



Redrow Staff Pension Scheme Implementation Report

October 2022

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 schemes detail their policies in their statement of investment principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Redrow Staff Pension Scheme ("the Scheme") 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 web address:

<https://redrowplc.co.uk/media/015jlpd1/staff-pension-scheme-statement-of-investment-principles-may-2022.pdf>

Changes to the SIP over the last year are detailed on the following pages.

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues 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 the Scheme's 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 30 June 2022 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf.

Summary of key actions undertaken over the Scheme reporting year

- During Q3 and Q4 2021, L&G announced that five of the Scheme's LDI funds had breached their lower leverage limit, resulting in c.£6.4m being distributed from these funds. The proceeds of this distribution were temporarily invested in the L&G Cash Fund as per the Scheme's automatic rebalancing instruction with L&G, with a subsequent decision made to reinvest the proceeds back into LDI. This decision was taken to move the Scheme's asset allocation more in line with the benchmark allocations and to slightly increase the Scheme's interest rate and inflation hedge levels.
- During the first half of 2022, there have been several LDI rebalancing events. In total c.£15.3m was called in capital to rebalance the Scheme's LDI funds. The capital calls were funded through the Scheme's L&G Cash Fund and L&G Absolute Return Bond (ARB) fund as well as disinvestments made from the Barclays mandate.
- During the reporting year, the Trustee implemented changes to the Scheme's investment strategy. The amendment involved reducing Barclays target allocation weight by 6% and allocating this to the L&G ARB fund. As a result, the Scheme's investment objective was slightly reduced from Gilts⁽¹⁾ + 2.7% p.a. to Gilts⁽¹⁾ + 2.3% p.a.. More details regarding changes to the SIP can be found on page 6.

(1) The following indices are used to represent the return of long dated UK Government bonds: 90% FTSE-A Index Linked Over 15 Year Index and 10% FTSE-A Over 15 Year Gilt Index.

Implementation Statement

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

Signed

Position

Date

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions and details on changes to policy
Interest rates and inflation	The risk of mismatch between changes in the value of the Scheme's assets and present value of liabilities due to changes in interest rates and inflation expectations.	To invest 30% of the Scheme's assets in Liability Driven Investment ("LDI").	In Q1 and Q2 2022, several of the Scheme's LDI funds breached their upper hedging limit. Cash was transferred into the LDI funds to maintain the Scheme's interest rate and inflation hedging levels.
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.	Mercer (Scheme Administrator) has adopted a default position to withdraw cash from the Barclays mandate for liquidity purposes. Regular monthly cashflows of £400k are to be disinvested from a separate nominated Scheme bank account with Barclays.
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.	During the reporting year the Trustees agreed to further invest into the Scheme's LDI mandate to move the Scheme more in line with the strategic benchmark weights. The proceeds for this investment were sourced from LDI re-leverage events and disinvestments from Barclays.
Credit	Default on payments due as part of a financial security contract.	When relevant, 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.	No actions to report.

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 the investment manager the consideration of ESG factors in determining the appropriate holdings within their portfolios.	The Trustees agreed a provisional set of ESG beliefs in September 2020. More details of the Trustees' ESG beliefs are presented later in this report.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Delegate responsibility of currency hedging decisions within the Diversified Multi-Asset mandate to Barclays, within constraints imposed by the agreed investment guidelines. Hedge currency risks where deemed appropriate, following advice from investment advisers.	No actions to report.
Non-financial	Any factor that is not expected to have a financial impact on the Scheme's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.	No actions to report.

Changes to the SIP

Over the 12 months to 30 June 2022, a new SIP was signed to reflect the change in investment strategy. The table below shows the updated strategy.

Investment Manager	Asset Class	Proportion %	Control Ranges %
Barclays Bank PLC ("Barclays")	Diversified Multi-Asset	64	60-70
Legal & General Investment Management ("L&G")	Absolute Return Bonds	6	0-12
Legal & General Investment Management ("L&G")	LDI	30	24-36

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regard 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 assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures.

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

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 and engagement activity	<ul style="list-style-type: none">The Trustees do not currently have any policies in place. These will be established as the Trustees' policy on the matter evolves.	<ul style="list-style-type: none">The manager has not acted in accordance with their policies and frameworks.The manager's policies are not aligned with the Trustees' policies in this area.

Areas of assessment and ESG beliefs

Risk Management	<ol style="list-style-type: none"> 1. Integrating ESG factors, including climate change risk, represents an 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 Trustees
Approach / Framework	<ol style="list-style-type: none"> 3. The Trustees should understand how asset managers make ESG decisions 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 & Monitoring	<ol style="list-style-type: none"> 6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important. 7. ESG factors are dynamic and continually evolving; therefore the Trustees 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 Trustees will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions.
Voting & Engagement	<ol style="list-style-type: none"> 9. The Trustees will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach. 10. Engaging is more effective in seeking to initiate change than disinvesting.
Collaboration	<ol style="list-style-type: none"> 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

The Trustees have continued to discuss potentially commissioning a review of the managers' ESG policies and wish to further understand what an ESG framework might entail before committing to one.

Engagement

As the Scheme invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12 month period to 30 June 2022.

Fund name	Engagement summary	Commentary
Barclays	Total Engagements: 365 Environmental: 84 Social: 114 Governance: 107 Other: 60	Barclays engagement with portfolio companies, in partnership with EOS, is conducted in the following way: <ul style="list-style-type: none">• The type of engagement and how often it happens, depends on the materiality of the risks and issues.• Barclays engage with companies in the pursuit of achieving objectives, which allows them to track the progress of their engagement, relative to the objectives set for each company.• Barclays conduct the majority of their dialogue with the board of directors, executive teams, corporate secretary, subject specialists or investor relations.• Barclays may increase the intensity of an engagement activity over time, depending on the nature of the challenges and the board's attitude to change.

<p>L&G LDI Funds</p>	<p>Total Engagements: 30* Environmental: 25 Social: 5 Governance: 14 Other: 1</p> <p>*Environmental, Social and Governance engagements do not sum to total engagements due to some engagements overlapping into several categories.</p>	<p>The summary information on the left is for each of the Scheme's 18 individual underlying LDI funds. The figures are the same for each fund as the underlying counterparties and issuer of the debt (the UK Government) are the same for each fund.</p> <p>The top 5 engagement topics in order were:</p> <ol style="list-style-type: none"> 1. Climate change 2. Climate impact pledge 3. Remuneration 4. Board composition 5. Nominations and succession <p>L&G leverage the wider capabilities of the global firm to engage with companies. The team also regularly engage with regulators, governments and other industry participants to address long term structural issues, aiming to stay ahead of regulatory changes and adopt best practice.</p>
<p>LGIM ARB Fund</p>	<p>Total Engagements: 122* Environmental: 76 Social: 32 Governance: 56 Other: 24</p> <p>*Environmental, Social and Governance engagements do not sum to total engagements due to some engagements overlapping into several categories.</p>	<p>The top 5 engagement topics in order were:</p> <ol style="list-style-type: none"> 1. Climate change 2. Remuneration 3. Board composition 4. Energy 5. Climate impact pledge

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers, the managers (in this case, Barclays) provided details on their voting actions including a summary of the activity covering the reporting year up to 30 June 2022.

Fund name	Voting summary	Commentary
Barclays	Barclays are currently working on a document that provides details of their voting actions, however, this data was not available at the time this report was prepared.	

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