

Implementation Statement

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations require that the Trustees outline how they have ensured that the policies and objectives set out in the Statement of Investment Principles (“SIP”) have been adhered to over the course of the year.

This is the first Implementation Statement that the Trustees have prepared and covers the year ending 31 December 2020.

The statement sets out the actions undertaken by the Trustees, service providers and investment manager, to implement the policies as set out in the SIP. The statement also includes voting and engagement information that has been gathered from the investment manager.

Changes to the SIP over the year to 31 December 2020

The SIP was reviewed and revised to take account of regulatory changes which required the Trustees to outline policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies on cost transparency, their policies on voting and stewardship, and how their policies align with that of the sponsoring employer in relation to sustainability.

The most recent SIP was agreed and approved by the Trustees ahead of the 1 October 2020 regulatory deadline. The Trustees consulted with the sponsor when making these changes and obtained written advice from Aon, the Trustees' investment adviser.

How key SIP objectives and policies have been followed

The Trustees outline several key objectives and policies in the SIP. These are noted in *blue* below together with an explanation of how these objectives and policies have been met over the year:

In setting the Plan's investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when setting the Plan's asset allocation, when selecting managers and when monitoring their performance.

Over the year, the Trustees received information and materials on the reporting requirements relating to responsible investment, covering financial and non-financial factors, climate risks and developments in the wider market. An ESG score for the investment manager is reported by Aon in the quarterly monitoring reports. These ratings consider the fund management team's awareness of financially material ESG risks in the investment strategy, and the steps that have been taken by the manager to identify, evaluate and mitigate these risks across the portfolio.

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries

The Trustees have obtained the stewardship policy of their investment manager and confirmed that it is sufficiently aligned with the Trustees' stewardship policy. The Trustees have also collected the voting and engagement records of their investment manager and these are reported later in this statement.

The Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees undertake to engage with the manager (where possible) and seek a more sustainable position but may ultimately look to replace the manager.

The Trustees expect that their investment managers will provide details of their stewardship policy and activities as part of routine, periodic, reports that are provided to the Trustees, and will monitor this with input from their investment adviser. The Trustees review the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions.

The Trustees will engage with the Plan's investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This information, along with information on how the policies set out in this Statement were applied across the Plan's investments, will be shared with both DB and DC members in the annual Implementation Statement.

The voting and engagement records of the investment manager have been collected and are presented later in this statement.

The Trustees expect the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

The Trustees regularly monitor the Plan's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- *Make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and*
- *Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.*

The Trustees are supported in this monitoring activity by their investment adviser.

The Trustees receive regular reports and verbal updates from the investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Plan's objectives and assess the investment managers over 3-year periods.

The Trustees share the policies, as set out in this SIP, with the Plan's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Trustees' policies.

The Trustees received quarterly investment monitoring reports and valuations from Aon covering both the DB and DC sections. The investment reports include performance on all the investment funds relative to their respective benchmarks or targets and attribution commentary which highlights key factors affecting performance over the quarter. Any issues with the manager's investment strategy, including the ESG assessment, are flagged.

Before appointment of a new investment manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustees' policies. Where possible, the

Trustees will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Plan invests in a collective vehicle, then the Trustees will express their expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustees' meetings).

The Trustees believe that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

As part of Aon's investment manager research process, the governing documentation of investments is reviewed for appropriateness before a "Buy" rating is given. The Trustees will consider the investment manager policies, including those on ESG, before appointing any new managers.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically.

The Trustees, with advice from Aon, consider the suitability of the asset manager on an ongoing basis. Aon's investment manager research function meets rated managers on a regular basis to assess any changes in the investment staff, investment process, risk management and other factors to ascertain whether the overall rating assigned to the fund remains appropriate. Awareness regarding ESG risks in the investment strategy is also considered as part of this monitoring and rating process. In case of any noteworthy development regarding the manager the Trustees are apprised and advised accordingly by Aon.

The Trustees collect annual cost transparency reports covering all of their investments and ask that the investment managers provide this data in line with the appropriate reporting templates for each asset class. This allows the Trustees to understand exactly what the Plan is paying the investment managers. The Trustees work with their investment adviser and investment managers to understand these costs in more detail where required. For the DC Section, the Trustees collect information on member-borne costs and charges on an annual basis, where available, and set these out in the Plan's Annual Chair's Statement regarding DC Governance (the "Annual Chair's Statement").

The Trustees receive cost data directly from the manager. For the Defined Contribution Section, cost and charges data has been collated and will be published in the Annual Chair's Statement.

The Trustees are responsible for investing the assets of the DC section in a prudent manner. Their key aim is to provide a range of investment options that are suitable for meeting members' long- and short-term investment objectives, based upon the Trustees' consideration of members' needs.

The range of funds was chosen by the Trustees after taking advice from the Trustees' investment advisers

The Trustees have provided members with an appropriate range of investment choice over the year. The Trustees regularly monitor the strategies and funds available to members to ensure they are meeting their objectives and that their inclusion in the fund range continues to be in members' best interests.

The Trustees aim to invest the assets of the Plan prudently with the intention that the benefits promised to members are provided.

In setting the DB investment strategy, the Trustees first considered the lowest risk asset allocation that they could adopt in relation to the Plan's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan's liabilities.

The overall objective has been agreed with the Employer and is as follows: The current investment strategy targets an expected return over the liabilities (as valued by gilt yields) of at least 3% per annum (net of fees).

There were no changes to the investment strategy over the year. In light of market volatility, the Trustees suspended automatic rebalancing, to avoid the risk of transacting at heightened costs.

Voting and engagement activity – Equity

The DB and DC sections both invest in equity managed by Legal & General Investment Management ("LGIM"). The DB section invests in the LGIM All World Equity Index Fund and the DC section invests in the LGIM Global Equity 70:30 Index.

LGIM Voting Statistics

| 1 Jan 2020 – 31 Dec 2020 | All World Equity | Global Equity 70:30 |
|----------------------------------------------------------------------------------|------------------|---------------------|
| % of resolutions voted on for which the fund was eligible | 99.64% | 99.69% |
| Of the resolutions on which the fund voted, % that were voted against management | 15.74% | 14.75% |
| Of the resolutions on which the fund voted, % that were abstained from? | 0.81% | 0.72% |

LGIM make use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. LGIM retain the ability to override any voting decisions based on the voting policy if appropriate (for example if engagements with a company have provided additional information).

An example of a significant vote is in relation to Whitehaven Coal. A resolution was put forward in October 2020 asking management for a report on a potential wind-down of the company's coal operations, with the return of capital to shareholders.

LGIM voted in the favour of this proposal because of uncertainty of coal utilisation in the future energy mix and increasing competitiveness of renewable energy. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies with capital being returned to shareholders instead of spent on diversification and growth projects.

The resolution did not pass, as only 4% of shareholders voted in favour. The environmental profile of Whitehaven Coal continues to remain in the spotlight (in late 2020 the company pleaded guilty to 19 charges for breaching mining laws that resulted in significant environmental harm).

LGIM Engagement Policy

LGIM has a six-step approach to its stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

As an example of engagement activity, LGIM joined a new investor coalition in 2020 to lobby the Brazilian government to take steps to halt deforestation in the country. The investor coalition sent letters to several Brazilian embassies in Europe. Subsequently, a video conference was scheduled with the several senior government ministers. The investor group called on the government to commit to achieving a significant reduction in deforestation, and to ensure that existing environmental legislation is enforced.

In response to these engagements, the Brazilian government announced a moratorium on setting fires in the Amazon, and the investor group had a follow-up conversation with several lawmakers. However, data released in July shows that the rate of deforestation in the Amazon is sadly continuing to increase.

Going forward, the remit of the investor group will expand to focus lobbying efforts in Southeast Asia too.

Engagement activity – Fixed Income

The DB section invests in the LGIM Over 15 Year Investment Grade Corporate Bond Fund. Both the DB and DC sections invest in the LGIM Over 5 Year Index Linked Gilts Fund. The Plan also invests in the LGIM Cash Fund and the LGIM Sterling Liquidity Fund.

The Trustees acknowledge that the concept of stewardship may be less applicable with respect to its fixed income investments, particularly for short-term money market instruments and gilt investments.

LGIM were unable to provide a strategy level engagement example for the Over 15 Year Investment Grade Corporate Bond Fund, however, they follow the same engagement policy as outlined above for the equity funds.

Summary

This statement sets out how The Trustees have followed the objectives and policies set out in the SIP.

The Trustees are of the opinion that the stewardship carried out on their behalf is adequate. The Trustees note examples of the willingness and ability of LGIM to take proactive votes against management and engage with underlying companies where appropriate.

The Trustees recognise that they have a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Plan invests. The Trustees continue to expect improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes through considered voting and engagement.

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