

## **DB Annual Implementation statement**

### **Introduction**

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 30 June 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator. The table later in the document sets out how, and the extent to which, the policies in the DB Section of the SIP have been followed.

### **Investment Objectives of the Fund**

The Trustees' objective is to invest the Fund's assets in the best interest of the members and beneficiaries and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees' primary objectives are set out below;

- To ensure the Fund's obligations to its beneficiaries can be met;
- To achieve an asset return above the return from gilts over the long term, whilst recognising the need to balance risk control and return generation;
- To ensure consistency between the Fund's investment strategy and the return assumptions used by the Fund Actuary;
- To pay due regard to the Company's interests in the size and incidence of employer contribution payments.

### **Review of the SIP**

During the year the Trustees reviewed the Fund's SIP. **A revised SIP was agreed in September 2019** in order to reflect the requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to policies on financially material considerations (including Environmental, Social and Governance considerations and explicitly climate change), the extent to which non-financial matters are taken into account and the approach to the stewardship of investments.

**Assessment of how the policies in the SIP have been followed for the year to 30 June 2020**

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the Fund as a whole. The SIP is attached as an Appendix and sets out the policies referenced below.

	<b>Requirement</b>	<b>Policy</b>	<b>In the year to 30 June 2020</b>
1	<p>Securing compliance with the legal requirements about choosing investments</p> <p>Section 2 of SIP - Process for choosing investments</p>	<p><i>The Trustees have appointed a Fiduciary Manager who provides expert advice and chooses investment vehicles that can fulfil the Fund's investment objectives. In the Trustees' opinion, this is consistent with the requirements of Section 36 of the Pensions Act 1995.</i></p>	<p>The Trustees' appointed Fiduciary Manager (Mercer) had been delegated the authority to the implement a Cashflow Driven Financing ("CDF") strategy whereby the Fund invests in such a way that expected cashflows should broadly match a proportion of the Scheme's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required).</p> <p>The majority of the Fund's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to third party investment managers.</p> <p>The Trustees have also taken advice from Mercer and appointed Aberdeen Standard Investments ("ASI") to manage the Fund's Long Lease Property holdings.</p> <p>Investment performance and the actions taken by Mercer, MGIE and ASI the sub-investment managers are reviewed by the Trustees on quarterly basis.</p>
2	<p>Risks, including the ways in which risks are to be measured and managed</p> <p>Section 4 of SIP - Risk measurement and management</p>	<p><i>The Trustees recognise that there are various risks to which any pension scheme is exposed.</i></p>	<p>As detailed in Section 4 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies and evaluating Mercer and MGIE's actions relating to the strategic asset allocation, dynamic asset allocation and choice of asset classes and sub investment- managers (both by MGIE and the Trustees themselves in the case of ASI).</p> <p>The investment strategy report is reviewed by the Trustees on a quarterly basis – this includes the overall funding level risk and as appropriate comments on the other risks to which the Fund is exposed.</p>

3	<p>Kinds of investments to be held</p> <p>Section 5 of SIP - Investment strategy</p>	<p><i>A range of asset classes are included within the Fund's investment portfolio including: bonds (gilts and investment grade corporate bonds) and Liability Driven Investment ("LDI") funds which invest in bond-like investments in order to provide interest rate and inflation exposure and reduce funding level risk.</i></p>	<p>The Trustees have decided to delegate the implementation of the desired investment strategy to Mercer. The objective of the Fund's portfolio managed by Mercer is to access predominantly income-generating asset classes in such a way that expected asset class-flows should broadly match a portfolio of the Fund's expected liability cash-flow profile.</p> <p>The Trustees hold units in the Mercer Funds and a property fund managed by ASI. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying third party asset managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments. ASI has similar discretion as the asset manager appointed by the Trustees to manage the property portfolio.</p>
4	<p>Expected return on investments</p> <p>Section 6 of SIP – Expected return</p>	<p><i>The Actuarial Valuation carried out as at 30 June 2017 implied an overall return on the Fund assets of approximately 0.15% p.a. in excess of the return on Gilts (representing the Fund's liabilities). The Trustees expect to achieve an investment return that is consistent with the discount rate used to value the liabilities.</i></p>	<p>The investment strategy report is reviewed by the Trustee on a quarterly basis – this includes the risk and return characteristics of the Fund's investment portfolio.</p> <p>The investment performance report includes how each fund in which the Fund's assets are invested is delivering against their specific mandates.</p> <p>Over the period since inception of the fiduciary management arrangements with Mercer to 30 June 2020, the Fund's assets returned 9.5% p.a. (net of fees) relative to a liability return of 9.9% p.a. The Trustees note that the deviation in performance against the rate of growth in the liabilities is primarily due to the market falls over Q1 2020 as result of the COVID-19 crisis. Noting that despite this heightened volatility the Fund's funding level has remained relatively stable.</p> <p>The investment strategy was reviewed by the Trustees, with advice and guidance provided by Mercer. However, no significant changes were made by the Trustee to the Fund's headline investment strategy.</p>
5	<p>Realisation of investments</p> <p>Section 7 of SIP – Day –to-day management of the assets</p>	<p><i>The Trustees' administrators will request for disinvestments from the Fund's invested assets following member requests on retirement or earlier where required.</i></p> <p><i>MGIE, the underlying investment managers appointed by MGIE and ASI have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.</i></p>	<p>Where disinvestments were requested during the year the policies stipulated within the relevant appointment documentation have been followed.</p>

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<p>6</p>	<p>Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments</p> <p>Section 11 of SIP – Environmental, Social and Corporate Governance, Stewardship and Climate Change</p>	<p><i>The Trustee considers financially material considerations in the selection, retention and realisation of investments. The Trustees consideration of such factors, including environmental, social and governance factors, is delegated to Mercer who in turn delegate this to the appointed underlying investment managers.</i></p> <p><i>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p>	<p>The Fund's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustees in relation to stewardship (noting that as the Fund did not invest in equities over the year stewardship and voting is less relevant). In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by its investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing.</p> <p>The Trustees keep their policies under regular review with the SIP subject to review at least triennially.</p> <p>When MGIE considers investing in a new sub investment manager they consider the ESG rating of the manager as part of the selection process. Where sub investment managers may not be highly rated from an ESG perspective the Trustees continue to monitor Mercer's efforts at working with the managers to improve its ESG rating.</p> <p>The investment performance report includes how each investment manager is delivering against their specific mandates. This report is reviewed by the Trustees on a quarterly basis – this includes ratings (both general and specific ESG) for the underlying managers of the Mercer Funds and ASI.</p>
<p>7</p>	<p>The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments</p> <p>Section 11 of SIP – Environmental, Social and Corporate Governance, Stewardship and Climate Change</p>	<p><i>Member views are not taken into account in the selection, retention and realisation of investments. However, the Trustee believes that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Fund as a whole.</i></p>	<p>No proof required.</p>
<p>8</p>	<p>The exercise of the rights (including voting rights) attaching to the investments</p> <p>Section 11 of SIP – Environmental, Social and Corporate Governance, Stewardship and Climate Change</p>	<p><i>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p>	<p>As the Fund did not invest in equities over the year there is no relevant voting activity.</p>

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9	<p>Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)</p> <p>Section 11 of SIP – Environmental, Social and Corporate Governance, Stewardship and Climate Change</p>	<p><i>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p> <p><i>Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.</i></p>	<p>Investment managers are expected to provide reporting on a regular basis, at least annually including stewardship monitoring results. These are reviewed by the Trustee.</p> <p>As the Fund invests in pooled funds managed by MGIE and a property fund managed by ASI, the Trustees require that sub-investment managers appointed by MGIE and ASI engage with the investee companies on their behalf. The Trustees are looking to enhance its reporting on manager engagement by reviewing an annual voting and engagement reports.</p>
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**DC Annual Implementation statement**

**Introduction**

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees, has been followed during the year to 30 June 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

The table later in this document sets out how, and the extent to which, the policies in the MUFG Bank UK Pension Fund (the "Fund") SIP have been followed.

**Investment Objectives of the Fund**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Fund included in the SIP are as follows:

The Trustees recognise that individual members have differing investment needs and that these may change during the course of their working lives. The Trustees also recognise that members have differing attitudes to risk. The Trustees' objectives are therefore:

- To provide members with a range of investment options to enable them to tailor an investment strategy to their own needs. In particular, to make available vehicles which aim:
  - a. To maximise the value of members' assets at retirement.
  - b. To maintain the purchasing power of members' savings.
  - c. To provide protection for members' accumulated assets in the years approaching retirement against:
    - Sudden (downward) volatility in the capital value; and
    - Relative fluctuations in the (implicit and explicit) costs of retirement benefits.
- To establish a default investment strategy and lifestyle investment strategies reasonable for any member not wishing to make his/her own investment strategy decisions.
- To avoid over-complexity in investment strategy in order to keep administration costs and employee understanding to a reasonable level.

The objectives set out above and the risks and other factors referenced in this statement are those that the Trustees consider to be financially material considerations in relation to the Fund as a whole. The Trustees believe that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent upon the member's age and when they expect to retire.

**Review of the SIP**

During the year the Trustee reviewed the Fund's SIP. A revised SIP was signed on 2 September 2019 in order to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

The SIP was updated in August 2019 to reflect the following;

- Changes to the default lifestyle strategy which was changed from a strategy targeting annuity at retirement to target income drawdown
- Additional wording relating to the Trustees' policies on risk in relation to the new default investment option.
- Inclusion of wording on the appropriateness of the investment options.
- Revised risks that the Trustees believe are the main risks faced by members and how the Trustees help members manage these risks.
- Inclusion of a new section reflecting how the Trustees take account of financially material considerations (including ESG considerations and explicitly climate change), the extent to which non-financial matters are taken into account, as well as the approach to the stewardship of investments.

The SIP was also separated into two documents the Statement of Investment Principles and the Investment Implementation Policy Document.

Although not during the 2019-2020 Scheme year the SIP has since been updated in August 2020 in order to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangements with asset managers incentivise them to align their actions with regards to the investment strategy and decisions with the Trustee policies in the SIP.
- How the arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how those managers define and monitor this.
- The duration of the arrangement with the asset managers.

**Investment Strategy Review**

The default investment option is reviewed at least triennially, the last review was undertaken in July 2018. This review considered the following:

- Industry trends – since pension freedoms were introduced a number of retirees have been accessing their pension pots flexibly, primarily taking cash and income drawdown options rather than buying annuities.
- The experience and demographics of the Fund in determining the suitability of the default investment option. Having reviewed members' current average pot sizes, SMPI projected pot sizes, mismatch risk of targeting an inappropriate benefit and wider UK pension industry member experience, the Trustees decided to change the default investment option to the Income Drawdown Lifestyle Strategy as they believe this is the most suitable option for the majority of Fund members. In reaching this decision, the Trustees also considered other implications such as management charges, transaction costs, downside protection and scenario analysis.
- The strategies deployed in the lifestyle options incorporate material levels of diversification and risk management, through asset class exposure and the incorporation of a glide path that reduces investment risk in the run up to retirement. After taking into consideration the recent volatility in the markets due to the COVID-19 pandemic and member risk tolerance, it was also determined by the Trustees that the types of investments held in the default and alternative lifestyle strategies and the strategic allocation of those investments in the lifestyle structure remain appropriate.

**Investment Strategy Review - continued**

- In choosing the Fund's investment options, the Trustees consider:
  - o a full range of asset classes;
  - o the suitability of different styles of investment management for each asset class;
  - o the suitability of each asset class within a DC scheme and how members might engage;
  - o the need for appropriate diversification (including manager diversification);
  - o the expected return and the trade-off between return and risk on these investments and alternative options presented by the Fund's investment consultant;
  - o the expected return and risk measures compared to the objectives set for the different phases of the lifestyle strategies;
  - o risk from a number of perspectives, including: liquidity risk, conversion risk, volatility / market risk, performance risk and ESG risk.
- In addition to the review of the default strategy, the Trustees also undertook a review of the Specialist funds within the self-select fund range. This included the following funds:
  - BlackRock UK Smaller Companies Fund
  - BlackRock Gold&General Fund
  - JPMorgan Natural Resources Fund
  - Jupiter China Fund
  - Jupiter India Fund
  - Jupiter Ecology Fund

As part of this review, analysis was carried out on the number and categories of members as well as level of assets invested in each of these funds, an overview of the investment management firms, portfolio management team and details of the underlying strategies. Quantitative analysis of past performance and other risk and return metrics and fees were also considered.

The Trustees made the following decisions on the Specialist funds:

- o Remove the Jupiter China and Jupiter India funds as the DC section already has two emerging market equity investment options (one active and one passive). The Trustees believe a diversified approach to emerging market investing is better from a risk-adjusted returns perspective than having geographically focused funds.
- o Remove the Jupiter Ecology fund since there was insufficient member assets to support having this fund.
- o Retain the BlackRock UK Smaller Companies Fund, due to adequate member demand and strong performance.
- o Replace the BlackRock Gold & General Fund with the BlackRock iShares Physical Gold ETC since this fund tracks the return of the gold spot price rather than tracking equities which invest in gold mining companies.
- o Introduce the HSBC Islamic Global Equity Index Fund.
- o Replace the JP Morgan Natural Resources Fund with an alternative broader sustainable (ESG) fund at the appropriate time.

**Assessment of how the policies in the SIP have been followed for the year to 30 June 2020**

The information provided in the following table highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the Fund as a whole. The SIP is attached as an Appendix and sets out the policies referenced below.

	<b>Requirement</b>	<b>Policy</b>	<b>In the year to 30 June 2020</b>
1	Securing compliance with the legal requirements about choosing investments	<i>The Trustees obtain advice from their investment adviser, who is regulated to provide expert advice enabling the Trustees to choose investment vehicles that can fulfil the Fund's investment objectives. In the Trustees' opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.</i>	Over the year to 30 June 2020, the Trustees received investment advice consistent with the requirements of Section 36 of the Pensions Act 1995 on the following funds: - HSBC Islamic Global Equity Index Fund – implemented September 2019 - BlackRock iShares Physical Gold ETC – implemented July 2020 Over the year, the Trustees also obtained advice from their investment adviser in relation to the suspension of the Threadneedle property fund. Advice was provided during March and April 2020.
2	Kinds of investments to be held	<i>A range of asset classes are included within the default investment option including: developed market equities, emerging market equities, money market investments and diversified growth funds. It is the Trustees' policy to utilise both active and passive management within the default investment option, depending on the asset class.</i>  <i>The Trustees have made available a range of individual self-select fund options for investment in addition to the default investment option. A range of asset classes has been made available, including: equities, diversified growth funds, money market investments, gilts, index-linked gilts, corporate bonds, commodities and Property funds. It is the Trustees' policy to offer both active and passive management options to members where appropriate, depending on asset class.</i>	The default investment option was subject to its formal triennial review in July 2018. Although this review was not undertaken during the Fund year, it represents an important exercise for the Trustees that covers the majority of the investment policies the Trustees have in place. The investments (fund type, management style and asset allocations) used in the default strategy were reviewed as part of this exercise. The default target was changed from annuity to drawdown. As part of the implementation of these changes, the reference to the types of investments used in the default strategy were updated in the SIP.  As part of the triennial review, the Trustees also undertook a review of the Specialist funds within the self-select fund range as detailed earlier in this Statement. Several funds were removed and two funds were added with an additional ESG fund to be potentially added to the self select range.  The investment advice received by the Trustees took account of the cited principles.
3	The balance between different kinds of investments	<i>Members can combine the investment funds in any proportion in order to achieve the desired level of return and risk in line with their own attitude towards, and tolerance of risk.</i>  <i>Within the default option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option.</i>	The strategic asset allocation of the default investment option is reviewed on a triennial basis. The date of the last formal review was July 2018. This confirmed that the income drawdown lifestyle was most appropriate for the majority of Fund members and the strategic asset allocation within this lifestyle was appropriate to meet the stated aims and objectives of the default.  The Trustees receive bi-annual investment performance reports which monitor the risk and return of the default option within the Fund.

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4	Risks, including the ways in which risks are to be measured and managed	<p><i>The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the self-select funds and the default investment option.</i></p>	<p>The Trustees consider both quantitative and qualitative measures for the risks detailed in the risk section of the SIP (section 6), when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.</p> <p>The Fund maintains a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarise existing mitigations and additional actions. In July 2020, the Fund has been classed as low risk in terms of the DC fund choices been unsuitable for members , inadequate monitoring of investment performance and poor investment choices made.</p>
5	Expected return on investments	<p><i>The funds available are expected to provide an investment return commensurate with the level of risk being taken.</i></p> <p><i>In designing the default, the Trustees have explicitly considered the trade-off between risk and expected returns. The default should generate returns in excess of inflation during the growth phase and de-risk towards the retirement date to match how a member will draw their benefits.</i></p>	<p>The investment performance report is reviewed by the Trustees twice a year this includes the default and additional self-select investment fund choices. The investment performance report includes how each investment manager is delivering against their specific targets.</p> <p>The portfolio components of the default are specifically monitored against their respective aims and objectives. The growth phase of the default (and alternative lifestyles) is reviewed against inflation and equity volatility, the de-risking phase of the default is looked at against inflation.</p> <p>Over the year, performance below expectation and low member take up were significant drivers for the removal/ replacement of five of the specialist funds.</p> <p>In March 2020, the Trustees undertook a high level review of the equity portfolio. The Trustees are undertaking a 'deeper dive' into the equity portfolio in the Q3 2020 Trustee Meeting.</p>
6	Realisation of investments	<p><i>The Trustees' administrators will realise assets following member requests on retirement or earlier where required.</i></p> <p><i>The Trustees consider the liquidity of the investment in the context of the likely needs of members.</i></p>	<p>The Trustees receive administration reports to ensure that core financial transactions are processed within SLAs and regulatory timelines. As confirmed in the Chair Statement, the Trustee is satisfied that all requirements were met throughout the year – 92% of SLAs were met as at 30 June 2020.</p> <p>All funds are daily dealt pooled investment vehicles, accessed by an insurance contract.</p> <p>The Threadneedle Property Fund has suspended all trading since March 2020 until further notice due to issues with the underlying valuations brought about by the COVID-19 pandemic. Allocation to this underlying fund for future contributions have been proportionately allocated to the remaining underlying funds in the Moderate and Cautious Funds until the suspension is lifted.</p>

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7	<p>Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments</p>	<p><i>The Trustees consider financially material considerations in the selection, retention and realisation of investments. Within the funds consideration of such factors, including environmental, social and governance factors, is delegated to the investment manager.</i></p> <p><i>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p>	<p>The investment performance report is reviewed by the Trustees twice a year and includes ratings (both general and specific ESG) from the investment consultant. All of the rated managers remained generally highly rated during the year. Where managers were not highly rated from an ESG perspective the Trustees continue to monitor them. When implementing a new manager the Trustees consider the ESG rating of the manager. The Trustees discussed and considered manager ESG ratings scores regarding the fund changes being made in Q2 2020.</p> <p>The Fund's SIP includes the Trustees' policy on ESG factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.</p> <p>In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was provided in April 2020. ESG will also be a topic covered at the Q3 2020 meeting as the Trustees are looking to incorporate an ESG specific fund.</p> <p>The Trustees keep their policies under regular review with the SIP subject to review at least triennially.</p>
8	<p>The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments</p>	<p><i>Non-financial matters, such as member views, are not taken into consideration.</i></p>	<p>No proof required.</p>

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9	<p>The exercise of the rights (including voting rights) attaching to the investments</p>	<p><i>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p>	<p>The Trustees have delegated the exercise of voting rights to the investment managers through the contract with Phoenix Life, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.</p> <p>The following funds contain an allocation to equities:</p> <ul style="list-style-type: none"> <li>High Growth Fund</li> <li>Moderate Growth Fund</li> <li>Cautious Growth</li> <li>BlackRock UK Equity Index</li> <li>Artemis Income</li> <li>Baillie Gifford UK Equity Alpha</li> <li>BlackRock UK Smaller Companies</li> <li>BlackRock US Equity Index</li> <li>BlackRock European Equity Index</li> <li>Lazard European Alpha</li> <li>BlackRock Japan Equity Index</li> <li>Stewart Investors Asia Pacific Leaders</li> <li>Baillie Gifford Diversified Growth</li> <li>Invesco Perpetual Global Targeted Returns</li> <li>L&amp;G Asia Pacific (ex Japan) Equity</li> <li>MFS Meridian Global Equity</li> <li>Acadian Global Managed Volatility Equity</li> <li>BlackRock MSCI World Index</li> <li>Odey Opus Fund</li> <li>BlackRock World ex UK Equity Index</li> <li>Schroder QEP Global Blend</li> <li>American Century Concentrated Global Equity</li> <li>HSBC Islamic Global Equity Index</li> <li>Lazard Emerging Markets</li> <li>BlackRock Emerging Markets Index</li> </ul> <p>Over the prior 12 months, the Trustees have not actively challenged managers on voting activity.</p>
10	<p>Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustee would monitor and engage with relevant persons about relevant matters)</p>	<p><i>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</i></p> <p><i>Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.</i></p>	<p>As the Fund invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf.</p> <p>Over the year to date, the Trustees did not consider the voting activity in detail but will consider how best to do so going forwards.</p> <p>Trustees are working with their advisers and Phoenix Life to be able to report this in a meaningful way in the next Implementation Statement.</p>

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11	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies.	<p><i>In line with Section 11 of the SIP, managers are chosen based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected for.</i></p> <p><i>As the Trustees invest in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.</i></p>	<p>The Trustees have discussed their selected managers during the Triennial Investment Strategy Review that took place in July 2018 and the equity review which took place in April 2020 and are happy that the contractual arrangements in place with managers through the Phoenix platform continue to incentivise the managers to make decisions that align the investment strategy with the Trustees' policies.</p> <p>The managers are remunerated through asset based fees and the Trustees review managers who are underperforming expectations.</p>
12	How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.	<p><i>The Trustees can meet with their managers to review decisions made by their managers and can challenge such decisions to try to ensure the best long term performance over the medium to long term.</i></p> <p><i>Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to replace the manager.</i></p>	<p>In the year to 30 June 2020, the Trustees discussed their selected managers through the Phoenix platform and are happy that the contractual arrangement in place continues to incentivise the manager to make decisions based on medium to long term financial and non-financial performance.</p>
13	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies.	<p><i>The Trustees recognise they have a long term time horizon as set out in the SIP. As such managers are assumed to be held for a suitably long time. Managers' performance net of fees is therefore reviewed over both short and long time horizons. Remuneration is agreed upon prior to manager appointment and is reviewed on a regular basis.</i></p>	<p>The Trustees monitor the performance of the funds on a 6 month, 12 month, 3 year and 5 year basis in their performance reports.</p>

Trustees' Report

14	How the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.	The Trustees policy in relation to the monitoring of portfolio turnover costs is set out in Section 12 of the SIP.	<p>The Trustees consider portfolio turnover costs by way of considering transactions costs and the associated disclosures.</p> <p>Transaction costs, using the 'slippage cost methodology' (as defined in COBS 19.8 of the FCA Handbook), are disclosed in the annual Chair's Statement (<a href="https://www.elcompanies.co.uk/en-GB/uk-corporate-statements">https://www.elcompanies.co.uk/en-GB/uk-corporate-statements</a>). The transaction costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager. An investment manager can also factor in anti-dilution mechanisms into the total transaction costs.</p> <p>The Trustees are required to assess these costs for value on an annual basis. However, at present, the Trustees note a number of challenges in assessing these costs:</p> <ul style="list-style-type: none"> <li>• No industry-wide benchmarks for transaction costs exist</li> <li>• The methodology leads to some curious results, most notably "negative" transaction costs</li> <li>• Explicit elements of the overall transaction costs are already taken into account when investment returns are reported, so any assessment must also be mindful of the return side of the costs.</li> </ul> <p>There is little flexibility for the Trustees to impact transaction costs as they invest in pooled funds. While the transaction costs provided appear to be reflective of costs expected of various asset classes and markets that the Fund invests in, there is not as yet any "industry standard" or universe to compare these to. As such, any comments around transaction costs at this stage can only be viewed as speculative. In the year to 30 June 2020, the Trustees have not queried portfolio turnover costs.</p>
15	The duration of the arrangement with the asset manager.	<i>There is no set duration for the manager appointment. However, the appointment is regularly reviewed as to its continued suitability and could be terminated either because the Trustees are dissatisfied with the managers' ongoing ability to deliver the mandate promised or because of a change of investment strategy by the Trustees.</i>	<p>The fund range and default are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default strategy or general fund range.</p> <p>The investment performance of all funds is reviewed by the Trustee at each meeting – this includes how each investment manager is delivering against their specific targets. The Trustees may terminate manager appointments if they are dissatisfied with the managers' ongoing ability to deliver specific targets.</p> <ul style="list-style-type: none"> <li>o Over the year to 30 June 2020 a number of changes were made to the fund range as detailed earlier in this Statement.</li> </ul>

## **Appendix 1: Statement of Investment Principles**

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### **Voting Activity**

The Trustees have delegated their voting rights to Phoenix and the underlying managers, and are currently working with Phoenix to obtain the voting activity information.

### **Member views**

Member views are currently not taken into account in the selection, retention and realisation of investments. However, the Trustees believe that the delegation of portfolio construction to Mercer will lead to ESG considerations that are in the best interests of the Fund as a whole.

### **Investment Restrictions**

Mercer has given their appointed investment managers restrictions in relation to particular products or activities for all equities and fixed income portfolios. Mercer is also a signatory of the Principles of Responsible Investment and engages with the UN Compact.

The Trustees have not currently set any additional investment restrictions but may do so in the future.