

Annual Implementation Statement – for scheme year ending 31 March 2020 Premdor Crosby Pension Plan

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Premdor Crosby Pension Plan (the “Plan”) covering the scheme year to 31 March 2020. The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustees, the Scheme’s Statement of Investment Principles (“SIP”) required under section 35 of the Pensions Act 1995 has been followed during the year;
- detail any reviews of the SIP the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review;
- describe the voting behaviour by, or on behalf of, the Trustees over the year;
- set out the extent to which, in the opinion of the Trustees, the engagement policy within the SIP has been followed during the year.

A copy of this implementation statement will be made available on the following website [\[website to be confirmed by Aidan Mincher in due course\]](#).

2. Review of, and changes to the SIP

The SIP was reviewed and subsequently updated during the Plan year to reflect new regulatory requirements to describe the Trustee’s policy on sustainable investment, to confirm that non-financially material matters are not taken into account and its policy on voting and engagement all of which came in to force on 1 October 2019. The strategic benchmark for the Final Salary section, was also under review with some changes being in the process of being implemented and finalised in the Plan year and recorded in a further review of the Statement of Investment Principles that took place after the Plan year-end.

The most recent SIP applicable in the Plan year was signed August 2019 and formally adopted by the Trustees shortly after this date.

3. Adherence to the SIP

Policies specifically in relation to the Defined Benefit Section

<p>Review of performance objective</p>	<p>The Trustees set-up a long-term target of being fully funded on gilts + 0.25% pa with a journey plan intended to reach this target by 2026 in order to help meet the performance objective set out in the SIP. The Trustees check progress against this target and journey plan on an annual basis, with the last such review in the Plan year taking place in the summer of 2019, relating to the position as at 31 March 2019. As part of this review, the Trustees recognised the volatility in markets as a result of the Brexit uncertainty and did a further high level update of the position as at 31 August 2019.</p>
<p>Diversification</p>	<p>Having undertaken an investment strategy review prior to the Plan year, the Trustees implemented some changes to the investment strategy over the Plan year. The Trustees reallocated a proportion of the Plan's assets which were previously invested in UK equities and corporate bonds to a diversified growth fund as a conscious way to increase the level of diversification between asset classes the Plan has access to. The Trustees also achieve diversification through investing in pooled funds which enables access to diversification within asset classes employed by the investment manager.</p>
<p>Review of asset allocation and liability profile of the Plan</p>	<p>Following the aforementioned investment strategy review, the Trustees finalised a revision in the asset allocation at the start of the Plan year and implemented this over the duration of the Plan year. They will be looking to review the asset allocation again in 2021, once the 31 March 2020 triennial actuarial valuation of the Plan is concluded and the updated liability profile of the Plan is determined.</p>
<p>Liquidity and realisation of assets</p>	<p>The Trustees incorporated liquidity as one of the considerations when reviewing the investment strategy, including ensuring the Plan's investments are mostly in liquid instruments, to the extent that is relevant given the Plan's contributions still exceed expected benefit outgo. The Trustees also have a financial management policy in place with the Plan's administrator which estimates projected cashflows and pro-actively determines in advance anticipated requirements so that any disinvestments (if needed) take place in good time. At the end of the Plan year, and in light of reduced liquidity in markets as a result of the impact on financial markets of the Coronavirus pandemic and increased cashflow requirements for the Plan, the Trustees decided to monitor short-term disinvestments more closely in the short-term and conduct a review the financial management policy in the 2020/2021 Plan year.</p>

Policies specifically in relation to the Defined Contribution Section

<p>Investment options available and use of default strategy</p>	<p>The Trustees have ensured a variety of options are available to members to enable them to access multiple asset classes including 5 funds to access equity investments (the range covering different geographic regions), a fund to access government bonds, a fund to access cash as well as a diversified growth fund. The Trustees offer a default option as well for those members who do not wish the make the investment decisions themselves. The default option utilises a lifestyle strategy to automatically switch assets into lower risk funds as retirement approaches. During the growth phase the lifestyle strategy invests in one of the equity funds and</p>
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	<p>as members approach their selected retirement date, the assets gradually switch over to the government bond and cash funds targeting annuity income at retirement.</p>
<p>Review of investment options and default strategy</p>	<p>The Trustees were planning to commence conducting a review of the investment strategy during the Plan year to consider whether the fund selection and the default strategy remains appropriate and whether targeting the purchase of an annuity as the default is still appropriate given the membership of the Plan. The Trustees recognise the small number of members in the Plan makes decision-making based on past member experience somewhat difficult. However, more importantly, these considerations also fed into discussions during the Plan year around a review of the DC section as an alternative DC delivery vehicle may potentially achieve a better value for money and an improved experience for members, in line with industry trends and the Regulatory messages provided. As a result, the Trustees put the review of the investment strategy on hold and prioritised carrying out a review of the DC section in the 2020/21 Plan year, following which, if no changes are made to the delivery vehicle the Trustees will carry out the investment strategy review. The DC design review is expected to reach a conclusion in Q4 2020.</p>

Policies across both DB and DC sections

<p>Assessment of performance of investment managers</p>	<p>The Trustees have been doing periodic assessments of the investment manager performance with a review of the DB Section's performance against the expected long-term target as at 31 March 2019 carried out in the summer of 2019 which implicitly covered how the Plan's investments performed. The DB Section's investments at the start of the year were primarily passive investments and the Plan's assets performed in line with benchmarks. As part of the DB section's 2018 investment strategy review, the Trustees had considered whether to introduce a further investment manager or whether the Trustees were satisfied with the current investment manager. On balance, the Trustees decided to retain their incumbent investment manager. Once the change in investment strategy was implemented towards the end of the Plan year, and given the introduction of a diversified growth fund and an LDI portfolio, the Trustees decided to increase the level and frequency of the investment manager monitoring. As a result they implemented a monitoring framework, commissioning a quarterly presentation by the investment consultant to monitor both the performance of the Plan's assets, as well as qualitative changes within the manager, utilising the manager research of the investment consultant. The Trustees' intention is to also use this framework to monitor the performance of the investment manager used for the DC section. However, implementation was put on pause until the review of the design of the DC section concludes.</p>
<p>Engagement with investment managers</p>	<p>The Trustees used their investment consultant to engage with the investment manager of the DB section as part of the changes in the portfolio over the Plan year and in particular on the related fees and appropriateness of some of the provisions of the Investment Management Agreement of the LDI portfolio given the Plan's small asset size. The investment manager offered an alternative solution (involving a different structure for the LDI portfolio) to address some of the Trustees' concerns although taking all factors into consideration the Trustees opted for the original IMA. Although this only led to minor changes in the original IMA, the investment manager increased the pro-active contact with the investment consultant emphasise the need to act consistently with the interests of the Trustees (and ultimately members).</p>
<p>Exercising of voting rights</p>	<p>Given the small size of the Plan and the use of pooled investments the Trustees have delegated the voting and engagement activities to the underlying managers, but they nevertheless expect effective activities in these areas to form part of their processes. The Trustees asked their investment manager to review both the</p>

	<p>managers' voting and engagement policy while the Trustees reviewed the voting information provided by the investment managers while preparing this statement. The Trustees will be using this analysis to inform its future decision making on manager selection. The Plan's small size means the Trustees have not been involved in investor coalitions or public work.</p>
<p>Sustainable Investments</p>	<p>Given the small size of the Plan and the use of pooled investments the Trustees have delegated the consideration of ESG issues, where these have a financial implication, to the investment manager. However, the Trustees have undertaken training over the Plan year to understand more information about the impact of ESG on investments and the options the Trustees have readily available given the small size of the Plan to increase its ESG influence. As part of this training, the Trustees commissioned a paper to help with their understanding of the DB Section's investment manager policy in relation to sustainable investments and has agreed to review this on an annual basis and incorporate it in the monitoring framework to inform its decision making on the manager selection. The Trustees also decided to consider at the next investment strategy review, options and asset classes that could have a stronger ESG link subject to these assets being a good fit for the DB Section given its size and its objectives set out in the Statement of Investment Principles. Once the future direction of the DC design is considered, if the Trustees will retain its existing structure, the Trustees plan to carry out a review of the DC Investment manager 's sustainable policy and incorporate this in the quarterly monitoring framework. It will also consider whether the merits of introducing investment funds with a stronger ESG link in the self-select options and the default investment strategy. The Trustees would also like to consider modelling around its climate risk and carbon footprint of the portfolio although given the novelty of these options it does not believe this is the best use of the scheme's limited resources at the current time although it will keep this under review as these options become more streamlined and accessible to small pension schemes.</p>
<p>Risk management</p>	<p>The Trustees manages risk at an aggregate level through a risk register.</p> <p>In relation to the investment related risks of the DB section, the Statement of Investment principles sets outs more information how each risk is individually managed.</p> <p>In light of the material investment strategy changes the Trustees implemented in the Plan year, the Trustees decided to introduce a quarterly investment monitoring framework to further enhance the risk management framework through frequent monitoring in relation to deficit risk (given the inclusion of an updated quarterly funding position), manager risk (given the quarterly update of the asset performance and updates on key manager changes) and interest rate and inflation risk (given the monitoring of the LDI portfolio performance relative to liabilities and hedge ration monitoring). The framework enables the Trustees to take prompt action if and when required.</p> <p>The Trustees have also improved the management of the interest and inflation risk during the Plan year through investing in an LDI portfolio which has contributed to an increase in both the interest rate and inflation hedging ratio.</p> <p>The Trustees also reviewed the level of currency risk as part of the changes in the investment strategy and decided to consider the merits of introducing explicit currency hedging as part of its 2021 review of the investment strategy.</p> <p>The improved diversification the Trustees introduced over the Plan year and the reduction of its UK equity exposure was partly intended to reduce the political risk the Plan is exposed to.</p>

The Trustees also recognised during the Plan year the need for increased monitoring of the covenant, in light of increased Regulatory guidance and is planning to expand this over the 2020/21 Plan year in its management of sponsor risk.

In relation to the investment related risks relevant to the DC Section, the Trustee's objective is to make available to members of the DC Section an appropriate range of investment options, with a suitable range of expected risk and return attributes. This ensures overarching risks such as currency risk or inflation risk can be mitigated by virtue of a default strategy and a diversified range of self-select options that considers the needs of the membership at various points in their retirement journey.

4. Voting and engagement

Voting and engagement in relation to the DB Section

The information below sets out the voting (based on data provided by the investment manager) that was carried out on behalf of the Trustees in relation to the World Equities Fund and the Diversified Growth Fund. The underlying investments of these funds gave rise to the resolutions the Plan could have voted over the period. The voting statistics in relation to the DGF relates to the period 15 August 2019 – 31 March 2020 given the Plan’s investment in this fund commenced on 15 August 2019.

In line with their expectations, the Trustees note the investment manager has actively engaged with the voting process and has voted on the great majority of the available resolutions. The Trustees note there were a small proportion of votes were the manager has voted against management which it takes as evidence of the fact the manager does engage with the process rather than simply voting in line with management recommendations. The Trustees also note the proportion of votes abstained is small, in line with the Trustees’ expectation and preference for the manager to take a view rather than sit on the fence. Although the investment manager did not confirm the number of resolutions where they voted against the proxy recommendation, the investment consultant, on the Trustees’ behalf reviewed the investment manager’s overview of the voting and engagement policy and were comfortable that the manager’s policy is to use the proxy adviser’s research and recommendation as only one input into their decision making. The other inputs are:

- the research of a further proxy adviser (Glass Lewis);
- the company’s own reporting and other public information;
- the manager’s engagement and voting history; and
- views of active investors and ESG research.

The Trustees will try to collect the information on the proportion of resolutions voted against proxy adviser for the 2020/21 Plan year to ensure the evidence supports the manager’s policy.

The Trustees have relied on the investment manager’s criteria on determining the most significant votes for each Fund and has then decided on a selection for those to disclose in the implementation statement. The Trustees were pleased to see the manager not only voting, but actively engaging in some of these significant votes, including making detailed considerations before casting its vote and being willing to vote against management on high profile issues.

Voting statistics (applicable to the Plan’s reporting period)	Equity Fund	Diversified Growth Fund
Number of meetings the manager was eligible to vote at	3,227	4,009*
Number of resolutions the manager was eligible to vote on	39,941	13,616
% of resolutions voted	96.2%	98.6%
% of votes for management	93.5%	90.9%

% of votes against management	5.5%	6.6%
% of votes abstained	1.0%	2.5%
Proxy adviser service used	ISS	ISS
Type of voting policy used	Custom	Custom
% of resolutions voted against proxy adviser recommendation	> 0%	> 0%

** This is in relation the period 1 April 2019 – 31 March 2020 as the manager did not provide the data relevant to the period 15 August 2019 – 31 March 2020*

We have set out below some of the most significant votes made over the year by the DB Investment Manager..

Walt Disney Company 11 March 2020

- On 11 March 2020 the manager voted in favour of a Walt Disney Company management proposal about changes in the executive compensation of Walt Disney’s CEO and against a shareholder proposal (thus sidelining with management) on seeking additional disclosure to be included in an annual report on political lobbying.

The manager had engaged with the Company on previous occasions about material issues driving long-term shareholder value, including executive compensation, political spending and lobbying and Walt Disney’s Board was responsive to shareholder feedback on these matters. The manager voted in favour of the Walt Disney Compensation Committee’s proposals about a reduction in the CEO’s (Mr. Iger) annual compensation and a refinement in the related performance criteria, increasing the rigor of the measures and improving alignment with shareholder interests. With respect to political spending and lobbying disclosure, the manager had previously engaged on this issue and the Walt Disney Company Board had previously decided to expand its lobbying disclosure following extensive prior shareholder engagement. They published a policy on Political Giving and Participation in the Formulation of Public Policy in the United States. This policy disclosure was provided in addition to the company’s Political Disclosure Archive. The manager voted against the proposal for further additional disclosure as it believed the Walt Disney Company’s current level of disclosure, following the changes discussed above, is in line with what it views as best practice on corporate political activities.

The Trustees’ viewed this vote as significant given the high profile nature of the proposals and also given it highlighted the level of engagement the manager has previously carried out in advance which led to sufficient action being taken for the manager to side with management and vote against a shareholder proposal. This level of engagement and focus on shareholder interests is important to the Trustees given they have to rely on the investment manager to apply this engagement.

Qualcomm 10 March 2020

- This is in relation to the manager voting on 10 March 2020 against Qualcomm’s management proposals on the compensation package of the CEO and against the election of the longest-tenured compensation committee member, Harish Manwani.

This was in the manager's drive to hold the board accountable on what it views as incomplete justification on its proposal to provide a one-time equity grant to CEO Steve Mollenkopf and one-time grants to other executive officers. Qualcomm provided these one-time equity grants in connection with settlement and related supply/licensing agreements with Apple in 2019 which significantly increased Qualcomm's previously suppressed stock price. Although the manager agrees compensation committees should have discretion to adjust executive compensation plans, it believes disclosure on how these are aligned with shareholder interests should be provided. In this instance, and following this disclosure, the manager was of the view that despite the positive impact of the settlement and supply/licensing agreement, this was within the CEO's existing realm of responsibilities which would have already been covered in the company's long term executive compensation plan. It viewed the one-off additional award as unnecessary and not aligned with shareholders' long-term interests, especially when considering ongoing underperformance versus Qualcomm's peers, raising a perceived pay-for-performance disconnect.

The manager had engaged with the Chairman of the Board prior to the meeting to express their concerns regarding the appropriateness of awarding the special grant. They also discussed other elements of the plan structure, including the company's approach to peer selection, mix of awards over time, and lack of performance, or time-vesting conditions, associated with Mr. Mollenkopf's special grant.

Given the analysis and engagement, the manager voted against the advisory vote on executive compensation. In addition, as the manager believes that when a company is not effectively addressing a material issue, its directors should be held accountable, the manager also voted against the election of the longest-tenured compensation committee member, Harish Manwani. The manager will continue to engage with the board and management of Qualcomm on a range of governance, compensation, and material sustainability issues, and they intend to monitor and provide feedback on the quality of relevant disclosures.

The Trustees viewed this as significant as it highlights the manager's willingness to disagree with the Board on what was a high profile issue (and of a Company with an increasing public profile) when it does not believe it's acting in shareholder interests and to follow through this disagreement with voting against the board.

BHP 7 November 2019

- The manager voted with management and against a shareholder resolution on BHP suspending its membership of industry associations where:
 - a) a major function of the industry association is to undertake lobbying, advertising and/or advocacy relating to climate and/or energy policy; and
 - b) the industry association's record of advocacy since January 2018 demonstrates, on balance, inconsistency with the Paris Agreement's goals.

This was a high-profile vote given the climate related aspect and BHP's role as a natural resources company extracting and processing minerals oils and gas. The manager voted with management, against the shareholder resolution. This was driven from various reasons such as its view on BHP being an industry leader on climate-related issues, its belief that BHP has a strong track record on climate risk (e.g. its willingness to exit industry associations in the past such as the World Coal Association in 2017, and the publishing of its own disclosures on climate risk and its impact and steps being taken to mitigate the impact), and the manager's engagement

with management and board (including on climate risk) which gave the manager the confidence in BHP's judgement of issues. The manager also believed the perceived goal of the shareholder resolution was focused on the industry associations rather than driving positive outcomes at BHP, and despite that, suspending membership of these associations was a binary outcome and would remove the ability for BHP to look to positively influence other organisations in the associations and stop BHP from sharing insights into best practice on environmental management and employee health and safety. The manager was also re-assured by the fact BHP will review its membership of one of the associations (Coal 21) following investors' feedback and look to increase BHP's influence in that association by seeking representation on the board.

The Trustees felt this was significant given the high profile and ESG nature of the resolution and the detailed considerations the manager made before deciding the vote outcome.

The Trustees will be considering how to further enhance its engagement with the investment managers in 2020/21 and will be undergoing training on the voting and engagement policy of the investment manager.

Voting and engagement in relation to the DC Section

The information below sets out the voting (based on data provided by LGIM) that was carried out on behalf of the Trustees over the Plan year in relation to the Equity Fund that forms part of the lifestyle strategy and the Trustees consider as the most significant fund in the DC section. The Trustees have also reviewed the voting information of most of the relevant funds in the self-select range and is comfortable that consistent messages are drawn. The voting information is provided in the appendix.

In line with their expectations, the Trustees noted the investment manager has actively engaged with the voting process and has voted on the great majority of the available resolutions. The Trustees note there were a small proportion of votes where the manager has voted against management which it takes as some evidence of the fact the manager does engage with the process rather than simply voting in line with management recommendations. The Trustees also note the proportion of votes abstained is small, in line with the Trustees' expectation and preference for the manager to take a view rather than sit on the fence. Finally, the Trustees note that in a small proportion of votes, the manager voted against the proxy recommendation, despite the manager's focus on building a custom voting policy with the proxy service which is taken as further evidence of the manager being engaged in the voting process.

The Trustees have relied on the investment manager's criteria for determining the most significant votes for each Fund and has then decided on a selection of those to disclose in the implementation statement. The Trustees were pleased to see the manager actively engaging in some of the most material votes, including putting forward a resolution themselves on climate change, publicly announcing their view on some of these significant votes ahead of the AGMs to raise awareness, being willing to provide a vote of no confidence and engaging with both shareholders and the board in controversial proposals where activism was involved.

A description of some of the most significant votes made over the Plan year were

- LGIM voting in favour for removal of Wolfhart Hauser as Director of FirstGroup to signal their concerns around the pace of execution of the strategy and poor performance. LGIM supported the rest of the board and opposed the activist's nominees viewing them as potentially disruptive for the company. Although the proposal to remove the chair obtained

29% of support from shareholders the chair took this feedback into account and decided to leave the board. LGIM met with the new board chair, David Martin, to discuss the composition of the board and the performance of the management team and execution of the strategy. The Trustees viewed this as significant given LGIM's focus on both what it viewed avoiding disruptive activist proposals, but also given the level of active engagement taken which is important to the Trustees given the limited power they have given the size of the Plan.

- LGIM voting against the board to approve the discharge of the Management Board for the Fiscal Year 2018. Following Bayer's acquisition of Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that RoundUp Monsanto's weedkiller was linked to causing cancer. From the finalisation of the acquisition in May 2018 to July 2019, Bayer's share price fell 45%. LGIM recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise and appoint new executives. Following a shareholder vote of 55.5% against, the company established a glyphosate litigation committee to consult with the board, and the chair announced he would step down at the 2020 AGM. The Trustees viewed this as significant given the impact of the related issue to the public as well as LGIM's willingness to use a rare escalation step which provides more assurance to the Trustees of LGIM following through on engagement and unpopular voting actions depending on their views
- LGIM voting in favour of the resolution they themselves (alongside other shareholders) put forward to BP to explain how BP's strategy is consistent with the Paris Agreement on climate change. LGIM worked with the Board of BP to secure the board's support for the motion which was passed with an overwhelming majority and LGIM met with the board on numerous occasions prior to this. Subsequent to the vote, BP announced industry-leading targets (e.g., net zero emissions from its operations, or a 50% reduction in the carbon intensity of all the products it sells). The Trustees felt this was significant as, given they are limited in the actions they can take within the portfolio (given the Plan's investment size) in relation to ESG issues, this shows the positive influence its investment manager has tried to achieve on climate change.
- Depending on the outcome of the review of the design of the DC Section, the Trustees will be considering how to further enhance its engagement with the investment managers in 2020/21.

Voting statistics (applicable to the Plan's reporting period)	LGIM Global Equity Fixed Weight (60:40) Index
Number of meetings the manager was eligible to vote at	3,059
Number of resolutions the manager was eligible to vote on	38,265
% of resolutions voted	98.4%
% of votes which were with management	85.3%
% of votes which were against management	14.6%
% of votes abstained	0.1%
% of meetings eligible to attend where manager voted at least once against	64.86%
Proxy adviser service used	ISS
Type of voting policy used	Custom
% of resolutions voted against proxy adviser recommendation	9.4%

The Trustees of the Premdor Crosby Pension Plan

October 2020

Appendix – Voting data in relation to self-select funds of the DC Section

Voting statistics (applicable to the Plan's reporting period)	LGIM UK Equity Index	LGIM Europe (ex-UK) Equity Index	LGIM North America Equity Index	LGIM World (ex-UK) Equity Index
Number of meetings the manager was eligible to vote at	790	421	696	2,141
Number of resolutions the manager was eligible to vote on	11,168	6,722	8,548	25,590
<i>% of resolutions voted</i>	99.8%	98.8%	98.8%	98.1%
<i>% of votes which were with management</i>	93.6%	81.4%	78.3%	81.8%

<i>% of votes which were against management</i>	6.4%	18.1%	21.7%	18.1%
<i>% of votes abstained</i>	0.0%	0.5%	0.0%	0.1%
<i>% of meetings eligible to attend where manager voted at least once against</i>	65.3%	65.1%	87.8%	72.3%
<i>Proxy adviser service used</i>	ISS			
<i>Type of voting policy used</i>	Custom			
<i>% of resolutions voted against proxy adviser recommendation</i>	5.0%	5.4%	12.1%	11.2%
<i>Example significant votes</i>	<i>The vote on LGIM's resolution on climate change disclosures for BP plc described in the statement</i>	<i>The vote against the discharge of Bayer AG's Management Board as described in the statement</i>	<i>Not provided</i>	<i>The vote against the discharge of Bayer AG's Management Board as described in the statement</i>

The voting data in relation to the Consensus Index fund were not provided although this represented about 3% of the DC section assets at the start of the Plan year.