



BSW
Timber

BSW Timber Ltd Retirement Benefits Scheme

Implementation Statement

Background

The regulatory landscape continues to evolve as Environmental, Social and Governance (“ESG”) considerations become increasingly important to regulators and society.

Regulatory changes require that the Trustees detail their policies in relation to financially material risks and stewardship in its Statement of Investment Principles (“SIP”), and to demonstrate its adherence to these policies in an Implementation Report.

The Department for Work and Pensions (‘DWP’) has recently increased their focus on the Trustees’ ESG policies and stewardship activities by issuing regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of the Trustees’ fiduciary duty.

Statement of Investment Principles

This Implementation Report is to provide evidence that the Trustees of the BSW Timber Limited Retirement Benefits Scheme (“the Scheme”) followed and acted on the principles outlined in the Scheme’s SIP over the accounting year.

No changes were made to the Scheme’s SIP over the accounting period. The current SIP can be found online at the web address:

<https://www.bsw.co.uk/media/download/54>.

The Trustees are due to update the Scheme’s SIP to account for a number of strategic changes implemented over recent periods. The next update will also incorporate new regulations required by the DWP in relation to voting and engagement policies.

Implementation Report

The Implementation Report details:

- Actions the Trustees have taken to manage financially material risks and implement the key policies in their 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 in the investment mandate;

- The voting behaviour by investment managers (noting the Trustees' delegation of Scheme voting rights to the investment managers through its investment via pooled fund arrangements), covering the reporting year up to 31 December 2022 for and on behalf of the Scheme, including the most significant votes cast for and on behalf of the Scheme.

Summary of key actions undertaken over the Scheme's reporting year

The Scheme undertook a full investment strategy review in January 2022 and agreed to a number of strategic changes, designed to de-risk the investment strategy to better align with the Scheme's improved funding position and the Trustees' long-term investment objectives.

The implementation of the new strategy was due to take place over H2 2022. However, due to significant gilt market volatility over September and October 2022, most of this activity was postponed so as to allow the Trustees to manage short-term liquidity requirements and manage changes to the Scheme's liability hedge.

Over the accounting-year period, the following transitional activity was completed:

- To help manage the Scheme's overall liquidity, and in line with the agreed direction of travel to de-risk the Scheme's investment strategy, the Trustees fully disinvested the Scheme's allocation to the Newton Real Return Fund.
- The redemption proceeds from the Newton Real Return Fund disinvestment were used as part of a wider restructure of the Scheme's liability hedge in October 2022 to rebalance this in line with the strategic target (100% on a gilts flat basis).

The remaining transitional activity was completed post-accounting year-end and will be reflected in future reporting.

Implementation Statement

This report demonstrates that the Trustees of the BSW Timber Limited Retirement Benefits Scheme have adhered to their investment principles and policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

The Statement was approved by the Trustees as part of the Scheme Accounts on 4 August 2023

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions over reporting period
Interest rates and inflation	The risk of mismatch between the value of the Scheme's assets and present value of the liabilities from changes in interest rates and inflation expectations.	To hedge 100% of these risks on a Gilts flat basis, as determined by the Scheme Actuary.	<p>Over the accounting year, the Trustees agreed to change the liability hedge from 100% on a Gilts + 0.5% p.a. basis, to 100% on a Gilts + 0.0% p.a. basis.</p> <p>This change will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.</p>
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.	<p>The Trustees managed liquidity from the LGIM Sterling Liquidity Fund and Diversified Growth mandates.</p> <p>The Trustees agreed a dedicated collateral allocation (Asset Backed Securities) as part of the revised investment strategy agreed in January 2022. Until implemented, the LGIM Sterling Liquidity Fund continues to provide liquidity. This position is due to be reviewed.</p> <p>Any revision to the target allocations will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.</p>
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.	<p>The revised investment strategy acted to de-risk the investment strategy and further diversify the portfolio.</p> <p>This change is yet to be implemented, and is due to be reviewed.</p> <p>Any revision to the target allocations will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.</p>

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.	<p>The Trustees agreed an allocation to an asset backed securities fund and an absolute return bond fund, which would further diversify the Scheme's credit exposure.</p> <p>This change is yet to be implemented, and is due to be reviewed.</p> <p>Any revision to the target allocations will be reflected in the SIP update due to be carried out upon implementation of remaining strategic changes.</p>
Environmental, Social and Governance ("ESG")	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:</p> <ol style="list-style-type: none"> 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory <p>The Trustees monitor the managers on an ongoing basis.</p>	The Trustees considered ESG as part of the strategy review carried out in 2022 by incorporating ESG criteria into the Evaluation Criteria when selecting their preferred provider and fund for new asset classes.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Allow the Scheme's active managers who invest in overseas securities the flexibility to hedge overseas currency exposure to manage risk.	No change over accounting year-period.

Changes to the SIP

No changes were made to the SIP over the accounting year period.

The SIP is due to be updated following the implementation of the Scheme's remaining strategic changes as agreed during the investment strategy review in January 2022. This change will also incorporate new regulations required by the DWP in relation to voting and engagement policies.

Date last updated: September 2019

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustees' policies with regards to ESG as a financially material risk. This page details how the Trustees' ESG policy is implemented. 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 review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

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 Scheme2. 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.
Voting & Engagement	<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 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.
Reporting & Monitoring	<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.

Engagement with investment managers

To date, the Trustees have not yet carried out a formal ESG review of the Scheme’s investment managers, either directly or indirectly via Isio as the Scheme’s investment adviser.

However, Isio continue to engage with the Scheme’s investment managers on their ESG policies on an ongoing basis to ensure they meet a set of minimum criteria, as defined by Isio.

The Trustees will look to review the appropriateness of this position in 2023 following completion of transitional arrangements.

Investment managers’ engagement activity

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 31 December 2022.

Fund name	Engagement summary	Commentary
Insight Broad Opportunities Fund	Total engagements: 33 Insight were unable to provide a breakdown or categorisation of Fund related engagements.	The Fund invests across several asset classes and adopts derivatives, market index-based securities, direct holdings and pooled funds for implementation and closed-end investment companies. The lack of stock selection and significant use of derivatives means engagement activities are somewhat limited. Insight noted the following example as a significant engagement over the period: Digital 9 Infrastructure Plc - Following an announcement from the company that a new Chairperson was to be appointed, Insight engaged with the new Chairperson to review the company’s governance capabilities, particularly Board effectiveness and independence. Insight made suggestions to the company regarding the management of the portfolio and aim follow up with them on Board personnel changes. Insight had no material concerns, and the holding remains in the portfolio.
M&G Alpha Opportunities Fund	Total Engagements: 8 Environmental: 4 Governance: 1 Social: 3	M&G have a systematic approach to engagements whereby specific objectives are outlined in advance and results measured based on the outcomes from the engagements. M&G Analysts are expected to have a more granular awareness of key ESG risks which impact the individual issues they monitor. Where engagement is deemed to be necessary, analysts engage with issuers supported by M&G’s Corporate Finance & Stewardship (“CF&S”) Team, allowing them to leverage their expertise and sustainability themes Examples of significant engagement: ArcelorMittal – M&G met with ArcelorMittal to discuss the company’s climate disclosures, specifically to encourage them to consider

		<p>reporting on Scope 3 emissions and link executive remuneration with climate considerations. The company confirmed that remuneration was in the process of being aligned with climate considerations, but the company was less receptive to the Scope 3 request. M&G will continue to monitor the company's disclosures and continue to engage with them on these topics.</p> <p>Marks and Spencer Plc ('M&S') – M&G engaged with M&S to discuss their human and labour rights issues. M&G reached out to the British retailer to explore their plans to become Real Living Wage accredited. Following this, M&S confirmed that they have no plans to pursue accreditation as a Living Wage Employer. M&S confirmed that their employees' rates currently exceed the real living wage and external factors such as the living wage rate are considered when setting their hourly rates. In addition, M&S provide employees with a reward package, including pensions, and company wide discounts. M&G were comfortable with the company's rationale and their efforts to ensure their employees were being fairly paid.</p>
LGIM LDI and Gilts *	<p>Total Engagements: 34</p> <p>Environmental: 16</p> <p>Social: 2</p> <p>Governance: 15</p> <p>Other: 1</p> <p>*Engagement data based on one LDI Fund and is representative of the engagement across the LDI portfolio.</p>	<p>LGIM has engaged with a number of industry participants on long term strategic issues in relation to LDI, including:</p> <ul style="list-style-type: none"> • The introduction of central clearing; • The LIBOR transition; • Recognising the pricing issues with bilateral RPI swaps <p>LGIM also assess counterparty banks from an ESG perspective through their proprietary ESG tools.</p> <p>LGIM have not provided examples of Fund-specific significant engagements.</p>
LGIM Sterling Liquidity Fund	<p>Total Engagements: 34</p> <p>Environmental: 16</p> <p>Social: 2</p> <p>Governance: 15</p> <p>Other: 1</p>	<p>LGIM 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's Investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based.</p> <p>LGIM have not provided examples of Fund-specific significant engagements.</p>

Voting (for the Scheme's multi asset funds only)

The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.

The Scheme's fund managers have provided details on their voting actions, including a summary of the activity covering the reporting year up to 31 December 2022.

The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Insight Broad Opportunities Fund	Votable Proposals: 169 Proposals Voted: 100% For votes: 100% Against votes: 0% Abstain votes: 0%	Insight did not provide any examples of significant votes cast.	Insight say they are committed to voting all proxies where it is deemed appropriate and responsible to do so. Insight retains the services of Minerva Analytics (Minerva) for research expertise and voting tools through sophisticated proprietary IT systems.