Baptist Missionary Society Pension Scheme
Implementation Statement (DB Section)

Purpose

This statement provides information on how, and the extent to which, the Trustee of the Baptist Missionary Society Pension Scheme ("the Scheme") has followed its policies in relation to the exercising of rights (including voting rights) attached to the Scheme's investments, and engagement activities during the year ended 31 December 2022 ("the reporting year").

Background

The latest Scheme SIP came into effect in September 2020. The revisions to the SIP were in order to include policies in relation to: how the Scheme's arrangements incentivises investment managers to align their investment strategy and decisions with the Trustee's policies, how the Scheme's arrangements incentivises the manager to make decisions based on assessments of medium to long term financial and non-financial outcomes, how the method (and time horizon) of the evaluation of managers' performance and remuneration are in line with the Trustee's policies, how the Trustee monitors portfolio turnover costs and the duration of the arrangement with the asset managers.

At the time, the Trustee received training on Environmental, Social and Governance ("ESG") legislation from their Investment Adviser, XPS Investment ("XPS") and discussed their beliefs around those issues. This enabled the Trustee to consider how best to incorporate their bespoke ethical investment policy, in relation to ESG and voting rights, within the Statement of Investment Principles.

During the reporting period, the Scheme's investment strategy deviated materially from the target strategy detailed in the SIP given interim actions had to be taken in response to the gilt crisis. The Trustee of the Scheme are reviewing the investment strategy in early 2023 and any updates to the target strategy will be detailed in a new SIP.

The Trustee's policy

The Trustee has in place a bespoke policy detailing their views towards ethical/responsible investment considerations, of which the Trustee believes that there can be financially material risks relating to ESG factors. This bespoke policy therefore reflects the Trustee's beliefs around these factors in relation to the selection, retention or realisation of investments. The Trustee accepts that the extent to which its bespoke policy can be implemented through pooled investment vehicles is limited, but the Trustee periodically monitors the Scheme's exposure to undesirable companies to ensure it remains within an acceptable tolerance. The Trustee requires its investment managers to take ESG and climate change risks into careful consideration in relation to any portfolio management decisions, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest. The Trustee, with the assistance of XPS, will monitor the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustee requirements and will consider replacing an Investment Manager if they do not conform to the Trustee's expectations for the asset class they are chosen to manage on behalf of the Scheme.

Specifically, the Trustee aim to incorporate the following key aspects within the portfolio:

- Excluding investment in companies that derive 10% or more of their sales from the following:
  - Alcohol
  - Armaments
  - Gambling
  - Pornography
  - Tobacco

- If a company has interests in several of these business lines, sales should not exceed 20% on an aggregate basis. Additionally, investing will be avoided in companies that have poor practices with regards to employment rights, the environment and human rights.

Apart from these specific exclusions and as far as is practical, the Trustee also adheres to the principle that as an investor it can be more influential through active shareholder participation than through divestment or avoidance of investment.

The Trustee expects the Scheme's investment managers to engage with management of the underlying issuers of debt and the exercising of voting rights in line with the Trustee's investment policy. The Trustee encourages the investment managers to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments. The Trustee requires the Investment Managers to report on significant votes made on behalf of the Trustee.

If the Trustee becomes aware of an Investment Manager engaging with the underlying issuers of debt or equity in ways that they deem inadequate or that the results of such engagement are mis-aligned with the Trustee expectation and the investment mandate guidelines provided, then the Trustee may consider terminating the relationship with that Investment Manager.

Manager selection exercises

One of the main ways in which the Trustee's policy is expressed is via manager selection exercises: the Trustee seeks advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises.

The most recent manager selection exercise took place in November 2019, where the Trustee's bespoke ethical policy and ESG guidelines were taken into careful consideration. When providing manager selection advice, XPS assess funds using various criteria. One of these criteria is the fund's ESG and climate change integration, where funds are only recommended to clients that at least meet a minimum level of ESG integration. Therefore, whilst not all of the funds recommended as part of the manager selection exercise have a specific ESG focus, the Trustee believes each fund's ESG credentials are sufficient to meet its ESG and climate change policy.

The Scheme continued to invest into the illiquid BlackRock UK Strategic Alternative Income Fund ("SAIF") over the reporting year after committing capital in 2021. The mandate was c.86% invested by the end of the reporting period, with the remaining committed capital expected to be called by the end of Q1 2023. The BlackRock SAIF does not have a specific ESG focus however BlackRock does report on several ESG metrics for this fund on a quarterly basis that helps the Trustee to monitor the Scheme's ESG exposures.

Ongoing governance

The Trustee, with the assistance of XPS, monitors the processes and operational behaviour of the Investment Managers from time to time, to ensure they remain appropriate and in line with the Trustee's requirements as set out in this statement.

As per the Trustee's policy in the SIP, they aim to monitor remuneration paid to the Investment Managers. Therefore, the Trustee commissioned XPS to produce a report at 31 March 2022 which reviewed the fees paid to all investment managers in line with the Cost Transparency Initiative ("CTI") framework. The result of the report was that the Trustee paid Ongoing Charges below the median for Schemes of a similar size with a similar investment strategy.

Further, the Trustee has set XPS the objective of ensuring that any selected managers reflect the Trustee's view on ESG (including climate change) and stewardship.

Adherence to the Statement of Investment Principles

During the reporting year the Trustee is satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree.

Voting activity

The Trustee has delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the Investment Managers and encourages them to engage with investee companies and vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

The main asset class where the investment managers have the ability to engage with voting rights is equities as it represents the equity ownership and shareholder's stake within the underlying business. Investments in private real estate and infrastructure equities will form part of the BlackRock SAIF. There are no voting rights for credit-based assets or funds that invest into them, such as the Scheme's investments in the LGIM Buy & Maintain Credit Funds, the BlackRock Multi Sector Credit Fund or the BlackRock LEAF.

Owing to the nature of the underlying investments within BlackRock SAIF, the fund had no voting activity during the reporting year. As the Scheme was not invested into any other funds that held public or private equities over the reporting year, there is no voting activity to declare.