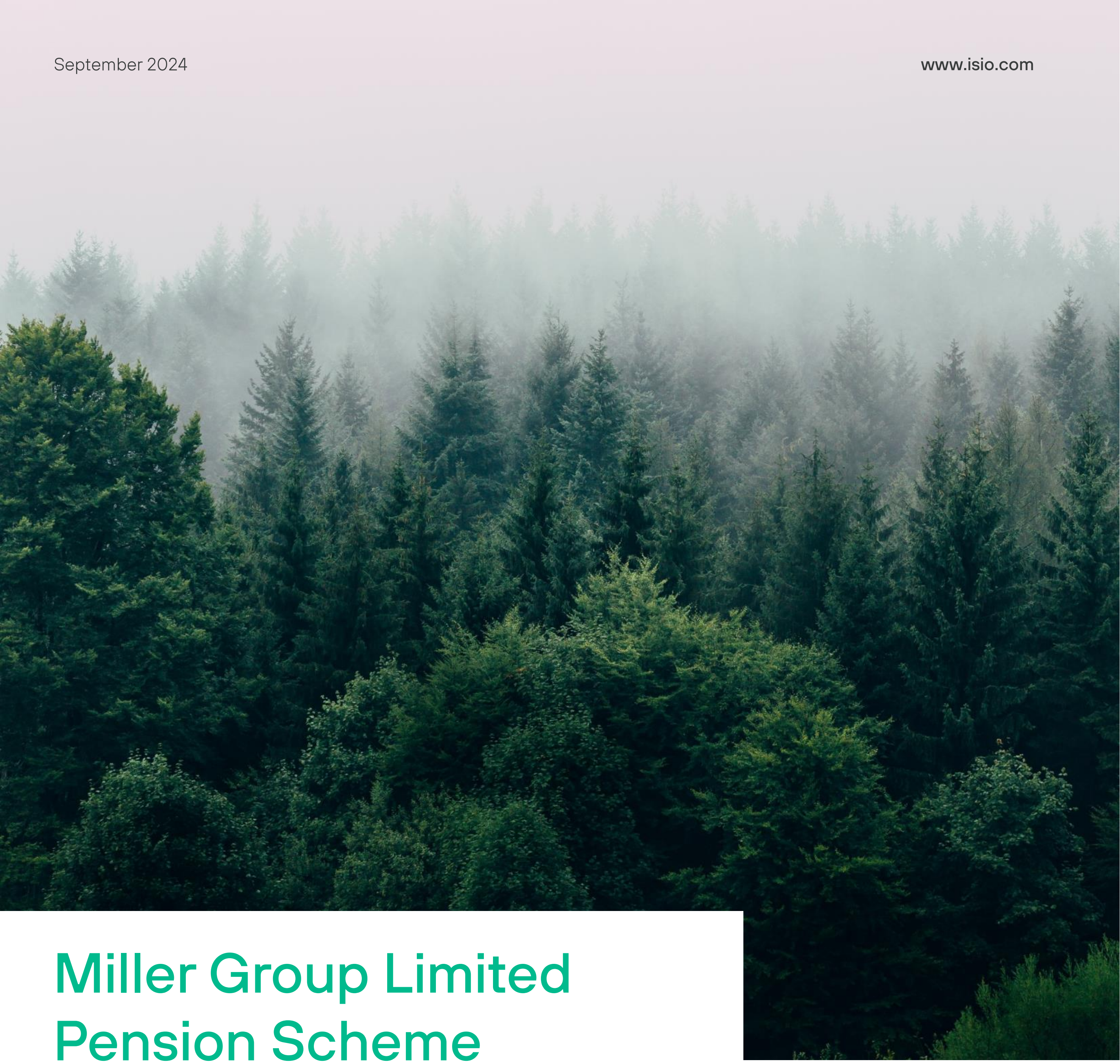

Miller Group Limited Pension Scheme

September 2024

isio.

Document classification: Confidential

Background and Implementation Statement

Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustees' fiduciary duty.

Statement of Investment Principles (SIP)

The Miller Group Limited 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 Scheme's SIP, ESG and risk management policy outlined in this document refers to the latest version of the SIP, which was updated in September 2023.

The SIP can be found online at the web address:
https://www.millerhomes.co.uk/corporate/financials/statutory-disclosures.aspx

Implementation Report

This implementation report is to provide evidence that the Miller Group Limited Pension Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Scheme has 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 Scheme has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate

Summary of key actions undertaken over the Scheme reporting year

- Following the investment strategy review in May 2023, the Trustees agreed to further increase the Scheme's liability hedge. This was completed over two 'phases' during H2 2023 and was achieved through the termination of the Scheme's Semi-Liquid Credit allocation. The Scheme fully redeemed its Semi-Liquid Credit holdings with Apollo and CQS, redirecting these to top up the LGIM liability hedging mandate and the Absolute Return Bond allocation.
- While the Scheme waited for the proceeds from the redemptions, the Trustees used an £8m Company loan received during Q2 2023 to increase the liability hedge via a purchase of physical gilts, increasing the liability hedge to 87%. The Company loan was repaid during Q3 2023 using proceeds received from the Semi-Liquid Credit sales.
- Isio met with the Trustees in November to discuss extending the hedge further. The Trustees and Company agreed to increase the liability hedge to 95%, which was implemented over March 2024 via a restructuring of the physical gilt portfolio.

Implementation Statement

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

Signed

Position

Date

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 hedge 90% (on a flat gilts basis) of the total liabilities movements caused by changes to interest and inflation rates.	The Scheme further increased its level of hedging to 95% in March 2024 to better protect against interest rate and inflation risk given the strong funding level. Once the investment strategy has been reviewed over late 2024, this change in hedge policy should be recorded in a revised SIP.
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.	The Scheme maintains an allocation to cash to meet ongoing cashflow requirements. The Scheme remains in a strong cashflow position with significant liquidity within the invested assets.
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.	The current investment strategy is designed to hedge unrewarded risks, improve the diversification of the Scheme's assets and reduce market risk.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. 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.	The allocation to credit assets remains diversified in terms of number of managers and credit sub-asset classes, providing increased diversification of default risk.

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 each 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 reporting 5. UN PRI Signatory The Trustees monitor the mangers on an ongoing basis.	The Scheme conducted an impact assessment of the Scheme's investment managers in Q1 2023.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.	The Scheme has removed its overseas currency risk (GBP hedged and unhedged) in equity funds over the period following the full redemption of the equity portfolio.

Changes to the SIP

Policies added to the SIP	
Date last updated: September 2023	
Leverage and Collateral Management	The Trustees will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Scheme's liability hedging (LDI) portfolio. Further details on this can be found in Appendix 5. The Trustees have a stated collateral management policy / framework. The Trustees have agreed a process for meeting collateral calls should these be made by the Scheme's LDI investment manager. The Trustees will review and stress test this framework on a regular basis.
Stewardship	The Trustees' policy on the exercise of rights attaching to investments, including voting rights, and in undertaking engagement activities in respect of the investments is that these rights should be exercised by the investment managers on the Trustees' behalf. In doing so, the Trustees expect that the investment managers will use their influence as major institutional investors to exercise the Trustees' rights and duties as shareholders, including where appropriate engaging with underlying investee companies to promote good corporate governance, accountability and to understand how those companies take account of ESG issues in their businesses.
Interest rates and inflation	To hedge 90% (on a flat gilts basis) of the total liabilities movements caused by changes to interest and inflation rates.
Voting Policy	The Trustees have acknowledged responsibility for the voting policies that are implemented by the Scheme's investment managers on their behalf.
Engagement Policy	• The Trustees have acknowledged responsibility for the engagement policies that are implemented by the Scheme's investment managers on their behalf.

- The Trustees, via their investment advisers, will engage with managers about 'relevant matters' at least annually.
- Example stewardship activities that the Trustees have considered are listed below.
    - Selecting and appointing asset managers – the Trustees will consider potential managers' stewardship policies and activities.
    - Asset manager engagement and monitoring – on an annual basis, the Trustees assess the voting and engagement activity of their asset managers. The results of this analysis feeds into the Trustees' investment decision making.

Collaborative investor initiatives – the Trustees will consider joining/ supporting collaborative investor initiatives.

Appendix 5 – Leverage and Collateral Management

At the time of writing, the Trustees are targeting a level of collateral sufficient to withstand a yield rise of:

- 350bps held with the LDI manager

The Trustees will review this no less frequently than annually, or as soon as possible in the event of significant market movements.

The Trustees also adopt a framework for maintaining sufficient collateral levels.

Trigger	Action	Responsibility
LDI fund issues capital call	Assets sold from below collateral waterfall to meet capital call	LDI manager / Trustees
When collateral falls below 300 bps	Assets sold from below collateral waterfall to restore buffer to 350 bps	LDI manager responsible for monitoring trigger, Trustees responsible for implementation (as soon as possible with timescales agreed with LDI manager)

The latest collateral waterfall is set out below. The first tier of support is the LGIM Absolute Return Bond mandate.

Manager	Asset Class	Dealing frequency
LDI manager	Absolute Return Bonds	Weekly frequency
LDI manager	Corporate Bonds	Weekly frequency

Current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regarding to ESG as a financially material risk. This page details how the Scheme's ESG policy is implemented. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship 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.

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 will obtain regular training on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments; • As part of ongoing monitoring, the Trustees will use any ESG ratings information provided by their investment consultant to assess how the Scheme's investment managers take accounts of ESG issues; • Through their investment consultant, the Trustees will request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes on an annual basis.	• The manager has not acted in accordance with their policies and frameworks.

ESG summary and actions with the investment managers

Manager, fund	ESG Summary	Actions identified	Engagement with manager commentary
Partners Group Direct Lending – PMCS 2018	Partners Group continue to demonstrate a strong firm-wide approach to ESG and have strong ESG teams and practices. They have a strong screening process in their investment approach, using industry recognised guidance, such as the TCFD and UN Global Impact. However, PG lag peers in reporting and have therefore seen their score downgraded in this area.	Partners Group should review and update the ESG scorecard on an annual basis. Include climate and social risks within ESG assessments. Provide examples of engagements where they have enhanced ESG specific factors within the mandate. Introduce ESG reporting in regular fund reporting, including ESG metrics.	Isio engaged with Partners Group on the Trustees' behalf to review their ESG policies and set actions and priorities. Isio regularly reports back to the ISC with updates on the Partners Group engagements.
LGIM AAA-AA-A Corporate Bond Over 15 Year Index Fund	LGIM is one of the more advanced asset managers in relation to ESG integration, with a well-defined firm ESG policy and net zero commitment. LGIM also collaborates with a range of industry participants to influence a range of ESG topics. Passive funds aim to replicate the performance of their benchmark with no active credit selection. Therefore, there are no fund-level ESG objectives and ESG scorecards are not used in the investment process.	Risk management: LGIM should expand on the optional training by introducing a formal training programme with a defined syllabus for all relevant investment. Reporting: LGIM should include a fund-level ESG score and scope 3 GHG data in quarterly ESG reports.	Isio engaged with the manager on behalf of the Trustees over the period. LGIM has successfully completed the following actions: Risk management: LGIM have increased ESG coverage across passive funds and can now provide implied temperature rise figures across all funds.
LGIM Absolute Return Bond Fund	LGIM is one of the more advanced asset managers in relation to ESG, with a well-defined firm-wide ESG policy and a net zero	Investment approach: LGIM should develop a process for independently assessing the effectiveness of green /	Isio engaged with the manager on behalf of the Trustees over the period.

	commitment. LGIM provides ESG scores for all assets within the portfolio and can provide the required TCFD Scope 1 and 2 metrics. LGIM also encourages investee companies to align sustainability reporting with best-practice frameworks. LGIM collaborates with a range of industry participants to monitor and influence a broad range of ESG topics.	sustainability-linked / use-of-proceeds bonds. Reporting: LGIM should implement reporting on nature or bio-diversity related metrics in line with the Taskforce on Nature-related Financial Disclosures ("TNFD") disclosure recommendations.	LGIM has successfully completed the following actions: Investment Approach: Developed an ESG objective targeting a 50% reduction in Weighted Average Carbon Intensity ("WACI") by 2030, compared to baseline figures as at Q4 2019, has been introduced. Reporting: LGIM's ESG quarterly reports provide fund level data on carbon, voting and engagement. Some ESG reporting output has been integrated into standard client quarterly reports. Stewardship: LGIM has introduced explicit objectives and milestones for engaging with underlying companies at a fund level.
LGIM LDI and Gilts	LGIM is actively committed to integrating ESG considerations into its LDI fund ranges. LGIM engages with regulators, government and other public bodies on factors which could influence LDI portfolios..	As the Trustees invest in levered and unlevered gilt and index-linked gilt funds there is limited scope for engagement on ESG matters.	There has been no engagement with LGIM in relation to the Trustees' LDI holdings over the period.

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 2024.

Fund name	Engagement summary [1]	Commentary
Partners Group Direct Lending – PMCS 2018	Total Engagements: 13 Corporate: 2 ESG: 1 Other: 10 *Note that Partners Group provide data on a semi-annual basis, and as such the engagement data shown reflects their activity over the 2024 calendar year.	Partners Group maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Partners Group has engaged on mostly governance related issues over the period, rather than environmental or social considerations. An example of a significant corporate governance activity within the portfolio project includes: **Voogd & Voogd and Heilbron**: Partners Group met with the company's CEO and CFO to discuss shifts in management strategy. The discussion centred around the change in focus under the new management, in particular concerns were raised over the high operational costs and excessive EBITDA adjustments. As part of this meeting, the Company confirmed the new

		management will work to introduce more robust cost controls and restrict EBITDA adjustments. They also acknowledged the previous budget was not achievable and there was a need for a revised, more realistic budget, going forward.
LGIM AAA-AA-A Corporate Bond Over 15 Year Index Fund	Total Engagements: 55 Environmental: 32 Social: 3 Governance: 7 Other: 13	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. LGIM have not provided examples of Fund-specific significant engagements.
LGIM Absolute Return Bond Fund	Total Engagements: 357 Environmental: 233 Social: 20 Governance: 68 Other: 36	
LGIM Cash	Total Engagements: 36 Environmental: 33 Governance: 2 Other: 1	
LGIM LDI and Gilts	LGIM is actively committed to integrating ESG considerations into its LDI fund ranges. LGIM engages with regulators, government and other public bodies on factors which could influence LDI portfolios.	

Notes: [1] For some managers, total engagements do not sum up, as a number of engagements are related to a combination of E,S and G issues.

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