

Annual Implementation Statement: DB Section

Introduction

This statement, prepared by the Trustee Directors of the Plan ("the Directors"), sets out how, and the extent to which, the Statement of Investment Principles ("SIP") has been followed during the year to 31 March 2021 ("the Plan year"). This statement covers the DB Section of the Plan and should be read in conjunction with the SIP. A separate statement has been prepared for the Defined Contribution section.

Statement of Investment Principles

Investment Objectives of the Plan

The objectives of the DB Section of the Plan included in the SIP are as follows:

- Invest the Plan's assets in the best interest of the members and the beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.
- To be fully funded on a self-sufficiency basis by 31 March 2026.
- To limit the likelihood of the funding level falling in the next three years.

Review of the SIP

During the year, the Directors reviewed and amended the Plan's SIP formally on one occasion, taking formal advice from the investment consultant ("Mercer").

The most recent SIP updated to September 2020 included the following revisions:

- Updates to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018 relating to the Directors' policy in relation to their arrangements with their investment managers, including:
 - The relevant matters which the investment managers' engagement policies are expected to include.
 - How the arrangements incentivise the investment managers to align their investment strategies and decisions with the Directors' investment policies.
 - How the arrangements incentivise the investment managers 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.
 - How the method (and time horizon) of the evaluation of the investment managers' performance and the remuneration for asset management services are in line with the Directors' investment policies.
 - How the Directors monitor "portfolio turnover costs" incurred by the investment managers, and how they define and monitor targeted portfolio turnover or turnover range. The duration of the arrangement with the investment managers.

Assessment of how the policies in the SIP have been followed for the year to 31 March 2021

The information provided in the following section highlights the work undertaken by the Directors during the Plan year to 31 March 2021 and sets out how this work followed the Directors' policies in the SIP.

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In summary, it is the Directors' view that the policies in the SIP have been followed during the Plan year to 31 March 2021.

Strategic Asset Allocation

Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
<p>1 Kind of investments to be held and the balance between different kinds of investments</p>	<p>Section 2.6</p>	<p>The Directors aim to review the Plan's investment strategy at least on a triennial basis or following any significant changes to the Plan. The Plan's investment strategy comprises a liability-hedging mandate (to hedge out the majority of interest and inflation risk associated with the Plan's liabilities), credit assets (including Multi-Asset Credit, Private Debt, Buy and Maintain Credit, Emerging Markets Debt), and a Property allocation.</p> <p>The Directors reviewed the Plan's investment strategy over the year and also considered how the investment strategy could evolve over time as the Plan becomes better funded. No new investments were implemented during the course of the Plan year, and the Directors continue to hold investments within the Plan that are consistent with the policies in the SIP.</p> <p>The Directors refined the liability hedging mandate over the year to be more reflective of the expected member cashflow profile which were produced as part of the 31 March 2019 actuarial valuation and to align with the Long Term Funding Objective. In addition, the Directors increased the interest rate hedge ratio target for the Plan from 80% to 90%, to further reduce the exposure to interest rate risk associated with the Plan's liabilities. In making these changes the Directors considered the overall level of expected return and risk, and the views of the sponsoring Employer.</p> <p>The Directors rebalanced the Plan assets via a switch from the Liability Driven Investment ("LDI") and Cash portfolio managed by LGIM to the Buy and Maintain Credit portfolio managed by Insight. The rebalancing was completed in February 2021 and aligned the allocations with LGIM and Insight more closely to the strategic benchmark weightings.</p>
<p>2 Risks, including the ways in which risks are to be measured and managed</p>	<p>Section 2.4</p>	<p>As detailed in the SIP, the Directors consider both quantitative and qualitative measures of risks when deciding investment policies, strategic asset allocation and the choice of fund managers / funds.</p> <p>The primary risks upon which the Directors focus are those arising through a mismatch between the Plan's assets and its liabilities and the risks associated with a deterioration in the strength of the Company's covenant.</p> <p>The Plan also 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.</p> <p>On a quarterly basis the Directors review the Plan's asset allocation compared with target and may make rebalancing decisions to ensure that the overall level of risk and return is maintained. As noted in Policy 1 of this Statement, over the year the Directors addressed the overweight allocation to the LDI mandate and the underweight allocation to the Buy and Maintain Credit mandate via a rebalancing exercise.</p> <p>On a quarterly basis, the Directors also review the LDI mandate in detail including the hedge ratio vs target and counterparty and collateral risks to ensure the mandate is operating as expected, and that the assets are hedging the interest rate and inflation risks as expected. There were no issues raised as part of these ongoing reviews.</p> <p>The Directors also review the performance of the managers on a quarterly basis and may invite managers to present to the Directors if there are any concerns on the performance or management team.</p>

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Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
3 Expected Return on Investments	Section 2.8	<p>The investment performance report is reviewed by the Directors on a quarterly basis. The investment performance report includes how each investment manager is delivering against their specific mandates.</p> <p>Over the 3 years to date, the Plan has returned 5.1% p.a. relative to a benchmark of 6.1% p.a. on a net of fees basis. The Directors note that the deviation in performance is due to a combination of underperformance from some managers and the impact of being overweight to asset classes which underperformed at periods over the 3 years.</p>

Investment Mandates

Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
4 Securing compliance with the legal requirements about choosing investments	Section 2.2 & 6	<p>Over the year, the Directors received written advice from Mercer in relation to the refresh of the liability hedging portfolio, namely the increase in the target interest rate hedge ratio and the update of the liability hedging basis to align it to the Long Term Funding Objective.</p> <p>Advice was delivered during 2020 and into 2021 on the investment strategy and, as noted in Policy 1, how the investment strategy could over time as the Plan becomes better funded.</p>
5. Realisation of Investments	Section 2.10	<p>The investment managers have discretion in relation to decisions around the liquidity of investments and the timing of realisation of investments, provided they remain within the parameters set out in the fund documentation.</p> <p>Investment in illiquid investments (i.e. private debt and property) must not exceed 15% of the Plan's total assets. The Directors will monitor this as part of future investment strategy reviews. As at 31 March 2021, the Plan held 8.8% of total DB assets in illiquid investments.</p> <p>The Plan's assets are invested in pooled funds, however many are subject to weekly or monthly dealing restrictions. The Directors therefore monitor the Plan's cashflow position on a quarterly basis to ensure there is sufficient liquidity within the Plan to allow for the pay-out of approved member benefit requests, private market drawdowns and any collateral calls from the LDI mandate.</p> <p>A cashflow policy has also been established to effectively manage the Plan's liquidity.</p> <p>Over the year the Directors took action on several occasions to ensure sufficient liquidity by disinvesting from the overweight LDI mandate (in line with the cashflow policy) and topped up the Cash Fund to ensure short term liquidity to meet cashflow requirements. In addition, the Directors carried out the rebalancing activity set out in Policy 1 of this Statement.</p>

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Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
6 Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments	Sections 2.2, 4.4, 5.1 & 5.2	<p>The Directors' policy with respect to the selection, retention and appointment of investment managers was updated during the year to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.</p> <p>The Directors utilise Mercer's manager research ratings (as set out in the quarterly investment performance reporting) when making decisions around selection, retention and realisation of manager appointments. The Directors' focus is on the medium and long-term financial and non-financial performance, but will put a manager 'on watch' if there are sustained short-term performance concerns. Over the first quarter of 2021, Mercer had placed one manager 'on-watch', and following a review meeting with the manager the Directors opted to retain the investment.</p> <p>A number of the key investment risks identified in the SIP were measured and managed via the investment strategy reviews carried out over the year. Other than the increase in the interest rate hedge ratio target in September 2020, the Directors concluded the aggregate level of risk in the investment strategy was reasonable and necessary to produce the expected return required to meet the objectives of the Plan. The Directors agreed to look at opportunities to optimise the portfolio. In particular, the Directors received training on the Secured Finance asset class with a view to considering a strategic allocation at future reviews.</p> <p>Member views are not taken into account in the selection, retention or realisation of investments.</p>

Monitoring the Investment Managers

Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
7 Incentivising investment managers to align their investment strategies and decisions with the Directors' policies	Section 5.1 & 5.2	<p>The Directors' policy on incentivising investment managers was added during the year to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.</p> <p>If an investment manager is not meeting performance objectives or targets, or the investment objectives for a mandate have changed, the Directors will review the fund appointment to ensure it remains appropriate and consistent with the Directors' wider investment objectives. Manager appointments were reviewed over the Plan year.</p> <p>As set out in Policy 6 of this Statement, the Directors met with the Multi-Asset Credit manager over the year to review the appointment after it was placed 'on-watch'. The manager provided an update on the strategy including manager positioning; market outlook and ESG considerations. Following the review meeting, the Directors opted to retain the investment.</p>

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	Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
8	<p>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 and to engage with issuers of debt in order to improve their performance in the medium to long-term</p>	<p>Sections 4.2 & 5.1</p>	<p>The Directors' policy on incentivising investment managers was added during the year to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.</p> <p>Where the Directors invest in pooled investment vehicles within the DB Section, they accept that they have no ability to specify the risk profile and return targets of the managers, but appropriate mandates can be selected to align with the overall investment strategy.</p> <p>The assessment of the medium to long-term financial and non-financial performance of an issuer is delegated by the Directors to the investment managers appointed by the Plan. The Directors' view is that these managers are in a position to engage directly with such issuers in order to improve performance in the medium to long term.</p> <p>Over the year, the Directors also monitored how each asset manager embeds ESG into their investment process and how the managers' responsible investment philosophy aligns with the Directors' own responsible investment policy via changes in the ESG ratings assigned by Mercer.</p> <p>As part of this implementation statement process, the Directors have also received and considered key engagement information from the managers, which is summarised in the Engagement Activity section that follows.</p>
9	<p>Evaluation of the investment manager's performance and the remuneration for asset management services</p>	<p>Section 5.2</p>	<p>The Directors' policy on evaluating investment managers was added during the year to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.</p> <p>To evaluate performance in respect of the investment managers, the Directors received and discussed investment performance reports on a quarterly basis. The reports presented performance information and commentary in respect of the Plan's investments. Such reports have information covering investment performance for the previous 3 months, 1 year and 3 years for the investment managers and at the total Plan level. The Directors reviewed the absolute performance, relative performance against a suitable index used as the benchmark, and/or against the managers' stated target performance (over the relevant time period).</p> <p>In addition, the Directors monitored the investment and Environmental, Social and Governance ("ESG") ratings assigned to each manager by Mercer on a quarterly basis.</p> <p>The investment managers' fees were outlined in the quarterly investment reports prepared for the Directors. During the year, the Directors (via Mercer) negotiated a fee saving with the LDI portfolio manager to reflect prevailing market rates for a mandate of its size, which had become more competitive since the inception of the mandate. In addition, over the year the Plan started to receive fee rebates from one of the Emerging Market Debt managers, to reflect fee savings negotiated at the implementation stage.</p>
10	<p>Monitoring portfolio turnover costs</p>	<p>Section 5.3</p>	<p>The Directors' policy on monitoring portfolio turnover costs was added during the year to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.</p> <p>At present, the Directors do not formally monitor investment manager portfolio turnover costs but are looking to incorporate this into the wider investment manager monitoring process. Over the year the Directors received MiFID II reporting from Mercer but did not formally analyse the information.</p>

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Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
11 The duration of the arrangement with the investment manager	Section 5.4	<p>The Directors' policy on the duration of an investment manager's appointment was added during the year to reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2018.</p> <p>Investment 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 Directors are dissatisfied, then they will look to replace the manager. The Directors are long-term investors and are not looking to change the investment arrangements on a frequent basis.</p> <p>For open-ended funds, there is no set duration for the manager appointments.</p> <p>The private debt mandates are in closed-ended funds and the Plan is invested in these assets for the lifetime of each individual fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the contractual documentation.</p>

ESG Stewardship and Climate Change

Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
12 Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Directors would monitor and engage with relevant persons about relevant matters)	Section 4	<p>There were no changes to the Directors' engagement policy during the Plan year.</p> <p>In summary, the Directors expect manager's engagement policies to include all relevant matters, as defined in the investment regulations. The Directors review investment managers' policies and voting and engagement activities (where applicable) on an annual basis.</p> <p>As the Plan invests in pooled funds, the Directors require their investment managers to engage with the investee companies on their behalf. The Directors have not actively challenged any investment manager on engagement activity.</p> <p>A summary of the key engagement information from the managers is set out in the Engagement Activity section that follows.</p> <p>At present, Mercer's ESG ratings help the Directors to understand which managers are engaging and integrating ESG issues into their investment decision making and these are reviewed on a quarterly basis.</p>

Voting Disclosure

Policy	Location in SIP	How the policy has been met over the year to 31 March 2021
13 The exercise of the rights (including voting rights) attaching to the investments	Section 4.2	<p>There were no specific voting rights attaching to the Plan's investments over the year, given there were no listed equity holdings.</p> <p>Over the year, the Directors voted in favour of the adoption of new management regulations for the M&G UK Residential Property Fund.</p>