Crest Nicholson Group Pension and Life Assurance Scheme (the "Scheme")

Responsible Investment Policy April 2020

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April 2020

- This note has been prepared for Crest Nicholson Pension Trustee Limited.
- It sets out a Responsible Investment policy which further documents the Trustee's approach to managing Responsible Investment risks.
- It is based on our discussions in 2019 as part of updating the Scheme's Statement of Investment Principles to provide further information on the Trustee's policies in this area.

Purpose of this document

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What is the purpose of this document?

Crest Nicholson Pension Trustee Limited invest on behalf of the beneficiaries of the Scheme. The Trustee invest their assets responsibly in delivering their objective to pay the right benefits to the right members at the right time.

As part of that, the Trustee consider Environmental, Social and Governance (including Climate Change) factors as financially material risks to the Scheme. This document sets out the Trustee's policy on Responsible Investment and how these risks are managed.

More detail on other aspects of how the Scheme's assets are invested can be found in the Scheme's Statements of Investment Principles.

The Trustee developed this policy following a collaborative process with their advisors and other stakeholders (including Crest Nicholson PLC, the Scheme's Principal Employer).

What does this policy apply to?

The policy applies to the way in which the Trustee invests the Scheme's assets. The Trustee considers it when appointing investment managers, as well as in ongoing monitoring of investment managers.

The Trustee recognises that certain elements of Responsible Investment (for example voting practices) apply more readily to equity investments than other types of assets. Nevertheless, the Trustee expects their views on Responsible Investment to be reflected across the whole portfolio where appropriate and possible.

Key terms used in this document

Responsible investment

The integration of environmental, social and corporate governance (ESG) considerations, including climate change, into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

ESG factors

Environmental, Social and Governance factors, including Climate Change, could impact the value of an investment. Examples of ESG factors are as follows:

- **Environment:** biodiversity, water availability, pollution and waste
- **Social:** human rights, workforce diversity, employee welfare and the local community
- **Governance:** management structure, business ethics, audit arrangements, executive compensation
- **Climate change:** physical risks from changes in the climate and transition risks relating to political, regulatory and technological change

Core beliefs

What are the Trustee's core beliefs about Responsible Investment?

The Trustee receives training on Responsible Investment to understand the latest key developments. The Trustee is a responsible steward of its assets and, as part of this, consider both the impact of ESG, including climate change, factors on their investments and also the impact of their investment practices on society.

The Trustee's core beliefs are that:

- Long-term financial risks to the Scheme include risks relating to ESG factors including unethical practices which could be financially significant over both the short and long term. Long-term environmental, social and economic sustainability is one factor considered when making investment decisions.
- Climate-related risk is a financially material risk over the expected time horizon of the Scheme and the political and technological risks involved in addressing climate change are likely to impact the value of the Scheme's assets.
- Well run companies, which consider their approach to a range of risks (including ESG factors), are likely to provide superior returns over the long term.
- ESG factors (including climate change) provide both risks and opportunities to the Scheme. Investment managers may be able to improve risk-adjusted returns by accounting for ESG factors.

For avoidance of doubt, the Trustee does not currently take into account ethical and /or ESG factors not expected to have financial impact, when setting their investment strategy.

How might ESG issues affect company performance?

Poor ESG practices can impact on companies' financial results in various ways, including:

- Misaligned interests and insufficient oversight of management (eg inappropriate pay structures, lack of board diversity);
- Fines or litigation costs for compliance failures (eg unethical business practices, breaching pollutant limits);
- Increased costs from new legal and regulatory requirements (eg higher environmental standards);
- Reputational damage for failing to meet societal expectations (eg human rights, executive pay);
- Loss of market share from changing consumer preferences (eg desire to reduce waste);
- Threats to business model from new technologies (eg renewable energy);
- Vulnerability to shortages or price rises of key inputs (eg water, energy);
- Exposure to changing weather patterns (eg supply chain disruption, crop failures).

Conversely, good ESG practices are likely to reduce a company's exposure to such risks. They can also be a source of competitive advantage and new business opportunities.

Implementation of the Trustee's views

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How are the Trustee's views on Responsible Investment implemented?

The Trustee expects their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustee has limited direct influence over managers' investment practices where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustee conducts ongoing monitoring of the Scheme's assets by meeting regularly, considering updates from their managers and investment consultants, including Responsible Investment reporting and assessment of the Scheme's managers.

The Trustee also meets with a range of the Scheme's investment managers from time-to-time. As part of this, the Trustee challenges investment managers on key assessment criteria and against their own core Responsible Investment beliefs. Examples of questions that the Trustee asks the Scheme's managers can be found in the box to the right.

Does the Trustee specifically exclude investments in certain industries or assets?

The Trustee carefully consider this question from time to time in light of their legal obligation to invest in the beneficiaries' best financial interests. Its current position is not to automatically exclude investment in any specific industries or asset classes on the basis of ESG, including climate change, factors alone. However, the Trustee will consider these risk factors when taking asset allocation decisions into any proposed new asset class.

The Trustee, most often through their investment consultant, also actively encourage their investment managers to invest responsibly and consider relevant factors when deciding both:

- whether to invest in particular companies, industries or assets; and also
- whether to disinvest from companies where it feels that there has been insufficient engagement or response from management on specific ESG factors.

Example questions for investment managers

- What are the main ESG risks and opportunities relating to the investments you make, and how are they affecting your investment decisions?
- Can you give an example of a proposed investment over the past year which hasn't gone ahead due to your Responsible Investment policies?
- Across your investments, are there any companies or situations that are currently raising red flags for you from an ESG perspective?
- Is there a sector that you think offers particular upside potential from an ESG perspective?
- In what ways do you consider the potential impact of climate change in appraising investments?
- On what proportion of your equity investments have you exercised voting rights in the past 12 months? How often have you voted against management?
- Which ESG topics have you covered at recent meetings with company management?

Other considerations

How does the Scheme's investment advisor help to implement the Trustee's views on responsible investment?

The Scheme's investment advisor, Lane Clark and Peacock LLP ("LCP") provides advice to the Trustee in the following ways:

- Responsible investment is a key part of LCP's investment manager research criteria. As part of this process, LCP considers whether a manager has an effective process in place to monitor and control the risks arising from ESG factors.
- LCP challenges and assesses managers' stances on responsible investment issues as part of regular research meetings, and specifically considers whether managers implement engagement and (in the case of equities) voting effectively. The box to the right sets out LCP's key considerations when assessing managers' responsible investment practices.
- LCP carries out a Responsible Investment Survey every two years, inviting a wide selection of investment managers to complete an in-depth survey covering their approach to both ESG issues and stewardship practices. Each manager's responses are analysed and the manager is assigned a score between 1 (weak) and 4 (strong). LCP's continuing dialogue with managers encourages them to improve their practices and aims to drive improvements in standards across the industry.

What else did the Trustee consider when forming this policy?

The Trustee recognises that above all it is legally required to invest in the best financial interests of the beneficiaries of the Scheme. Nothing in the policy is intended to conflict with this requirement and the policy was formed in light of this.

When do the Trustee review this policy?

The Trustee will review this policy every year and after any material change to relevant legislation.

What does a "good" manager look like?

The characteristics that score highly in LCP's responsible investment assessment:

- ESG integrated throughout
- ESG affects buy/sell decisions
- Robust policies on key topics, eg climate-related risk
- Staff receive ESG training
- Specialise staff provide in-depth ESG expertise
- Senior management accountable
- Evidence of collaboration
- Exercise almost all votes
- Will vote against management
- Good examples of engagement
- Signed up to relevant codes

Responsible Investment framework signed for and on behalf of Crest Nicholson Pension Trustee Limited.

Signed:

Name: Duncan Revolta

Date: 21 September 2020

Use of our work

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