

# *Implementation Statement, covering 1 January 2020 to 31 December 2020 (the “Plan Year”)*

The Trustee of the Threadneedle Pension Plan (the “Plan”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles (“SIP”) during the year, as well as details of any review of the SIP during the year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-9 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 10 below.

## **1. Introduction**

The SIP was reviewed and updated during the Plan year in September 2020 to include statements on the Plan’s arrangements with its investment managers and the appointment of a new investment adviser, LCP. Further detail and the reasons for these changes are set out in Section 2. As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

The Trustee has, in its opinion, followed the policies in the Plan’s SIP during the year. The following Sections provide detail and commentary about how and the extent to which it did this.

## **2. Investment objectives**

### **2.1 Defined Benefit (“DB”) Section**

The Trustee reviews the Plan’s funding position and asset allocation as part of the quarterly investment reports (provided by the investment manager) and half-yearly performance monitoring reports (provided by the investment adviser). As at 31 December 2020 the Plan had a small deficit on a technical provisions basis.

### **2.2 Additional Voluntary Contribution and Annual Employer Contributions (collectively “AVCs”) Section**

As part of the Trustee’s AVC strategy review in July 2019, the Trustee considered the AVC Section membership demographics and the variety of ways that members may draw their benefits in retirement from the Plan.

Based upon this analysis, the Trustee provides members with access to a range of investment options which it believes are suitable for this purpose and enable appropriate diversification. These options comprise a self-select fund range covering a variety of major asset classes as set out in the SIP (available on the Columbia Threadneedle website).

The Trustee reviews the membership demographics and any material changes as part of a formal AVC strategy review. The last such review took place in July 2019 and the next has been planned for later in 2021.

## **3. Investment strategy**

### **3.1 DB Section**

The Trustee, with the help of its advisers and in consultation with the sponsoring employer, reviewed the strategy in August 2020 and concluded that the strategy should be de-risked, by reducing the allocation to growth assets and increasing the strategic gilt allocation from 17% to 30%. This de-risking transfer was carried out in two tranches, with the first taking place in December 2020, and the second taking place after the Plan year end in March 2021. As part of this review, the Trustee ensured the Plan’s assets were adequately and appropriately diversified between different asset classes.

Columbia Threadneedle, the DB Section’s sole investment manager, is instructed to rebalance the asset allocation towards the strategic asset allocation whenever it moves outside of an agreed tolerance band. Consequently, the actual asset allocation did not deviate materially from the strategic allocation over the year.

### **3.2 AVC Section**

Following the announcement in December 2020, by Prudential (the Plan's AVC platform provider), that five Threadneedle funds were to be removed from the range available to Plan members, the Trustee made available five replacement AVC funds. This came into effect in January 2021, after the Plan's year end.

The Trustee reviews member data provided in the administration reports on a quarterly basis to see how members access their benefits.

### **4. Considerations in setting the investment arrangements**

When the Trustee reviewed the DB investment strategy in August 2020 it considered the investment risks set out in the SIP. It also considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

### **5. Implementation of the investment arrangements**

Over the period, the Trustee did not make any changes to its manager arrangements. In January 2021, after the Plan's year end. The Trustee selected five new Prudential AVC funds for inclusion on the Plan's AVC platform. This followed the announcement in December 2020, by Prudential (the Plan's AVC platform provider), that five Threadneedle funds were to be removed from the range available to Plan members, The Trustee obtained formal written advice from its investment adviser, LCP, before selecting the funds and ensured the investment portfolios of the chosen funds were adequately and appropriately diversified.

The Plan's investment adviser, LCP, monitors the investment managers on an ongoing basis, through regular research meetings. The investment adviser monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of with regard to the Plan's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Plan invests in, or any material change in the level of diversification in the fund.

The Trustee regularly invites the Plan's investment managers to present at Trustee meetings. Over the period, the Trustee met with Columbia Threadneedle to discuss the Dynamic Real Return Fund, in which the Plan invests.

The Trustee was comfortable with all of its investment manager arrangements over the year.

The Trustee monitors the performance of the Plan's DB and AVC investment managers on a quarterly basis, using the investment reports provided by the fund managers, AVC platform provider and its investment adviser. The reports show the performance of the funds over the quarter, 1 year, 3 years and 5 years. Performance is considered in the context of the manager's benchmark and objectives.

The most recent quarterly report shows that all managers have produced performance broadly in line with expectations over the long-term.

In July 2020, the Trustee undertook a value for members assessment which assessed a range of factors, including the fees payable to managers in respect of the AVC Section which were found to be reasonable when compared against schemes with similar sized mandates.

Overall, the Trustee believes the investment managers provide reasonable value for money.

### **6. Realisation of investments**

The Trustee reviews the Plan's net current and future cashflow requirements on a regular basis. The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows while maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets.

### **7. Financially material considerations, non-financial matters, voting and engagement**

As part of its advice on the selection and ongoing review of the investment managers, the Plan's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

## 8. Investment governance, responsibilities, decision-making and fees

As mentioned in Section 5, the Trustee assesses the performance of the Plan's investments on an ongoing basis as part of the performance monitoring reports it receives.

The performance of the professional advisers is considered on an ongoing basis by the Trustee.

Following a competitive tender process, the Trustee appointed a new investment adviser, LCP, in August 2020.

The Trustee has put in place formal objectives for its investment adviser and will review the adviser's performance against these objectives on a regular basis. The Trustee intends to carry out the first such review of LCP in Q4 2021.

In response to the pandemic and the sudden shift to remote working, the Trustee thoroughly reviewed the effectiveness of its decision making and governance processes on an ongoing basis throughout the year, ensuring BAU items could continue to be managed and that the Trustee could continue to function as a Board.

## 9. Policy towards risk

Risks are monitored on an ongoing basis with the help of the investment adviser.

The Trustee maintains a risk register and this is discussed at quarterly meetings.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the Plan's investment adviser or information provided to the Trustee by the Plan's investment managers. These include credit risk, equity risk, currency risk and counterparty risk.

With regard to the risk of inadequate returns in the DB section, as part of the investment strategy review in August 2020, the required return for the Plan to be fully funded on a Low Dependency basis by 31 December 2035 was estimated as gilts + 2.5% pa, broadly in line with the best estimate expected return of the Plan's strategic asset allocation. The Trustee monitors the Plan's required return and expected return on a half-yearly basis, as part of its investment adviser's performance monitoring reports.

With regard to the risk of inadequate returns in the AVC section, the Trustee makes use of equity and equity-based funds, which are expected to provide positive returns above inflation over the long term.

The Plan's interest and inflation hedging levels are monitored on an ongoing basis in the performance monitoring report. Following the DB investment strategy review in August 2020, the Trustee took the decision to increase the Plan's interest rate and inflation hedging levels by reducing the allocation to growth assets and increasing the strategic gilt allocation. This de-risking transfer was carried out in two tranches, with the first taking place in December 2020, and the second taking place after the Plan year end in March 2021.

Together, the investment and non-investment risks set out in the SIP give rise generally to funding risk. The Trustee formally reviews the Plan's funding position as part of its annual actuarial report to allow for changes in market conditions. On a triennial basis the Trustee reviews the funding position allowing for membership and other experience. The Trustee also informally monitors the funding position more regularly at Trustee meetings.

The following risks are covered earlier in this Statement: diversification risk in Sections 3 and 5, investment manager risk and excessive charges in Section 5, illiquidity/marketability risk in Section 6 and ESG risks in Section 7.

## 10. Description of voting behaviour during the year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the year.

In this section the Trustee has included voting data on two of the Plan's funds that hold equities as follows:

- Threadneedle Dynamic Real Return Fund (DB Section)
- Threadneedle Adventurous Pathway Fund (AVC Section)

Voting data for the other funds held in the AVC section of the Plan has been omitted on materiality grounds, as the assets held within each of these funds represent only a small proportion of the Plan's total assets.

## 10.1 Description of the voting processes

In response to the Trustee's questions, Columbia Threadneedle provided the following wording to describe its voting practices.

What is your policy on consulting with clients before voting?

*We have developed a voting policy, which we apply on behalf of our clients and, in particular, those invested in our pooled funds.*

Please provide an overview of your process for deciding how to vote

*Proxy voting decisions are made in accordance with the principles established in the Columbia Threadneedle Investments Corporate Governance and Proxy Voting Principles (Principles) document, and our proxy voting practices are implemented through our Proxy Voting Policy.*

*For those proposals not covered by the Principles, or those proposals set to be considered on a case by case basis (i.e., mergers and acquisitions, share issuances, proxy contests, etc.), the analyst covering the company or the portfolio manager that owns the company will make the voting decision. We utilise the proxy voting research of ISS and Glass Lewis & Co., which is made available to our investment professionals, and our Responsible Investment team will also consult on many voting decisions.*

*The administration of our proxy voting process is handled by a central point of administration at our firm (the Global Proxy Team). Among other duties, the Global Proxy Team coordinates with our third-party proxy voting and research providers.*

*Columbia Threadneedle Investments utilises the proxy voting platform of Institutional Shareholder Services, Inc. (ISS) to cast votes for client securities and to provide recordkeeping and vote disclosure services. We have retained both Glass, Lewis & Co. and ISS to provide proxy research services to ensure quality and objectivity in connection with voting client securities.*

*In voting proxies on behalf of our clients, we vote in consideration of all relevant factors to support the best economic outcome in the long-run. As an organisation, our approach is driven by a focus on promoting and protecting our clients' long-term interests; while we are generally supportive of company management, we can and do frequently take dissenting voting positions. While final voting decisions are made under a process informed by the Responsible Investment team working in collaboration with portfolio managers and analysts, our Global Proxy Team serves as the central point of proxy administration with oversight over all votes cast and ultimate responsibility for the implementation of our Proxy Voting Policy. Our voting is conducted in a controlled environment to protect against undue influence from individuals or outside groups.*

How, if at all, have you made use of proxy voting services?

*As active investors, well informed investment research and stewardship of our clients' investments are important aspects of our responsible investment activities. Our approach to this is framed in the relevant Responsible Investment Policies we maintain and publish. These policy documents provide an overview of our approach in practice (e.g., around the integration of environmental, social and governance (ESG) and sustainability research and analysis).*

*As part of this, acting on behalf of our clients and as shareholders of a company, we are charged with responsibility for exercising the voting rights associated with that share ownership. Unless clients decide otherwise, that forms part of the stewardship duty we owe our clients in managing their assets. Subject to practical limitations, we therefore aim to exercise all voting rights for which we are responsible, although exceptions do nevertheless arise (for example, due to technical or administrative issues, including those related to Powers of Attorney, share blocking, related option rights or the presence of other exceptional or market-specific issues). This provides us with the opportunity to use those voting rights to express our preferences on relevant aspects of the business of a company, to highlight concerns to the board, to promote good practice and, when appropriate, to exercise related rights. In doing so we have an obligation to ensure that we do that in the best interests of our clients and in keeping with the mandate we have from them.*

*Corporate governance has particular importance to us in this context, which reflects our view that well governed companies are better positioned to manage the risks and challenges inherent in business, capture opportunities that help deliver sustainable growth and returns for our clients. Governance is a term used to describe the arrangements and practices that frame how directors and management of a company organise and operate in leading and directing a business on behalf of the shareholders of the company. Such arrangements and practices*

give effect to the mechanisms through which companies facilitate the exercise of shareholders' rights and define the extent to which these are equitable for all shareholders.

We recognise that companies are not homogeneous and some variation in governance structures and practice is to be expected. In formulating our approach, we are also mindful of best practice standards and codes that help frame good practice, including international frameworks and investment industry guidance. While we are mindful of company and industry specific issues, as well as normal market practice, in considering the approach and proposals of a company we are guided solely by the best interests of our clients and will consider any issues and related disclosures or explanations in that context. While analysing meeting agendas and making voting decisions, we use a range of research sources and consider various ESG issues, including companies' risk management practices and evidence of any controversies. Our final vote decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations such as ISS, IVIS and Glass Lewis as well as MSCI ESG Research. Proxy voting is effected via ISS.

What process did you follow for determining the "most significant" votes?

We consider a significant vote to be any dissenting vote i.e. where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where we support a shareholder-tabled proposal not endorsed by management. We report annually on our reasons for applying dissenting votes via our website.

## 10.2 Summary of voting behaviour over the year

A summary of voting behaviour for the Threadneedle Dynamic Real Return Fund and Threadneedle Adventurous Pathway Fund over the period is provided in the table below.

Fund	Dynamic Real Return Fund	Adventurous Pathway Fund
Total size of fund at end of reporting period	£2,319.2m	£30.3m
Value of Plan assets at end of reporting period (£ / % of total assets)	£111.1m (76.5% of DB assets)	£4.9m (33.1% of AVC assets)
Number of holdings at end of reporting period	1,117	503
Number of meetings eligible to vote	347	389
Number of resolutions eligible to vote	4,565	4,698
% of resolutions voted	98.10%	98.19%
Of the resolutions on which voted, % voted with management	91.43%	90.93%
Of the resolutions on which voted, % voted against management	6.18%	4.49%
Of the resolutions on which voted, % abstained from voting	2.39%	4.58%
Of the meetings in which the manager voted, % with at least one vote against management	49.86%	49.10%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A*	N/A*

\*Threadneedle does not take direct recommendations from proxy advisors

## 10.3 Most significant votes over the year

Commentary on the most significant votes over the period, from the Dynamic Real Return Fund and Adventurous Pathway Fund, is set out below. The Trustee has interpreted "most significant votes" to mean those that the manager deemed to be the most significant. For reasons of practicality, the Trustee has selected six of the votes deemed by the manager as significant for inclusion in this Statement, across the two funds.

### 10.3.1 Columbia Threadneedle

#### Adobe Inc., April 2020 (Dynamic Real Return Fund and Adventurous Pathway Fund)

##### Summary of resolutions, votes and outcomes

Columbia Threadneedle abstained on a vote to elect Director Frank A. Calderoni. The vote was passed.

##### Manager rationale

Combined chairman/CEO.

## **Centene Corporation, April 2020 (Adventurous Pathway Fund)**

### Summary of resolutions, votes and outcomes

Columbia Threadneedle voted in favour of a proposal to eliminate the supermajority vote requirement. The resolution passed.

### Manager rationale

*Shareholder proposal - enhances shareholder rights*

## **Amazon.com, Inc, May 2020 (Dynamic Real Return Fund and Adventurous Pathway Fund)**

### Summary of resolutions, votes and outcomes

Columbia Threadneedle voted against a resolution to elect Director Thomas O. Ryder. The resolution was passed.

### Manager rationale

*Director is an affiliate serving on a key committee.*

## **Facebook, Inc., May 2020 (Dynamic Real Return Fund)**

### Summary of resolutions, votes and outcomes

Columbia Threadneedle voted in favour of a Median General/Racial Pay Gap report. The resolution failed.

### Manager rationale

*Material social risk for business; in shareholders' interests.*

## **Alphabet Inc., June 2020 (Dynamic Real Return Fund and Adventurous Pathway Fund)**

### Summary of resolutions, votes and outcomes

Columbia Threadneedle withheld their vote on a resolution to elect Director L. John Doerr. The resolution was passed.

### Manager rationale

*Compensation committee chair; concerns around compensation.*

## **DS Smith, September 2020 (Dynamic Real Return Fund)**

### Summary of resolutions, votes and outcomes

Columbia Threadneedle abstained on a vote to re-elect Gareth Davis as Director. The vote did not pass.

### Manager rationale

*The nominee serves as chairman of the nominating committee and an executive director sits on the committee.*