

BAXI GROUP PENSION SCHEME (BGPS) AND THE NEWMOND PENSION PLAN (NPP) (THE “SCHEMES”)

Sustainable Investment Policy - DRAFT

Introduction

This policy sets out how the Schemes manage sustainable investment risks and opportunities. It outlines the key principles that have been established and the Trustee’s approach to managing and governing sustainability risk and other Environmental, Social and Corporate Governance (ESG) factors.

The Trustee will undertake a review of its investment beliefs periodically, and at least every 3 years, to ensure they remain appropriate, consistent with current views and are otherwise fit for purpose.

The Schemes do not directly manage their investments and the investment managers have discretion to buy and sell investments within the various portfolios, within the guidelines of their mandates. These guidelines may include ESG considerations.

Beliefs

The Trustee believes that a sustainable investment approach is more likely to create and preserve long-term investment capital and, more specifically, that:

- ESG factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration.
- Good stewardship and engagement can create and preserve value for companies and markets as a whole, hence having the potential to benefit the Schemes’ members in the long term.
- Climate change poses a systemic risk and the Trustee will consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes accordingly.
- Climate related risks extend beyond carbon emissions and should also consider nature related, biodiversity-related or natural capital-related issues.
- ESG factors will affect more than just the asset portfolio. As such, the Trustee views ESG factors through an integrated risk management lens, including investment, funding, and covenant considerations.

The Trustee has identified the following key stewardship themes as priority areas:

- **Environment: Climate Change** – ensuring that companies have a strategy in place to tackle climate change, high quality climate disclosures to demonstrate progress against climate goals and oversight of climate risk at an executive level.
- **Governance: Diversity, Equity and Inclusivity (e.g. board diversity)** – increasing board quality through the cultivation of a broad spectrum of demographic attributes and characteristics in the board room and at all levels of management.

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The Trustee has determined these priorities based on the Trustee Directors' ESG beliefs, taking into account the Sponsoring Company's strategic priorities on ESG and sustainability matters. The investment managers are aware of the Trustee's policies on stewardship and engagement and are asked to report on their alignment, or otherwise, when they present to the Trustee.

The Trustee collates engagement and voting information from the investment managers in line with these key stewardship priorities on an annual basis.

Further details on the Trustee's key stewardship priorities are provided in the following sections.

Climate Change

The Trustee considers that limiting global average temperature increases this century to “well below two degrees Celsius”, as per the 2015 Paris Agreement, is aligned with better economic outcomes for investors.

The Trustee also believes that climate change poses a systemic risk, with financial impacts driven by two key sources of change. The first is the physical damages expected from an increase in global temperatures and the second is the transition to a low-carbon economy, required to mitigate the severity of physical damages. The Trustee monitors and manages these risks through the integrated risk management framework including quarterly review of the risk register.

The Trustee believes the Schemes' investment mandates should be net zero emissions by 2050 or earlier, where applicable. The Trustee monitor carbon metrics from the investment managers on a quarterly basis. However, the Schemes invest in government bonds (mainly through the Schemes' liability hedging portfolios) and the Trustee acknowledge that it has little control over the carbon intensity and the progress of the UK Government will have a significant influence over the timing of the Schemes' investments reaching net zero.

Diversity, Equity, and Inclusion

The Trustee believes that consideration should be given to diversity, equity, and inclusion, and the Trustee demonstrate this through the combination of members within the existing Trustee Board. The Trustee is seeking to ensure that stakeholders across the Schemes are looking to promote equality and inclusion in the workplace. The Trustee is developing a framework to monitor the investment managers from a diversity, equity and inclusion perspective which will be reviewed on an annual basis.

Sponsor Alignment





The Trustee recognises that ESG, climate change and diversity, equity, and inclusion matters carry reputational considerations for the Sponsoring Company and the Trustee is therefore keen to ensure it has a strong understanding of the Sponsoring Company's position on ESG, climate change and diversity, equity, and inclusion.

The Trustee intends to align with the Sponsoring Company in this respect where appropriate.

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Implementation and Monitoring Approach

The Trustee embeds sustainable investment considerations within the Schemes’ monitoring and risk management framework as detailed below. The “process” stage is where the Trustee seeks to move from principles to practice.

<p>Beliefs</p> 	<p>The Trustee’s investment beliefs are used to determine the Trustee’s Sustainable Investment Policy. To arrive at these beliefs, the Trustee has undertaken training on ESG (including climate change), and has participated in an ESG beliefs survey. The Trustee’s will review these beliefs on at least a triennial basis or sooner if there is a significant change to the Trustee.</p>
<p>Policy</p> 	<p>Alongside the statutory disclosures required in the Statement of Investment Principles, the Trustee has established this Sustainable Investment Policy as part of its governance framework on ESG considerations. The Trustee will also embed ESG considerations within investment managers and other third party policy documentation, where appropriate. The Policy will be reviewed triennially in conjunction with the ESG beliefs review or sooner if there is a significant change to the Trustee.</p>
<p>Process</p> 	<p>The Trustee considers ESG matters in its processes in the following ways:</p> <ul style="list-style-type: none">• Investment strategy (this may include scenario analysis, where relevant).• Investment manager selection, monitoring and review.• Engagement with the investment managers on their overall ESG policy and strategy, including identification of any areas for improvement and / or new ideas.• Consideration of thematic and impact investing should this be appropriate in the context of the Schemes’ broader objectives.• ESG stewardship and engagement with the investment managers.• Covenant assessment and monitoring.• Liability risks and the impact of climate change in particular on the funding position.• Member communication and engagement strategy.
<p>Monitoring</p> 	<p>The Trustee has put monitoring arrangements in place to assist with the governance of ESG risks. These monitoring arrangements include:</p> <p><i>Quarterly</i></p> <ul style="list-style-type: none">• ESG ratings and related investment manager news updates published by the investment consultant.• The Trustee reviews ESG-related metrics of the Schemes’ appointed investment managers and will look to challenge large changes in these metrics with the investment managers. <p><i>As part of each investment manager’s presentation to the Trustee or Investment Sub-Committee (where possible) the Trustee requests the investment manager to provide:</i></p> <ul style="list-style-type: none">• A summary of the key actions the investment manager and fund are taking on ESG.

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- Engagement examples in line with the Trustee’s key stewardship priorities.
- Alignment, or otherwise, with the Trustee’s stewardship priorities.

Annually


- Receipt of Voting and Engagement reporting from the investment managers including:
 - Voting information on the Trustee’s key stewardship priorities in-line with the Trustee’s significant votes reporting requirements
 - Overview of engagement examples including outcomes achieved.
 - Investment manager engagement policies.
- ESG monitoring reporting including:
 - Research views on the Schemes’ investment managers provided by the investment consultant.
 - Analysis of the investment managers’ ESG ratings including benchmarking against suitable peer group data.
 - Assessment of the Trustee’s broader ESG integration including comparison against the year prior and broader benchmarks covering schemes of a similar size or sector through Mercer’s Responsible Investment Total Evaluation.
 - Confirmation of the investment managers’ firm-wide commitments to ESG policies, projects and initiatives and assessment of how this aligns with the Trustee’s stewardship priorities.
 - Monitoring of the Schemes’ exposures to controversies and UN Global Compact violators
 - Confirmation of the investment managers’ firm-wide commitments to DE&I policies and metrics.
- Identification and review of ESG risks in the Schemes’ risk registers.
- Identify training needs, in particular following any new regulations relating to ESG.
- Assessment of the investment advisers against the agreed CMA objectives which includes the consideration of ESG risks and opportunities.

Triennial (at least or as when required)

- Review of the agreed CMA objectives (including ESG considerations) to ensure the objectives remain appropriate.
- Consider ESG risks and opportunities as part of investment strategy reviews.

Maintaining Trustee knowledge and understanding on ESG matters forms part of the Schemes’ ongoing training plan.

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<p>Governance</p> 	<p>The Trustee’s key ESG policies are reflected in the Schemes’ Statement of Investments Principles (SIP) which is reviewed on an annual basis.</p> <p>The Trustee produces reporting in line with statutory requirements and guidance on an annual basis and these documents reflect the Trustee’s ESG policies:</p> <ul style="list-style-type: none">• Implementation Statement (BGPS) – sets out how the policies within the SIP have been followed by the Trustee and importantly includes information on the Trustee’s and investment managers’ engagement activities. The Statement also includes details of the Trustee’s most significant votes provided by the investment managers.• Engagement Policy Implementation Statement (NPP) - includes information on the Trustee’s and investment managers’ engagement activities. The Statement also includes details of the Trustee’s most significant votes provided by the investment managers.• Chair Statement (BGPS) – includes information on any reviews of the default investment strategy for the DC section which will include ESG considerations.
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Policy Governance

Key responsibilities for the maintenance of this policy are set out in the table below:

Party	Role
Trustee	Owner of policy, including setting and maintenance
Investment Sub-Committee	Monitor against policy
Sponsoring Company	The Sponsoring Company will share with Trustee its own approach to ESG to be taken into consideration
Advisers	Provide input to policy including advice on best practice
Investment Managers	Implement policy (where relevant) and provide information, as requested by the Trustee, so the Trustee can monitor alignment with their policies.

The policy will be shared with the Sponsoring Company, the advisers, and the investment managers.

This policy will be reviewed at least triennially, or more frequently if:

- Meaningful change is made to the integration of sustainability risks into the Trustee’s investment and funding strategies.
- Relevant legislation or regulation requirements change.
- Significant change to the Trustee.

For and on behalf of Baxi Group and Newmond Pension Trustees Limited, as Trustee of the Baxi Group Pension Scheme and Newmond Pension Plan.

September 2023