Applied Materials (UK) Pension and Family Security Scheme

Annual 2021 Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ("SIP") produced by the Trustees of the Applied Materials (UK) Pension and Family Security Scheme ("the Scheme") has been followed during the year to 5 April 2021. 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, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator. This Implementation Statement covers both the Defined Benefit ("DB") and Defined Contribution ("DC") Sections of the Scheme.

Investment Objectives of the Scheme

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 Scheme with respect to the DB and DC Sections included in the SIP are set out below.

DB Section

The Trustees' objective is to invest the Scheme'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 seek to manage the Scheme's asset allocation in a manner that controls risk, costs and over time allows the Trustees to reduce reliance on the sponsor's covenant.

DC Section

The Trustees' objective is to make available a range of investment options, which should assist members of the DC Section to:

- maximise members' assets;
- maintain the purchasing power of members' savings;
- provide protection for accumulated assets in the years approaching retirement;
- allow members to tailor their investment choices to meet their own needs.

Review of the SIP – what has changed in the last 12 months?

During the year to 5 April 2021, the Trustees reviewed the Scheme's SIP. The latest version of the SIP is dated September 2020 and has been revised in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangements with the asset managers incentivise the asset managers to align their investment strategies and decisions with the Trustees' policies in the SIP.
- How that arrangement incentivises 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 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 asset managers' 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 managers and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangement with the asset managers.

The DC Section of the SIP was also updated to reflect changes in the Scheme's investment strategy. The changes are summarised below.

DB Section

No investment strategy changes were implemented over the year under review.

DC Section

Over the year under review, the Trustees agreed to:

- Change the default investment strategy to target drawdown, add a diversified growth fund in the growth phase of the strategy and adopt an 8 year switching period before retirement. The Trustees agreed to use the Mercer Diversified Growth Fund and BlackRock (30:70) Hedged Global Equity Index Fund (split 50:50) in the growth phase, switching into the Mercer Diversified Retirement Fund and the Aviva Cash fund (75:25 split at the target retirement date) over the last 8 years to retirement;

- Introduce 2 new alternative lifestyle investment strategies: Lifetime Targeting Cash and Lifetime Targeting Annuity;

- Remove all other lifestyle and lifetime strategies apart from the current self-select annuity lifestyle;

- Transition all members into the new default option apart from current self-select members, the individual members in the self-select annuity lifestyle or anyone who responded with a completed option form as part of the communication prior to the switch;

- Remove the Standard Life Global Absolute Returns Strategy ("GARS") Fund as an investment option.

DB Section: Forward looking thoughts – what is currently being discussed?

Post year-end, the Trustees completed the purchase of a bulk annuity contract with the insurer Canada Life, with respect to the Scheme's pensioners.

Assessment of how the policies in the SIP have been followed for the year to 5 April 2021

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 Scheme as a whole and the DC Section default investment arrangement. The SIP is attached as an appendix and sets out the policies referenced below.

Mercer

DB Section

	Requirement	Policy	In the year to 5 April 2021
1	Securing compliance with the legal requirements about choosing investments	*The Trustees obtain advice from their investment adviser, who can provide expert advice enabling the Trustees to choose investment vehicles that can fulfil the Scheme's investment objectives. In the Trustees' opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.*	No investment strategy changes were implemented over the period. The Trustees confirm that advice was received from the investment advisor over the year to 5 April 2021 in relation to the purchase of a bulk-annuity contract with Canada Life that was completed post year-end.
2	Kinds of investments to be held and balance between different kinds of risks	*The Trustees agreed to an investment strategy comprised of an equity portfolio, a bond portfolio and alternative investments in Multi-Asset Credit and a Secured Finance mandates.* *The equity portfolio comprises UK, developed market (50% currency hedged) and emerging market equities (no currency hedging in place). The bond portfolio is composed of UK gilts, index linked gilts and corporate bonds.*	The Trustees aim to review the Scheme's investment strategy following any significant changes in investment policy. Over the year under review, the basis of the Trustees' strategy was to divide the Scheme's assets between a "growth" portfolio, comprising assets such as equities, Multi Asset Credit and Secured Finance that generate long-term excess return over the Scheme's liabilities, and a "matching" portfolio, comprising UK gilts, index-linked gilts and corporate bonds designed to match a portion of the changes in the value place on the liabilities from changes in long term interest rates and inflation and reduce funding level volatility. The Trustees regarded the basic distribution of the assets to be appropriate for the Scheme's objectives and liability profile.

		The strategic asset allocation is set to achieve the expected return required within an acceptable level of risk.	
3	Risks, including the ways in which risks are to be measured and managed	*The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the DB section of the Scheme.* *Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered, in particular whether the current risk profile remains appropriate.*	As detailed in Section 5 of the SIP, the Trustees considers both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes. On at least a six-month basis, the Trustees review the Scheme's asset allocation compared with target and may make rebalancing decisions to ensure that the overall level of risk and return is maintained.
4	Expected return on investments	*The Scheme's assets are expected to provide an investment return commensurate with the level of risk being taken.*	The investment performance report is reviewed by the Trustees on at least a six-monthly basis. The investment performance report includes how each investment manager is delivering against their specific mandates. The Trustees may invite managers to present to the Trustees if there are any concerns on the performance or management team. Over the 3 years to 31 March 2021, the Scheme has returned 5.6% p.a. relative to a benchmark of 5.4% p.a., both gross of fees. No actions were taken by the Trustees over the year in respect of manager appointments.

5	Realisation of investments	*The Trustees' administrators will realise assets following member requests on retirement or earlier where required.* *The Trustees consider the liquidity of the investments in the context of the likely needs of members.*	The Scheme's assets are mostly weekly dealt pooled investment vehicles (equities and bonds). Assets held with the Multi-Asset Credit and Secured Finance managers could be redeemed quarterly with 60 days' notice and quarterly with 90 days' notice, respectively. The disinvestment policy for meeting benefit payments consisted of disinvesting from the weekly dealt assets to balance the actual allocation with the strategic allocation as far as possible.
6	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	*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.* *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.*	The investment performance report is reviewed by the Trustees on at least a six-monthly basis – this includes ratings (both general and specific ESG) from the investment advisor, as well as information on how each investment manager is delivering against their specific mandates. All of the managers remained generally highly rated during the year. Section 10 of the Scheme'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. The Trustees keep their policies under regular review, with the SIP subject to review at least triennially. The Trustees acknowledge that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt. Where managers may not be highly rated from an ESG perspective the Trustees continue to monitor. When implementing a new manager they would consider the ESG rating of the manager and balance against the prospects of the fund achieving its objective.

7	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	*Member views and non-financially material issues are not currently explicitly taken into account in the selection, retention and realisation of investments.*	Whilst members' views and non-financial issues are not currently explicitly factored in, the Trustees will continue to review their position on this policy.
8	The exercise of the rights (including voting rights) attaching to the investments	*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.*	The Trustees have delegated their voting rights to the investment managers. The Trustees do not use the direct services of a proxy voter, however the investment managers may enlist the service of a proxy voter when required. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustees to ensure that they align with the Trustees' policy. Over the year to 31 March 2021, the key voting activity on behalf of the Trustees was as follows: • LGIM – equity and bonds mandates The voting policy of the manager has been considered by the Trustees and the Trustees deem it to be consistent with their investment beliefs. LGIM uses ISS (Institutional Shareholder Services) as a proxy advisor but have developed and implemented their own custom policies. LGIM retains the oversight and the decisions made on the voting rights. The priority of the voting policies is to cover key issues which are essential for the protection of companies, shareholders and stakeholders; these include board structure and composition, remuneration and protection of shareholder rights. Over the year to 31 March 2021, LGIM voted on c. 79.8k resolutions (related to the equity funds in which the Scheme invests). LGIM voted against management at 15% of resolutions, primarily due to concerns around suitability of directors or auditors, pay or other elements of

			company strategy. Additionally, 0.3% of LGIM votes were cast against the recommendations of ISS. Over the period under review, the Trustees did not consider it necessary to actively challenge the manager on its voting activity. • Ares – Secured Finance mandate Due to the debt characteristics of the underlying securities, there are no voting rights associated with this investment. The Trustees are comfortable with not closely monitoring voting activity within this mandate as it considers this to be of low materiality. • Apollo – Multi Asset Credit mandate As a fund that primarily invests in debt, there are very few voting rights associated with this investment. The fund held 13 equity holdings at the end of the period and fewer than 10 proxies were voted during the period. The Trustees are comfortable with not closely monitoring voting activity within this mandate as it considers this to be of low materiality.

9	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)	*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.* *Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.*	Investment managers are expected to provide reporting on a regular basis, at least annually including stewardship monitoring results. As the Scheme invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf where relevant. The investment advisor's ESG ratings help the Trustees to understand which managers are engaging and integrating ESG issues into their investment decision making and these are reviewed on at least a six-monthly basis. The following reflects the work undertaken by managers during the year relating to the Trustees' policy on ESG factors, stewardship and climate change: • **LGIM** LGIM confirmed that they are signatories of the current UK Stewardship Code and engaged in the required procedures to be a signatory for the 2020 code once applicable. Over 2020, LGIM engaged with 665 companies, voted on 66,037 resolutions worldwide and opposed the election of 4,700 directors due to governance concerns. LGIM reaffirmed their goal of targeting zero net emissions for all assets under management by 2050 and launched 20 new responsible investment strategies. LGIM had 1,000 companies covered under the expanded Climate Impact Pledge. Voting activity undertaken over the year under review is summarised in the table below.

Fund	Number of meetings in which the manager was eligible to vote	Number of resolutions in which the manager was eligible to vote	% of resolutions in which the manager voted	% of votes with management / against management *	% of votes contrary to the recommendation of the proxy adviser
UK Equity Index	943	12,574	100%	93% / 7%	1%
North America Equity Index **	794	9,495	100%	72% / 28%	0%
Europe (ex-UK) Equity Index **	686	11,412	100%	84% / 15%	0%
Japan Equity Index **	551	6,518	100%	86% / 14%	0%
Asia Pacific (ex Japan) Developed Equity Index **	534	3,774	100%	74% / 26%	0%
World Emerging Markets Equity Index Fund	3,998	36,036	100%	85% / 13%	0%

*Source: LGIM. Figures subject to rounding. *Balance refers to % of resolutions from which the manager abstained from voting. ** Same voting data is applicable to the currency hedged versions of the funds.*

Below are some examples of LGIM's engagements with companies and significant votes cast on behalf of the Trustees over the period under review:

- **UK Equity Index Fund:** Barclays; 7 May 2020 meeting; Resolution 29: Approve Barclays' Commitment in tackling Climate Change and Resolution 30: Approve ShareAction Requisitioned Resolution.

				– Voted For both resolutions. The resolution proposed by Barclays set out its long-term plans and had the backing of ShareAction and co-filers. LGIM were particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome. – **North America Equity Index Fund**: Meditronic plc; 11 December 2020 meeting; Resolution 3: Advisory Vote to Ratify named Executive Officers’ compensation. – Voted Against the resolution. Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM voted against the one-off payment as they are not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criterion/criteria were not met. Prior to the AGM, LGIM engaged with the company and clearly communicated their concerns over one-off payments. – **Europe (ex-UK) Equity Index Fund:** Lagardére; 5 May 2020 meeting; Resolutions A to P: Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments). – LGIM voted in favour of five of the Amber-proposed candidates and voted off five of the incumbent Lagardère SB directors. Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for

			various governance failures. The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. LGIM engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, LGIM engages with both the activist and the company to understand both perspectives. LGIM engaged with both Amber Capital, where they were able to speak to the proposed new SB Chair, and also Lagardère, where they spoke to the incumbent SB Chair. This allowed LGIM to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management. – **Japan Equity Index Fund:** Fast Retailing Co. Limited; 26 November 2020 meeting; Resolution 2.1: Elect Director Yanai Tadashi. – <u>Voted Against the resolution</u>. Japanese companies in general have trailed behind European and US companies, as well as companies in other countries in ensuring more women are appointed to their boards. A lack of women employed is also a concern below board level. LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level they consider that every board should have at least one female director. They deem this as the minimum standard. Globally, LGIM aspires to all boards comprising 30% women. In the beginning of 2020, LGIM announced that they

			would vote against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100 where these standards were not upheld. LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to act on this issue. – **Asia Pacific (ex Japan) Developed Equity Index Fund:** Whitehaven Coal; 22 November 2020 meeting; Resolution 6: Approve capital protection. Shareholders were asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders. – <u>Voted For the resolution</u>. The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal – Japan, South Korea and China – have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets. The manager cited that 'significant' votes can include, but are not limited to high profile vote which has such a degree of controversy that there is high client and/ or public scrutiny; significant client interest for a vote; sanction vote as a result of a direct or collaborative engagement; vote linked to an LGIM engagement campaign, in line with LGIM Investment

			Stewardship's 5-year ESG priority engagement themes. These themes are in line with the Trustees' definition of a significant vote. • **Apollo** Currently, Apollo is not a signatory to the UK Stewardship Code. While Apollo supports the principles of the Code, they do not consider it appropriate to conform at this time. However, as of November 2020, Apollo is a signatory of the United Nations Principles for Responsible Investment ("UNPRI") and the IFC Operating Principles for Impact Management. Apollo has also aligned its 2019 ESG Annual Report with the UN Sustainable Development Goals ("SDGs") and the Global Reporting Initiative ("GRI") Standards. Apollo seeks to apply ESG principles efficiently and in a way which makes sense in the context of each investment. The main way ESG factors are incorporated in Apollo's credit portfolio management is through a bottom-up credit analysis where the most relevant question is: 'Are there any ESG issues that impact the credit worthiness of the investment?'. As such they tend to avoid completely excluding entire sectors, as they believe good ESG practices are best analysed at the fundamental level. Whilst there are no bright line tests or industries for which Apollo will not review opportunities, there are however, a few industries that Apollo generally avoids such as: firearms, tobacco, pornography, and cannabis. Over the year under review, fewer than 10 proxies were voted on, with the most relevant voting activity being in votes where the manager held under 1% of the outstanding shares and Apollo voted in favour of the companies' proposals. • **Ares**

			Ares is not a signatory of the UK Stewardship Code. However, they have adopted a UK Stewardship Code Disclosure Statement and a UK Modern Slavery Act statement. Ares are also a signatory of the UNPRI. The Ares Secured Income Fund does not have a specific engagement policy post-investment due to the fixed income nature of the Fund's investments. Any engagement (whether ESG related or otherwise) with the company, its sponsor(s) or other stakeholders, is done on a case-by-case basis, if and when deemed necessary or appropriate, given that the opportunity to raise issues and engage with relevant parties will depend on materiality considerations, degree of control/influence and/or access, information quality/sources, agreed-to governance mechanisms and other factors that vary based on deal dynamics.

10	How the arrangement with the asset managers incentivise the asset managers to align their investment strategies and decisions with the Trustees' policies in the SIP	*The Trustees' policy in relation to investments to be held is set out in sections 4-7 of the SIP.* *In line with section 11of 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.* *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.*	Over the year to 5 April 2021, no changes were made to the investment strategy nor the fund managers used within the Scheme.
11	How the arrangement incentivises the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of	*The Trustees meet the Scheme's investment managers from time to time to review their actions together with the reasons for and background behind the investment performance. The Investment Consultant supports the Trustees in fulfilling their*	Over the year under review, the Trustees were happy that the contractual arrangements in place continued to incentivise the managers to make decisions based on medium to long term financial and non-financial performance. Post year end, the Trustees completed the purchase of a bulk annuity contract with the insurer Canada Life, with respect to the Scheme's pensioners. As part of an investment strategy review following this

	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	*responsibility for monitoring the investment manager.* *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.*	transaction, the Trustees are also reviewing the existing manager appointments and mandate objectives to ensure each manager's target performance is consistent with the time horizon of the Scheme. At future monitoring meetings and when requesting monitoring information from managers, the Trustees will ask investment managers to incorporate a section on investment decisions taken over the recent period and their forward-looking assessment of market conditions. This will also cover examples of financial and non-financial considerations around investments where the managers are expected to take into account the impact of these considerations into the forward looking assessment on the performance of an issuer of debt or equity.
12	How the method (and time horizon) of the evaluation of asset managers' performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP	*The Trustees are long term investors and are not looking to change investment arrangements on a frequent basis.* *Managers' performance is reviewed over both short and long time horizons.* *Remuneration is agreed upon prior to manager appointment, based on assets under management and is reviewed on a regular basis.*	Over the year under review, the Trustees have considered the quarterly as well as 1 and 3 yearly manager performance metrics included in the Scheme's performance reports and were satisfied with the manager arrangements.
13	How the Trustees monitor portfolio turnover costs incurred by the asset managers and how they define and	The Trustees policy in relation to the monitoring of portfolio turnover costs is set out in section 11 of the SIP.	The Trustees do not currently actively monitor portfolio turnover costs across the portfolio. As investment managers also report performance on a net of fees and costs basis, they are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

	monitor targeted portfolio turnover or turnover range		In the future, the Trustees may ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustees and engage with them if portfolio turnover is higher than expected.
14	The duration of the arrangement with the asset managers	*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.*	No investment manager appointments were terminated over the year under review.

DC Section

	Requirement	Policy	In the year to 5 April 2021
1	Securing compliance with the legal requirements about choosing investments	*Trustees obtain advice from their investment adviser, who can provide expert advice enabling the Trustees to choose investment vehicles that can fulfil the Scheme's investment objectives. In the Trustees' opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.*	The Trustees confirm that advice was received from its investment advisor in relation to changes in the investment strategy for the Scheme's DC Section, including changes to the default investment strategy and to the alternative lifestyle options. The advice was issued on 9 September 2019. The changes were implemented in September 2020.
2	Kinds of investments to be held	*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 and pre-retirement funds. It is the Trustees' policy to offer both active and passive management options to members where appropriate, depending on asset class.*	The strategic asset allocation of the default investment option is reviewed on a triennial basis. The date of the last review was June 2018 with formal advice being issued on 9 September 2019. The investments (fund type, management style and asset allocations) used in the default strategy were reviewed as part of this exercise. The recommendation, among others aforementioned, was to adopt the drawdown lifestyle strategy as the default option. A review of self-select options also formed part of the triennial investment review. This review introduced a new default strategy as well as two new alternative lifestyle strategies under the self-select range and removed one diversified fund option. The proposed changes were agreed to in December 2019 and implemented in September 2020 when updates to the SIP and Statement of Investment Arrangements ("SIA") were adopted.

3	The balance between different kinds of investments	*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.* *Within the default option, the strategic asset allocation is set to achieve the expected return required to meet the objective of the default option.*	Details of the Scheme's investment strategy are given in the SIA. The Trustees implement an investment strategy consistent with the investment objectives of the Scheme's DC Section. The Trustees believe that with the options available members can control the risks identified in the SIP. The Trustees receive regular investment performance reports which monitors the risk and return of options within the Scheme.
4	Risks, including the ways in which risks are to be measured and managed	*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.*	As detailed in the risk table in the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes. As the DC Section invests in pooled investment funds (made available to Scheme members via an investment platform provided by Aviva), the Trustees 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. The Scheme maintains a risk register of the key risks, including the investment risks. This rates the impact and likelihood of the risks and summarises existing mitigations and additional actions.

5	Expected return on investments	*The funds available are expected to provide an investment return commensurate with the level of risk being taken.* *In designing the default, the Trustees have explicitly considered the trade-off between risk and expected returns. Generate returns in excess of inflation during the growth phase and de-risk towards the retirement date to match*	The investment performance report is reviewed by the Trustees on a regular basis – this includes the risk and return characteristics of the default and additional investment fund choices. The investment performance report includes how each investment manager is delivering against their specific mandates.
6	Realisation of investments	*The Scheme's DC Section administrators, Aviva, will realise assets following member requests on retirement or earlier where required.* *The Trustees considers the liquidity of the investment in the context of the likely needs of members.*	The Trustees regularly receive administration reports and review the service at Trustee meetings to ensure that core financial transactions are processed within regulatory timelines. The reporting structure on administration activity has changed recently with Aviva focussing on the end-to-end time for activities rather than service levels. The reports covering the period for 12 months to 31 June 2021 confirmed that 67% of activities were completed within 5 working days, with significant improvement during H1 2021. As confirmed in the Chair Statement, the Trustees are satisfied that all requirements were met throughout the year. All funds are daily dealt pooled investment vehicles, accessed via long-term insurance contracts.
7	Financially material considerations over the	*The Trustees consider financially material considerations in the*	The investment performance report is regularly reviewed by the Trustees – this includes ratings (both general and specific ESG) from the investment

	appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	*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.* *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.*	advisers. All of the managers remained generally highly rated during the year. The Scheme'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. 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 June 2019. Where managers may not be highly rated from an ESG perspective, the Trustees continue to monitor them. When implementing a new manager they would consider the ESG rating of the manager. The Trustees acknowledge that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt. The investment performance report includes how each investment manager is delivering against their specific mandates.
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	*Non-financial matters, such as member views, are not generally taken into consideration, although prior to the DC Section investment changes being implemented a survey of active members was undertaken to understand retirement expectations and planning.*	The Trustees consider any member views volunteered to them in respect of the selection, retention and realisation of investments.

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<td>The exercise of the rights (including voting rights) attaching to the investments</td>
<td>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.</td>
<td>The Trustees have delegated their voting rights to the investment managers via the DC platform provider.

As at 5 April 2021, the Trustees had equity exposure through the following funds:

• BlackRock Developed European ex UK Equity Index
• BlackRock (30:70) Currency Hedged Global Equity Index
• BlackRock (60:40) Global Equity Index (Long Term Fund)
• BlackRock UK Equity Index
• Baillie Gifford UK Equity Core Pension
• BlackRock Developed World ex UK Equity Index
• Baillie Gifford International Equity
• Baillie Gifford Managed
• Mercer Diversified Growth
• Mercer Diversified Retirement

For the funds managed by Baillie Gifford, no proxy advisor was used. For the Mercer funds, appointed sub-investment managers are allowed to vote based on their own proxy-voting execution policy. Otherwise, proxy advisors used were ISS and IVIS.

In determining the “most significant votes”, a number of criteria were looked at for the list of votes undertaken for the fund including: the impact on the company (both short and long term) if the resolution was or wasn't approved; the materiality of the shareholder resolutions; the level of public and / or media interest in certain companies and resolutions; if votes related to shareholder resolutions with a specific focus on climate change, modern slavery and diversity; and how significant the holdings are in relation to the fund.

Voting activity undertaken over the year under review is summarised in the table below.</td>
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Fund	Number of meetings in which the manager was eligible to vote	Number of resolutions in which the manager was eligible to vote	% of resolutions in which the manager voted	% of votes with management / against management *	% of votes contrary to the recommendation of the proxy adviser
BlackRock Developed European ex UK Equity Index	547	9,328	86%	68% / 26%	20%
BlackRock (30:70) Currency Hedged Global Equity Index	2,716	35,747	95%	74% / 24%	28%
BlackRock (60:40) Global Equity Index	2,765	35,730	95%	74% / 24%	20%
BlackRock UK Equity Index	808	11,058	100%	93% / 5%	5%
Baillie Gifford UK Equity Core	66	1,108	100%	98% / 1%	n/a
BlackRock Developed World ex UK Equity Index	2,180	27,012	94%	66% / 32%	26%
Baillie Gifford International Equity	107	1,132	93%	96% / 3%	n/a
Baillie Gifford Managed	228	2,844	100%	97% / 2%	n/a
Mercer Diversified Growth	9,354	97,692	96%	82% / 17%	n/a
Mercer Diversified Retirement	10,565	113,434	96%	84% / 15%	n/a

Source: Based on information provided by Aviva and Mercer. Figures subject to rounding.
**Balance refers to % of resolutions from which the manager abstained from voting.*

Below are some examples of engagements with companies and significant votes on behalf of the Trustees over the period under review.

			— **BlackRock Developed European ex UK Equity Index:** Equinor ASA; 14 May 2020 meeting; Resolution 9: Instruct Company to Set and Publish Targets Aligned with the Goal of the Paris Climate Agreement to Limit Global Warming. — Voted For the resolution. This resolution was filed by "Follow This" and is binding. Under this proposal, the board would have to set and publish short, medium and long-term quantitative targets that include scope 1, 2, and 3 greenhouse gas emissions, in line with the Paris Agreement. Whilst the manager welcomed Equinor's recently announced environmental ambitions, the manager considered its 'Near Zero' roadmap stops short of articulating a clear pathway around indirect (customer driven) emissions. Equinor seeks to reduce the net carbon intensity of its products (Scope 1, 2 and 3) by 50% by 2050, however, the extent this is aligned with Paris-compliant pathways is unclear. Whilst the manager welcomes the joint statement with the Climate Action 100+ initiative, and welcomes the progress made by the company, the manager strongly encourages Equinor to demonstrate compliance with the Paris agreement. — **BlackRock (30:70) Currency Hedged Global Equity Index:** AGL Energy Limited; 07 October 2020 meeting; Resolution 7b: Approve Coal Closure Dates. — Voted For the resolution. The shareholder proponent requested that the company align the closure dates of its coal-fired power stations with a strategy to limit the increase in global temperatures to 1.5°C above pre-industrial levels. In its Greenhouse Gas Policy and its Climate Statement, AGL commits to, among other things, not build, finance, or acquire any new conventional coal-fired power stations in Australia, to not extend the operating life of any existing coal-fired power stations, to close all existing coal-fired power stations in its portfolio, and to

			continue to invest in new renewable and near-zero emission technologies. On its website and climate related reporting AGL reports its Scope 1 and 2 emissions and its planned timeline for the closures of its three coal powered stations, which are 2023, 2035, and 2048. The company's TCFD report discusses its scenario analysis of potential future carbon reduction pathways to understand the long-term implications for AGL's generation fleet, customers, and the National Electricity Market. AGL states that the planned closures are aligned with the company's timeframe of meeting its net zero emissions goal by 2050. The company however, does not discuss the alignment of these closure dates with the Paris Agreement goals of keeping global warming well below 2 degrees Celsius. While the proponent's request may be considered to be too prescriptive, manager support is a message to the board regarding the urgency for the company to make better progress on the energy transition and align its strategy with science based targets. — **BlackRock (60:40) Global Equity Index:** Barclays plc; 07 May 2020 Meeting, Resolution 29: Approve Barclays' Commitment in Tackling Climate Change. — Voted For the resolution. Proposed by the Board, this resolution set out Barclays' commitment to climate change. Barclays is one of the largest lenders to fossil fuels globally, and it previously showed little intent to reduce its exposure. As such, support for this resolution is warranted at it sets out an ambition for Barclays to become a net zero bank by 2050 and directs the Company to set a strategy, with targets, to transition its provision of financial services across all sectors to align with the goals and timelines of the Paris Agreement. Barclays will report on progress annually starting from 2021. This resolution also signifies a dramatic cultural shift at the bank and culminates extensive work

			led by the Chair, Nigel Higgins and supported by the board and management team. — **BlackRock UK Equity Index:** British American Tobacco plc; 30 April 2020 Meeting; Resolution 2: Approve Remuneration Report. — Voted Against the resolution. The manager's vote against reflected concerns over quantum. Specifically, CEO Jack Bowles was granted a 9.5% salary increase for FY2020. From FY2020, the new CFO's LTIP award has been increased to 400% of salary, up from 350% of salary previously. Under the LTIP, meeting threshold performance conditions will result in vesting of 15% of the award potential, and this level of vesting represents approximately 75% of salary for the CEO. The manager considers this to be excessive. — **Baillie Gifford UK Equity Core:** HSBC; 24 April 2020 meeting; Remuneration Report Resolution. — Voted Against the resolution. The manager opposed the remuneration report due to the inclusion of allowances which they did not believe are aligned with shareholders. — **BlackRock Developed World Ex UK Equity Index Fund:** Amazon.com Inc; 27 May 2020 Meeting; Resolution 15: Requiring Company to produce a human rights risk assessment. — Voted For the resolution. The manager had engaged with Amazon on human rights risks management over the past year. Whilst they have observed improvements, with the publication of its Global Human Rights Principles, they found current reporting fell short of expectations. The assessment (and public disclosure) of the company's actual and potential impacts of its products will benefit shareholders as it will help understand the policies the

			company has implemented to address human rights impacts in its operations and supply chain. – **Baillie Gifford International:** Deutsche Boerse; 19 May 2020 Meeting; Remuneration Policy Resolution. – Voted Against the resolution. The manager opposed the remuneration policy because it allowed for pay awards if net income results were negative and the manager did not feel this provided sufficient incentive for management or strong alignment with its clients. – **Baillie Gifford Managed:** Amazon.com Inc. 27 May 2020 meeting; Shareholder Governance Resolution. – Voted For the resolution. The manager supported a shareholder proposal to improve the transparency of Amazon's corporate lobbying policies and governance. They believe greater transparency of all political expenditures and lobbying, particularly indirect spending through trade associations, coalitions and charities, would enable shareholders to assess alignment with Amazon's values and corporate goals. – **Mercer Diversified Growth & Diversified Retirement:** RIO Tinto Ltd. 21 April 2020 meeting; Shareholder proposal Regarding Paris-Aligned Greenhouse Gas Emissions Reduction Targets. – Voted For the resolution. Reasoning behind voting is not available.
10	Undertaking engagement activities in respect of the investments (including	*Investment managers are expected to evaluate these factors, including climate change considerations, and*	No work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change. However, the Trustees implemented their revised investment strategy in September 2020 which

	the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)	*exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.* *Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.*	aligned the investment options with the ESG policy set out in section 10 of the SIP.
11	How the arrangement with the asset managers incentivise the asset managers to align their investment strategies and decisions with the Trustees' policies in the SIP	*The Trustees' policy in relation to investments to be held is set out in sections 4-7 of the SIP.* *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.* *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*	Over the year to 5 April 2021, the Trustees remain happy that the contractual arrangements in place continue to incentivise the managers to make decisions based on medium to long-term financial and non-financial performance.

		be selected to align with the overall investment strategy.	
12	How the arrangement incentivises 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 and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term	*The Trustees meet the Scheme's investment managers from time to time to review their actions together with the reasons for and background behind the investment performance. The Investment Consultant supports the Trustees in fulfilling their responsibility for monitoring the investment manager.* *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.*	The Trustees monitor the performance of the funds made available to member at least bi-annually via monitoring reports and receive advice from the Investment Consultant which includes considering whether the Trustees' aims and objectives are being met. At future monitoring meetings and when requesting monitoring information from managers, the Trustees will ask investment managers to incorporate a section on investment decisions taken over the recent period and their forward-looking assessment of market conditions. This will also cover examples of financial and non-financial considerations around investments where the managers are expected to take into account the impact of these considerations into the forward looking assessment on the performance of an issuer of debt or equity.
13	How the method (and time horizon) of the evaluation of asset managers' performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP	*The Trustees are long term investors and are not looking to change investment arrangements on a frequent basis.* *Managers' performance is reviewed over both short and long time horizons.*	Investment performance was considered during the year within the monitoring process and the investment review over the year under review. The Trustees reviewed the investment manager fees as part of the annual VfM assessment.

		Remuneration is agreed upon prior to manager appointment, based on assets under management and is reviewed on a regular basis.	
14	How the Trustees monitor portfolio turnover costs incurred by the asset managers 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 11 of the SIP.*	The Trustees reviewed the investment manager fees as part of the annual Value for Money ("VfM") assessment. 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. 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.
15	The duration of the arrangement with the asset managers	*There is no set duration for the manager appointment. However, the appointments are regularly reviewed as to their 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.*	The Standard Life Global Absolute Returns Strategy ("GARS") Fund was terminated over the year to 5 April 2021.