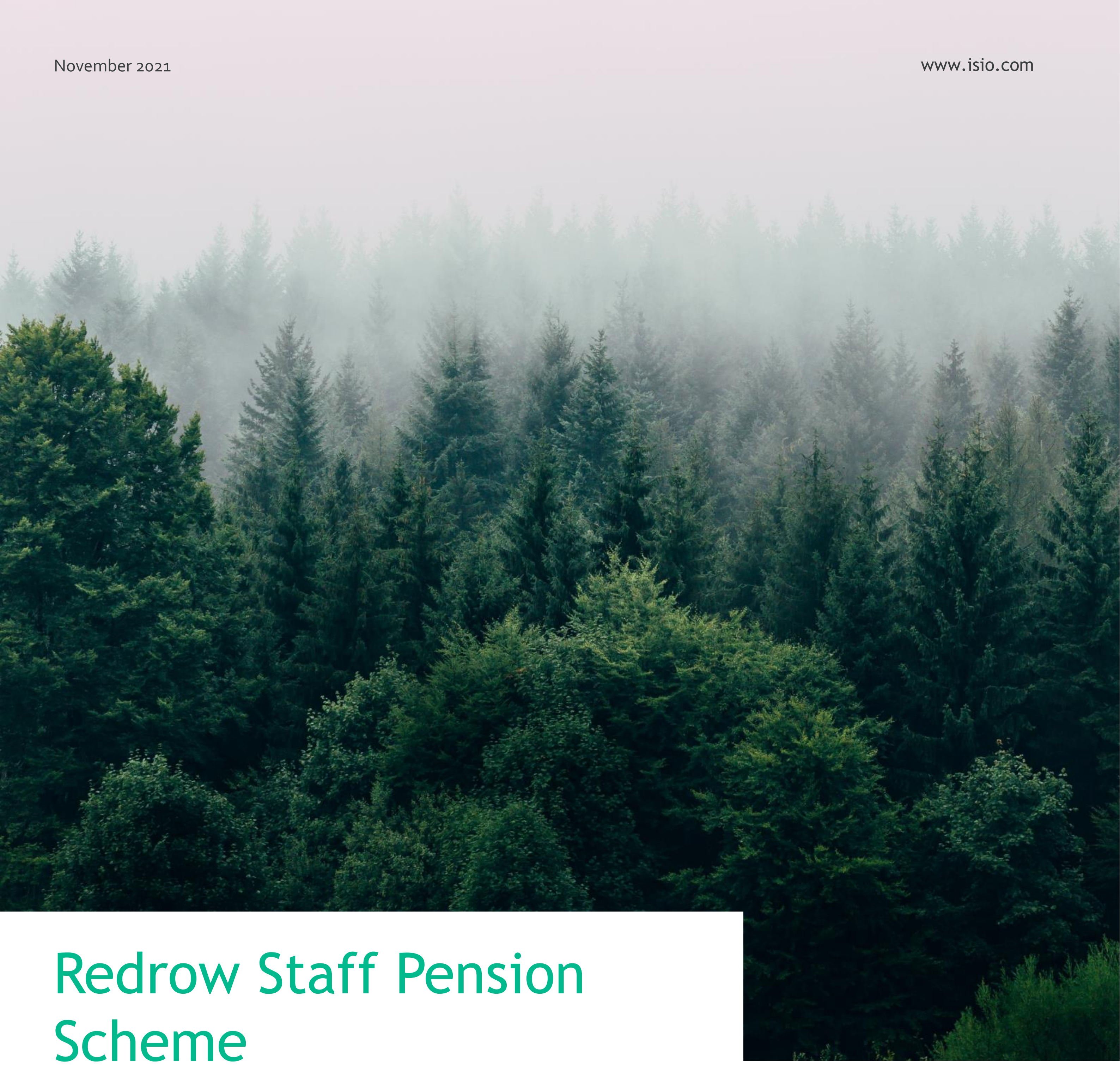

Redrow Staff Pension Scheme Implementation Report

November 2021

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Document classification: Public

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://www.redrowplc.co.uk/media/dgfjgmio/redrow-sip-september-2020-website.pdf

There were no changes to the Scheme's SIP over the 12 months to 30 June 2021.

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 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

- At the end of June 2020, L&G announced that one of the Scheme's LDI funds, the 2068 Leveraged Gilt Fund, had breached its lower leverage limit, resulting in c.£2.3m being distributed from this fund in Q3 2020. 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.

- A considerable increase in inflation expectations over Q2 2021 led to an increase in value of some very long dated index-linked gilts. As a result, the 2062 leveraged index-linked gilt in which the Scheme invests distributed c.£0.7m in June into the LGIM cash fund. This was held as cash until discussions concluded regarding the investment strategy. There was also the possibility that if nominal gilt yields were to continue to rise over Q2/Q3 2021, then cash could have been called into the LDI funds. The decision was taken to leave the £0.7m in cash so that it could also be used towards that cash requirement should it arise.

- Due to the Company's deficit reduction contributions ceasing (as a result of the Scheme being fully funded on the Technical Provisions), regular cash disinvestments are now required from the Scheme's assets to meet ongoing Scheme cashflow requirements. In June 2021. it was agreed that a cash balance be separated from the Barclays mandate and held in a nominated bank account for the Scheme to meet these cashflows. As a result, later in June, c.£2.4m was transferred to this nominated bank account to cover 6 monthly disinvestments of c.£400k.

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 Q3 2020, the Trustees invested c.£2.3m into the Scheme's LDI funds to bring the LDI allocation more in line with its benchmark weight and to slightly increase the Scheme's interest rate and inflation hedging levels. The Trustees are currently considering the merits of increasing their allocation to LDI assets and therefore increasing the Scheme's 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 new 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.	Over Q3 2020, the Trustees agreed to re-invest the proceeds of an LDI re-leverage event into the Scheme's LDI mandate to move the Scheme more in line with the strategic benchmark weights. The Trustees are currently considering the merits of increasing their allocation to LDI assets and therefore increasing the Scheme's hedging levels.
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	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. The Trustees have discussed potentially commissioning a review of the managers' ESG policies which

	performance of the Scheme's investments.		could be presented in the form of an Impact Assessment report. The Trustees wish to further understand what an ESG framework might entail before committing to one. 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

There were no changes to the Scheme's SIP over the 12 months to 30 June 2021.

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 rest of this statement details Isio's view of the managers, Isio's actions for engagement and an evaluation of the stewardship activity.

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	• The Trustees do not currently have any policies in place. These will be established as the Trustees' policy on the matter evolves.	• 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	1. ESG factors such as climate change are important for risk management and can be financially material. Managing these risks forms part of the fiduciary duty of the Trustees. 2. The Trustees recognise ESG factors as a risk that need to be taken account of within the investment strategy.
Approach / Framework	3. The Trustees want to understand how asset managers integrate ESG within their investment process and in their stewardship activities. 4. The Trustees believe that sectors aiming for positive social and environmental impacts may outperform as countries transition to more sustainable economies. Where possible the investment strategy will allocate to these sectors. 5. The Trustees will consider the ESG values and priority areas of the stakeholders and sponsor and may use these to set ESG targets.
Reporting & Monitoring	6. ESG factors are dynamic and continually evolving, therefore the Trustees will receive training as required to develop their knowledge. 7. The Trustees will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.
Voting & Engagement	8. ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 9. The Trustees believe that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 10. The Trustees want to understand the impact of voting & engagement activity within their investment mandates.
Collaboration	11. Asset managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI and TCFD.

ESG summary and actions with the investment managers

The Trustees have continued to discuss potentially commissioning a review of the managers' ESG policies which could be presented in the form of an Impact Assessment report.

The Trustees 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 2021.

Fund name	Engagement summary	Commentary
Barclays	A full breakdown of engagements will be included in the 2022 Implementation Statement when a full 12 months of data is available.	Following discussions over the previous c.12 months, Barclays implemented a new approach to act on behalf of Private Bank clients without generating conflicts with clients in other parts of their organisation. This new process went live in May 2021 and the output of the engagement, including a breakdown of engagement areas and examples will be provided in the 2022 Implementation Statement.
L&G LDI Funds	Total Engagements: 34 * Environmental: 28 Social: 6 Governance: 14 Other: 4 *Environmental, Social and Governance engagements do not sum to total engagements due to some engagements overlapping into several categories.	The summary information on the left is for each of the Scheme's 12 individual underlying LDI fund. 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. The top 5 engagement topics in order were: 1. Climate change 2. Climate impact pledge 3. Remuneration 4. Board composition 5. Nominations and succession 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.

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 2021.

Fund name	Voting summary	Commentary
Barclays	A full breakdown of votes taken on behalf of the Scheme will be included in the 2022 Implementation Statement when a full 12 months of data is available.	Following discussions over the previous c.12 months, Barclays implemented a new approach to act on behalf of Private Bank clients without generating conflicts with clients in other parts of their organisation. This new process went live in May 2021 and the output of the votes undertaken on behalf of the Scheme, including a breakdown of voting categories (environmental, social, governance etc) and examples of meaningful votes will be provided in the 2022 Implementation Statement.

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