Schroders.

Implementation Statement

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

Signed			
Position			
Date			

Managing risks and policy actions DB

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	The Scheme's current policy is to maintain a target hedge ratio of c.90% of against interest rates and inflation expectations across both the Brickbusiness and Baggeridge sections. The Trustees aim to hedge these risks directly where appropriate and affordable.	The Trustees reviewed the liability hedging policy during the year and decided to increase the liability hedge ratio from c.50% to c.90% against inflation and interest rates. The Trustees proceeded with raising the hedge level once they were comfortable the Scheme had sufficient collateral headroom to meet liquidity requirements in case of capital calls.
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 Scheme implemented a plan to completely disinvest from the Private Markets mandate (the Partners Fund) to improve the liquidity of the Scheme. The proceeds of the Partners Fund disinvestment were reinvested with Schroders to support the LDI collateral pool of assets. Schroders hold power of attorney to automatically rebalance the LDI mandate where required. The Sterling Liquidity 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 any unrewarded risks, where practicable.	The Trustees updated the Scheme's investment strategy which included reducing the Scheme's illiquid holdings as well as increasing the liability hedge ratio. Therefore, the updated investment strategy de-risked the Scheme's holdings and improved its liquidity position
Credit	Default on payments due 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 compensates the Scheme for the risk of default.	During the reporting period, the Trustees continued to disinvest entirely from an illiquid credit mandate with the Partners Group. This reduced the Scheme's credit risk profile and improved liquidity. The disinvestment was carried out in three tranches. The Scheme's position in the Ares Secured Income Fund started to wind down towards the end of the reporting period. This was due to an unexpected termination of the fund by the investment manager.
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 appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criterion: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting	Further detail provided later in this report

		rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustees monitor the mangers on an ongoing basis.	
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 for 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 2023 and reflects changes made over the course of 2023, any further changes made after 31 December 2023 will be covered in the next iteration of this document.

Changes to the SIP

Over the year, the SIP was updated to include a voting and engagement policy in line with updated guidance provided by the Department for Work and Pensions (DWP).

The Trustees acknowledged responsibility for the voting and engagement policies implemented by the Scheme's investment managers. The Trustees via their investment managers will aim to engage with managers about 'relevant matters' at least annually.

The SIP was also updated with new benchmarks as Investment Managers switch benchmarking from the London Interbank Offered Rate (LIBOR) to Sterling Overnight Index Average (SONIA).

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. The Trustees' have agreed to an ESG policy which describes how it monitors and engages with the investment managers regarding their ESG polices. This page details the Scheme's ESG policy. The next page details our view of the managers, our actions for engagement and an evaluation of the engagement activity.

Risk 1. Integrating ESG factors, including climate change risk, represents an Management opportunity to increase the effectiveness of the overall risk management of the Scheme 2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee Approach / 3. The Trustee should understand how asset managers make ESG decisions Framework and will seek to understand how ESG is integrated by each asset manager. 4. ESG factors are relevant to investment decisions in all asset classes. 5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors. Reporting & 6. Ongoing monitoring and reporting of how asset managers manage ESG **Monitoring** factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive training as required to develop their knowledge. 8. The role of the Scheme's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions. Voting & 9. The Trustee will seek to understand each asset managers' approach to Engagement voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting. Collaboration 11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why. 12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

ESG summary and actions with the investment managers

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. The extent to which ESG and ethical considerations are taken into account in these decisions is delegated to the investment managers, acting within the guidelines and objectives set by The Brickbusiness Pension Scheme. 	in line with the Trustees' policy in this area, whether in its current form or if revised.

Engagement

As the Scheme invests via pooled fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 month period to 31 December 2023. Please see below for a summary relating to the Funds the Scheme had exposure to over this period.

Fund name	Engagement summary	Commentary
Ares Management Corporation ("Ares")	Ares do not systematically track firmwide engagements, instead, approach to engagement varies by asset class.	Engagements are done on a case-by-case basis on various relevant topics, if and when deemed appropriate. Investment professionals within the team, as part of the ordinary course of business, will speak to certain counterparties as the need arises, especially for directly originated investments where the team has more control and/or influence.
		Example of engagements includes:
		In 2022, the Ares Alternative Credit Team was pursuing a European directly originated asset-backed facility to a specialty finance company (the "Manager"). As part of the data gathering and investment due diligence process, the team conducted background checks on employees of the Manager that included interviews from employees (past and present). From these background checks, Ares uncovered action from the Manager's CEO and largest shareholder that did not conform to Ares' ESG standards. Although the deal was at the final stage of its investment process (through investment committee screening), the Team decided not to move forward with this investment due to the ESG considerations. While the investment did not conform to Ares' standards, it was completed by a competitive manager.
Apollo Total Return Fund	Total engagements: 64 Number of entities engaged: 44	Apollo has a dedicated ESG Credit team that regularly engages with issuers. In cases where risks or opportunities are identified, investment teams collaborate with the ESG Credit Team to raise the relevant issue directly with an issuer. In cases where stewardship efforts prove unsuccessful in addressing risk that can have a material impact on investment performance, Apollo may decide to decrease position size or

divest to meet its fund and/or strategy requirements.

Examples of significant engagements include: Adani Ports and Special Economic Zone Limited.

Adani Ports & SEZ is India's largest private port operator with a network of 12 ports and terminals. The company is a subsidiary of the multinational Adani Group.

As part of the company's operations, it processes coal cargo. This is estimated to be around 25% of its total cargo mix at the moment and was originally 100% when the business began its operations. Following engagement on environmental topics, the company highlighted that importation of gas would increase in the future and they expect a gradual reduction in thermal coal as percentage of their cargo mix. therefore, they'd expect emissions to be reduced by way of a steady introduction of greener fuels such as hydrogen and green ammonia.

The company is targeting carbon neutrality by 2025 and net zero by 2040. Its primary method for achieving this is by electrification of its machinery and vehicles. It is also working to reforest mangroves due to the carbon sequestration benefits and increasing its renewable energy capacity from 250 megawatts up to 1000 megawatts this year.

Schroders were unable to disclose the number of engagements for the reporting period due to the nature of the exposures.

Due to the nature of the underling holding being passively held cash and gilts, there are typically no engagement rights attached thus Schroders does not provide specific figures on direct engagement activities.

However, Schroders are an active participant in industry forums, and they regularly engage with industry stakeholders to consider effects of risks of interest rates and inflation.

Schroders LDI

Example of engagements include:

Financial Conduct Authority (FCA) & Bank of England

Schroders engaged with the FCA and the financial stability team of the Bank of England. This came against a backdrop of increased regulatory oversight of LDI mandates. Regulators paid particular attention to the resilience of the LDI pooled funds and their ability to support increased capital calls during times of market stress. Therefore, Schroders engaged with the oversight bodies to demonstrate Schroders' response to the gilts crisis and the steps it has taken to enhance the resilience of its LDI pooled funds.

www.isio.com The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.