

Background and Implementation Statement

Background

The Department for Work and Pensions (DWP) 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. DWP regulations 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 Scheme has 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://www.barloworld.com/pdf/sustainability/other_disclosure/2020/barloworld-uk-pension-scheme-statement-of-investment-principles.pdf

Changes to the SIP 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 its 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 31 March 2021 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

Over the year to 31 March 2021, there were no changes to the Scheme's strategic asset allocation as set out in the Investment Policy Implementation Document (IPID). However, the Trustees made a number of tactical changes to the investment portfolio, with the aim to update the IPID upon implementation of the new strategy. This includes changes to the Scheme's asset classes and investment managers.

To reduce portfolio risk, the Trustees made the decision to disinvest from the LGIM synthetic equity mandate in Q1 2021. A portion of the proceeds of this disinvestment were paid into a new ESG-aware passive equity mandate, also held with LGIM. The remainder of the proceeds are held in an LGIM cash fund. The Trustees have agreed to invest in a new semi-liquid credit fund with PIMCO over Q2 2021, and the cash held with LGIM will be used to meet drawdowns into the fund.

Over the year to Q1 2021, the Scheme made a number of disinvestments from the Newton Real Return Fund for cashflow requirements. As a result, as of Q1 2021 the Scheme has

made a full disinvestment from the fund. The Scheme now only has one Diversified Growth Fund, held with Ruffer.

Implementation Statement

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

Signed	Mike Fahy
Position	Trustee Director
Date	14 September 2021

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.	To broadly hedge 74% of the Scheme's Technical Provisions liabilities.	There have been no changes to the policy over the reporting year.
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.	Cashflow requirements are met from the Newton Real Return Fund. There have been no changes to the policy over the reporting year.
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.	There have been no changes to the policy over the reporting year.
Credit	Default on payments due as part of a financial security contract.	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. To diversify this risk by investing in a range of credit markets across different geographies and sectors.	There have been no changes to the policy over the reporting year.
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 the criteria: 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 client reporting 5. UN PRI Signatory	The updated ESG policy was reviewed by the Trustees as part of the SIP and IPID update in September 2019.

The Trustees monitor the managers on an ongoing basis.

Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk.	There have been no changes to policy over the reporting year.
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Changes to the SIP

Policies added to the SIP

Date updated: September 2019

How the investment managers are incentivised to align their investment strategy and decisions with the Trustees' policies.

- As the Scheme is invested in pooled funds (aside from the buy-in), there is not scope for these funds to tailor their strategy and decisions in line with the Trustees' policies. However, the Trustees invest in a portfolio of pooled funds that are aligned to the strategic objective.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

- The Trustees review the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustees monitor the investment managers engagement and voting activity on an annual basis as part of their ESG process.
- The Trustees do not incentivise the investment managers to make decisions based on non-financial performance.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustees' policies.

- The Trustees review the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustees evaluate performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The Trustees do not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Scheme's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Scheme invests in.
- For open-ended funds, the holding periods are flexible and the Trustees will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented, while the following pages outline Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the engagement 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 intend to review the Scheme's ESG policies and engagements periodically to ensure they remain fit for purpose.

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">• Through the manager selection process - ESG considerations will form part of the evaluation criteria• The Scheme's investment advisor Isio will monitor managers' ESG policies on an ongoing basis	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

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; 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

Manager and Fund	ESG Summary	Actions identified	Engagement Details
<p>Legal & General Investment Management</p> <p>LDI Portfolio</p>	<p>LGIM has a team dedicated to understanding and assessing the impact of ESG factors for the wider business.</p> <p>LGIM uses proprietary tools to quantify and monitor ESG risk. LGIM believes engaging with regulators, governments and other industry participants will help mitigate ESG risk.</p> <p>Isio believes LGIM has a strong ESG framework relative to its competitors.</p>	<p>LGIM should include the ESG scoring of counterparties in regular client reporting of LDI Funds.</p>	<p>Isio engaged with LGIM in Q2 2020 on the Trustee's behalf to review its ESG policies and set actions and priorities for each manager.</p>
<p>Legal & General Investment Management</p> <p>Passive Equity Funds</p>	<p>LGIM has shown a strong commitment to highlighting, identifying, and managing ESG risks across its entire fund range, including their passive equity funds.</p> <p>LGIM is a market leader in its approach to ESG. LGIM has developed a clear and comprehensive framework for scoring portfolio companies on ESG factors. LGIM actively communicates these scores to the companies and engage with them directly to help mitigate ESG risks moving forwards.</p>	<p>LGIM to consolidate the ESG scores of the underlying portfolio companies to generate a portfolio level score, making it easier for investors to digest the ESG impact of the fund.</p> <p>LGIM should provide further evidence that it is making progress towards diversity at a firm level and within the portfolio management team.</p> <p>LGIM should integrate ESG data into its standard, quarterly client reports. While LGIM currently produces numerous, comprehensive reports on ESG, they are separate from the standard reporting. LGIM is planning to do this by the end of Q2 2021.</p>	<p>Isio engaged with LGIM in Q2 2020 on the Trustee's behalf to review its ESG policies and set actions and priorities for each manager.</p>

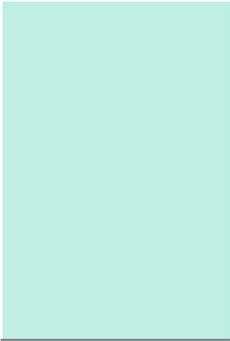
<p>PIMCO</p> <p>UK Long Term Bond Fund</p>	<p>We believe that PIMCO's ESG policy satisfies requirements.</p> <p>ESG is integrated into the Fund's risk management process and investment approach, however, there is scope for improvement in areas such as the implementation of ESG targets, and a more concrete focus of ESG in the due diligence process.</p> <p>PIMCO may also wish to improve ESG disclosures, in particular diversity & carbon emission data.</p>	<p>PIMCO to define a quantifiable threshold which should be used in the investment process, to allow the PM to clearly distinguish if ESG risks pose a potential material impact to credit worthiness of a bond/issuer.</p>	<p>Isio engaged with PIMCO in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.</p>
<p>PIMCO</p> <p>Diversified Income Fund</p>	<p>PIMCO has a clear firm-wide ESG policy in place, which is implemented at a Fund-level through the investment due diligence process.</p> <p>Whilst PIMCO have demonstrated a strong level of engagement with issuers for their ESG-focused funds, we would expect the manager to increase ESG engagement for this Fund and be able to demonstrate the implementation and improvement of their ESG policy going forward.</p>	<p>PIMCO should demonstrate how ESG risks are monitored on an ongoing basis within credit due diligence, and how these adapt over time.</p> <p>PIMCO to define ESG objectives for non-ESG Funds, which are both quantifiable and measurable, and directly link to the firm's ESG policy.</p>	<p>Isio engaged with PIMCO in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.</p>
<p>Ruffer</p> <p>Absolute Return Fund</p>	<p>Ruffer have an integrated and proactive approach to ESG. ESG risks are considered and monitored from the outset of a new investment by a dedicated responsible investment team, supplemented by research from third party sources. Ruffer participate in a number of ESG focussed initiatives.</p> <p>Ruffer are looking to develop bespoke ESG reports for clients and are also updating their diversity and inclusion policy in the coming months.</p>	<p>Ruffer to incorporate ESG metrics into regular client reports. The team are looking to incorporate ESG into quarterly reporting and to issue bespoke ESG reporting to clients next year.</p> <p>Ruffer to use ESG metrics/ESG scorecard as part of due diligence process.</p>	<p>Isio engaged with Ruffer in Q2 2020 on the Trustees' behalf to review their ESG policies and set actions and priorities for each manager.</p>

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 the end of 31 March 2021.

Fund name	Engagement summary	Commentary
<p>Legal & General Investment Management</p> <p>Matching Core LDI Funds</p>	<p>We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.</p>	<p>LGIM LDI funds do not carry any voting rights but do engage on a wide range of ESG issues with a variety of market participants.</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 have 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>Legal & General Investment Management</p> <p>Passive Equity Funds</p>	<p>We requested this data from the manager however currently the manager cannot produce this level of reporting. We are working with them to ensure that this data is available in the future.</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>PIMCO</p> <p>UK Long Term Bond Fund</p>	<p>Total Engagements: 3</p> <p>Environmental: 3</p>	<p>As bondholders, PIMCO does not carry voting rights, but engages on a wide range of ESG issues with a variety of market participants.</p> <p>Examples of significant engagements include:</p> <p>Bank of America –</p> <p>PIMCO engaged on climate change and their green and social bonds, including impact reporting and TCFD. PIMCO shared expectations and the issuer made strides accordingly in 2020 regarding TCFD and a new Environmental and Social Risk Policy Framework.</p> <p>Enel –</p> <p>PIMCO engaged with this company through the UN Global Compact (UNGC) for several years on their commitment to renewables and more recently through their participation in the UNGC symposium on SDG bonds – to encourage companies to issue SDG-linked bonds. At the end of 2019, the company issued a 5-year “General Purpose SDG Linked Bond” in US dollars – a first of its kind instrument where proceeds are used for general corporate purposes and future coupon payments are linked to their renewable growth strategy.</p>
<p>PIMCO</p> <p>Diversified Income Fund</p>	<p>Total Engagements: 5</p> <p>Environmental: 3</p> <p>Governance: 2</p> <p>General ESG: 0</p>	<p>As bondholders, PIMCO does not carry voting rights, but engages on a wide range of ESG issues with a variety of market participants.</p> <p>PIMCO believes that the company’s position as an investor in a wide range of securities allows it to drive change through exclusions or evaluations alone. PIMCO also aims to engage with underlying issuers in a collaborative manner, with credit analysts regularly engaging with issuers they cover.</p> <p>Examples of significant engagements include:</p> <p>Tesco –</p> <p>PIMCO regularly engages with Tesco on a variety of ESG factors, including deforestation, sustainable bond issuance, and supply chain disruption. Early in the COVID-19 crisis, PIMCO actively inquired about plans on worker health and safety. PIMCO note that Tesco has demonstrated reasonable resilience and responsiveness in upholding expectations on employee health and benefits over a challenging year.</p> <p>Dell Technologies –</p> <p>PIMCO engaged Dell on labour rights issues in their supply chain, including compliance on working hours and response and investigation on forced labour disputes. PIMCO encouraged the company to disclose supplier audit coverage and assurance progress for conflict mineral sourcing, including sub-tier suppliers, and make public commitments to 100% Responsible Minerals Assurance Process (RMAP) for conflict mineral sourcing.</p>
<p>Ruffer</p> <p>Absolute Return Fund</p>	<p>Total Engagements: 53</p> <p>Environmental: 11</p> <p>Social: 2</p>	<p>As a Diversified Growth Fund, Ruffer holds both equity and bond assets. It aims to engage on ESG issues across its portfolio.</p> <p>Examples of significant engagements include:</p> <p>Mitsubishi Electric–</p> <p>Ruffer held a conference call with Mitsubishi senior managers to discuss a data breach that took place in 2019. Ruffer held a focus on the measures put in place both before and after this event,</p>



Governance: 23

given the sophistication of the attack, and aims to encourage data security best practice within the firm.

General ESG: 17

Exxon Mobil –

Ruffer held a conference call with the corporate secretary and investor relations to discuss the firm’s strategy regarding the Paris Agreement, and its responsibility for scope 3 emissions. Due to slow progress to the firm’s climate goals, Ruffer made the decision to vote against the reappointment of all non-executive directors.

Voting (for equity/multi asset funds only)

As the Scheme invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the reporting year up to 31 March 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes	Commentary
Legal & General Investment Management Passive Equity Index Funds	<p>Voteable Proposals: 40,987</p> <p>Proposals Voted: 40,921</p> <p>Votes With Management: 33,301</p> <p>Votes Against Management: 7,395</p> <p>Votes Abstained: 225</p>	<p>Whitehaven Coal –</p> <p>LGIM voted in support of a resolution to address the potential wind-down of the firm’s coal operations, with the view to return capital to shareholders. LGIM advocates for a gradual reduction of coal and other fossil fuels in the global energy mix, and diversification into renewable energy. As the most polluting fossil fuel, reduction in coal operations is essential to reaching the global climate targets. LGIM will continue to monitor the company as it shifts to a greener energy mix.</p> <p>International Airlines –</p> <p>LGIM voted against an executive remuneration resolution. Airline firms were among those worst hit by the Covid-19 pandemic, with a steep decline in air travel. As such, International Airlines put in place a staff pay cut. LGIM was of the opinion that the executive bonus package set out in the remuneration report was too high in light of changes to market conditions, at 80%-90% of base salary. LGIM will continue to monitor the board as the airline industry recovers.</p>	<p>LGIM’s Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness.</p> <p>LGIM produce an annual Active Ownership report to summarise how they have worked towards creating sustainable value for clients.</p>

<p>Ruffer</p> <p>Absolute Return Fund</p>	<p>Voteable Proposals: 1,144</p> <p>Proposals Voted: 1,110</p> <p>Votes with management: 1,009</p> <p>Votes against management: 100</p>	<p>Aena S.M.E –</p> <p>Ruffer voted for three shareholder resolutions requesting that the company submits its climate transition plan to a shareholder advisory vote at its 2021 AGM and provides updates to its plan on an annual basis from 2022. Ruffer believe that climate change-related risks may be significant for the long-term performance of Aena, and therefore have supported these resolutions.</p> <p>Barrick Gold –</p> <p>Ruffer voted against the re-election of a number of directors over the period, due to concerns over their independence. This stems from Ruffer’s concerns over the average tenure of members of the board, the regions in which the company is domiciled and the sector in which the company operates.</p>	<p>It is Ruffer’s policy to vote on Annual General Meeting and Extraordinary General Meeting resolutions, including shareholder resolutions, as well as corporate actions. Ruffer work with various industry standards, organisations and initiatives and actively participate in debates within the industry.</p> <p>Ruffer receives proxy voting research from Institutional Shareholder Services (ISS) to help inform voting decisions.</p>
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