Barnes Group (UK) Ltd Pension & Life Assurance Scheme ('the Scheme')

Annual Implementation Statement for the Year Ended 31 March 2021

1. Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ("SIP") produced by the Trustees has been followed during the year running from 1 April 2020 to 31 March 2021 (the "**Scheme Year**"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP that were in place for the Scheme Year, which were the SIP dated 25 September 2019 (covering the period between 1 April 2020 and 22 September 2020) and the SIP dated 23 September 2020 (covering the period between 23 September 2020 and 31 March 2021).

Sections 2.1 and 2.2 of this statement set out the investment objectives of the Scheme and the changes that have been made to the SIP during the Scheme Year.

Section 2.3 of this statement sets out how, and the extent to which, the policies in the Defined Benefit ("DB") Section and Defined Contribution ("DC") Section of the SIP have been followed. **The Trustees can confirm that all policies in the SIP have been followed in the Scheme Year.**

A copy of the SIP is available at https://vfm.aviva.co.uk/barnes-group-f57506/.

Sections 3 and 4 include information on the engagement and key voting activities undertaken by the underlying investment managers within each Section of the Scheme.

2. Statement of Investment Principles

2.1. Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the objectives they have set.

DB

The Trustees believe its prime duty regarding the DB Section is to ensure that Scheme members receive their promised benefits. To that end, the Trustees' approach to investment involves firstly considering the least risk approach to investment strategy setting and secondly the Sponsoring Company's attitude towards investment risk.

In this context, a least risk approach means investing in a portfolio of UK government bonds (gilts) that match the characteristics of the liabilities. However, the desire to manage investment risk is balanced against the other objectives discussed in the SIP.

The Trustees have discussed investment strategy with the Company and in doing so has taken into account the current investment return assumptions implicit in the actuarial valuation. The Trustees have sought to achieve a balance between minimising risk and helping keep the reported costs of providing the pension benefits to a level acceptable to the Company. To that end, the Trustees have an objective of controlling the level of investment risk in order to try to avoid unintended consequences, such as a significant fall in the funding level or an excessive rise in contributions above a level that can be supported by the Principal Employer.

For the DC section of the Scheme, the Trustees recognise that members have differing investment needs, that these may change during the course of their working lives and that they may have differing attitudes to risk. The Trustees consider their primary objective in respect of the DC Section to be to make available a range of investment funds which enable members to construct a portfolio that meets their own needs and risk tolerances.

The Trustees also recognise that members may not believe themselves qualified, or may not wish to make their own investment decisions. As such, the Trustees have made available a default lifestyle option. The Trustees acknowledge that this strategy will not meet the needs of every individual member.

The Trustees periodically review the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate.

Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. Each of the available funds is considered to be diversified across a reasonable number of underlying holdings/issuers.

2.2. Review of the SIP

During the year, the Trustees reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). A revised SIP was agreed, dated 23 September 2020, reflecting the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019, including:

- How the arrangements with the asset managers incentivise them to align their investment strategies and decisions with the Trustees' investment policies.
- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity 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 asset managers' performance and the remuneration of asset managers are in line with the Trustees' investment policies.
- How the Trustees monitors "portfolio turnover costs" incurred by the asset managers.
- The duration of the arrangements with the asset managers.

The revised SIP also reflects the changes to the DB Section's investment arrangements that were implemented in June 2020, whereby the DB Section was de-risked from an allocation of 90% equity and 10% bonds to an allocation of 100% bonds.

Finally, as required by legislation, the Trustees have prepared a SIP in respect of the DC Section's default strategy. This is set out in the appendix to the main SIP.

2.3. Assessment of how the policies in the SIP have been followed during the Scheme Year

The information provided in this section highlights the work undertaken by the Trustees during the year, as well as over the longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP (dated 23 September 2020).

In summary, it is the Trustees' view that the policies in the SIP have been followed during the Scheme Year.

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

As required by legislation, the Trustees consult a suitably qualified person when making investment selections by obtaining written advice from the Investment Consultant. The policy is detailed in Sections 1 and 3 of the SIP, which applies to the DB and DC Sections of the Scheme.

How has this policy been met over the Scheme Year?

DB

In June 2020, the Trustees reduced investment risk and restructured the investment strategy of the DB Section in order to provide greater protection against movements in the estimated cost of securing benefits with an insurance company, in line with advice from the Investment Consultant. This involved disinvesting the residual equity assets and using the proceeds to help restructure the bond portfolio. The restructuring involved investments into two new funds managed by the incumbent investment manager. The Trustees received advice from its Investment Consultant confirming the suitability of the new investments.

The Trustees made no changes to the appointed investment manager over the year.

DC

The Trustees made no changes to the Scheme's DC or AVC arrangements over the year.

Realisation of Investments

Policy

The Trustees' policy is that there should be sufficient liquidity within the Scheme's assets to meet short term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Scheme's overall investment policy. The policy is set out in Section 9 of the SIP.

How has this policy been met over the Scheme Year?

DB

Over the year, the DB Section held a diversified portfolio consisting of readily-realisable assets. The Trustees continue to consider there to be sufficient liquidity to meet both the short-term and longer-term cashflow requirements of the Scheme.

The Trustees have taken advice from the Investment Consultant on where to source liquidity to meet the DB Section's cashflow requirements.

All of the DB Section's investments are weekly priced and traded.

DC

Members' investments within the DC Section are traded and priced on a daily basis.

Environmental, Social and Governance ("ESG")

Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

Policy

The Scheme's SIP outlines the Trustees' beliefs on ESG factors (including climate change). Further details are included in Section 7 of the SIP, which applies to the DB and DC Sections of the Scheme. The Trustees keep their policies under regular review.

How has this policy been met over the Scheme Year?

DB DC

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, in particular in relation to the selection, retention, and realisation of underlying investments. In order to monitor the extent to which ESG factors are integrated into the managers' investment decision making, the Trustees have continued to review the Mercer ESG ratings assigned to the strategies in which the Scheme invests as part of regular quarterly performance reporting. Mercer's ESG ratings also continued to be monitored as part of the annual Value for Members' Assessment in respect of the DC Section.

The Trustees do not require the Scheme's investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustees would monitor and engage with relevant persons about relevant matters).

Policy

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the investment managers. Further details are set out in Section 7 of the SIP, which applies to the DB and DC Sections of the Scheme. In addition, it is the Trustees' policy to obtain reporting on voting and engagement and to periodically review the reports to ensure the policies are being met.

How has this policy been met over the Scheme Year?

DB DC

During the Scheme Year, voting and engagement summary reports from the Scheme's investment managers were provided to the Trustees for review to ensure that they were aligned with the Trustees' policy. The Trustees do not use the direct services of a proxy voter.

Section 3 includes examples of engagement activity undertaken by the Scheme's DC investment managers within equities, while section 4 sets out a summary of voting activity and a sample of the most significant votes cast on behalf of the Trustees. The DB Section no longer has any exposure to equities and hence voting is not disclosed.

The Trustees support the aims of the UK Stewardship Code and has encouraged its investment managers to report their adherence to the Code. The investment manager within the DB Section (LGIM) is a signatory to the current UK Stewardship Code. All of the Scheme's investment managers within the DC Section (Aviva, BlackRock and Baillie Gifford) are also signatories to the current UK Stewardship Code.

Monitoring the Investment Managers

Incentivising asset managers to align their investment strategies and decisions with the Trustees' policies

Policy

The Trustees' policy is set out in Section 8 of the SIP, which applies to the DB and DC Sections of the Scheme.

How has this policy been met over the Scheme Year?

DB DC As the Scheme invests in pooled investment funds, the Trustees accept that they cannot specify the risk profile and return targets for the funds. However, the Trustees have continued to review the appropriateness of the funds to ensure that they are aligned with the investment strategy being targeted.

Evaluation of asset managers' performance and remuneration for asset management services

Policy

The Trustee's policy is set out in Section 8 of the SIP, which applies to the DB and DC Sections of the Scheme.

How has this policy been met over the Scheme Year?

DB DC Over the year, the Trustees have received quarterly investment performance reports which show performance (versus relevant benchmarks and targets) over shorter and longer-term periods. Performance was also considered as part of the annual Value for Members' assessment carried out in respect of the DC Section.

Monitoring the Investment Managers

Monitoring portfolio turnover costs

Policy

The Trustees' policy is set out in Section 8 of the SIP, which applies to the DB and DC Sections of the Scheme.

How has this policy been met over the Scheme Year?

DB

The Trustees do not actively monitor portfolio turnover costs with respect to the DB Section of the Scheme. Investment manager performance was reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets). In addition, where possible, performance objectives for investment managers have been set on a net basis. In this way, managers were incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

DC

Transaction costs are disclosed in the annual Chair's Statement and Value for Member Assessment. The transaction costs for each fund cover the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager. There were no concerns raised in relation to transaction costs as part of the Value for Members' assessment.

The duration of the arrangements with asset managers

Policy

The Scheme is a long-term investor and the Trustees do not seek to change the investment manager arrangements on a frequent basis. Further details of the Trustees' policy are set out in Section 8 of the SIP, which applies to the DB and DC Sections of the Scheme.

How has this policy been met over the Scheme Year?

DB DC

No changes were made to the appointed investment managers during the year.

Strategic Asset Allocation

Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

Policy

DB

The Trustees' policy on the kinds of investments to be held and the balance between different kinds of investments can be found under Section 6 of the SIP.

The Trustees recognise the risk that may arise from a lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio.

DC

The Trustees' policy on the kinds of investments to be held and the balance between different kinds of investments can be found under Sections 6 of the SIP.

The Trustees recognise that members of the Scheme have differing investment needs. The Trustees make available a range of investment funds which enable members to set their own investment allocations, in line with their risk tolerances. Meanwhile, the default lifestyle option is made available for members who may not believe themselves qualified to take investment decisions.

How has this policy been met over the Scheme Year?

DB

During the Scheme year, the Trustees received investment advice to reduce investment risk and restructure the investment strategy in order to provide greater protection against movements in the estimated cost of securing benefits with an insurance company. As already mentioned, the Trustees subsequently disinvested the residual equity assets and used the proceeds to help restructure the bond portfolio in order to better match the characteristics of the liabilities.

DC

The strategic asset allocation of the default lifestyle option is reviewed on a triennial basis, with expected risk and return requirements being considered as part of the review. The date of the last review was November 2019. A review of the self-select options also formed part of the triennial investment review.

The Trustees have reviewed investment performance on a quarterly basis as part of Mercer's quarterly reporting, which considers fund and benchmark performance over both short and longer-term periods.

The Trustees were satisfied that the funds had performed in line with their underlying aims and objectives over the year. As such, the Trustees remain comfortable that the default strategy and self-select funds remain appropriate for the DC Section's membership.

Strategic Asset Allocation

Risks, including the ways in which risks are to be measured and managed

Policy

DB

The Trustees recognise a number of risks involved in the investment of the assets of the DB Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Section 5 of the SIP.

The Trustees consider both quantitative and qualitative risk measures on an ongoing basis when deciding investment policies, strategic asset allocation and the choice of asset classes, funds, and asset managers.

DC

As for the DB Section, the Trustees recognise a number of risks involved in the investment of the assets of the DC Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Section 5 of the SIP.

In determining which investment options to make available the Trustees consider the investment risks associated with investment. The level of overall risk can be defined as the uncertainty over the ultimate amount of savings available at retirement.

How has this policy been met over the Scheme Year?

DB

In addition to the comments made in the previous section, relating to the balance of investments to be held, the Trustees have received updates from its Investment Consultant on developments concerning LGIM. None of these updates resulted in any recommended changes to the DB arrangements.

DC

As for the DC Section, in addition to the comments made in the previous section, the Trustees have also received updates from the Investment Consultant on developments concerning the Scheme's DC investment managers. None of these updates resulted in any recommended changes to the DC arrangements.

3. Examples of Engagement Activity by the Scheme's Equity Investment Managers

DC

The following are examples of engagement activity undertaken in relation of the investments held within the DC Section of the Scheme. Please note that while BlackRock is the manager for the 60:40 Global Equity Index Fund, assets are held in investment vehicle that is administered by Aviva. Aviva are responsible for voting and engagement activity in respect of the underlying assets held within the fund.

Aviva engages with Barclays on climate change impacts

In recent years, Barclays has been targeted by investors and the public due to its perceived lack of response to climate change - being one of the largest lenders to fossil fuels globally. Shareholder advocacy group, ShareAction, filed a shareholder resolution in January 2020, requesting that Barclays align its strategy to the Paris Agreement and set targets to phase out fossil fuels from its financing activities.

Aviva met with Barclays to outline how Barclays should respond, noting that it was a unique opportunity for them to become a sector leader. It was recommended that Barclays reduce exposure to extreme fossil fuels, adopt measures to internally manage and monitor climate impacts, and provide guidance on how to approach its AGM.

Barclays then published its ambition to become the first bank to achieve net zero emissions in all financing activities by 2050. This represents a cultural transformation at the bank and recognises the role that they can play in supporting climate transition. It also shows how investors and society can work with companies to improve corporate sustainability practices.

Baillie Gifford encouraged Schibsted to build a consolidated marketplace for better value

When Baillie Gifford were conducting their initial analysis on Schibsted in 2012, a core tenet of their investment hypothesis was the presence, motivation and positive influence of the family Tinius Trust. It was established by Tinius Nagell-Erichsen, the great-grandson of Schibsted's founder Christian Michael Schibsted. Baillie Gifford believe Schibsted's willingness to take long-term risks can be directly linked to the quiet stewardship of the Trust, an approach that aligns well with their own.

By 2014, they had built very strong relationships at Schibsted and its peer Naspers. Both were competing head-to-head to build digital marketplaces in several exciting growth markets, such as Brazil, Indonesia, Philippines, Thailand and Bangladesh. Baillie Gifford believed that a more consolidated marketplace would be worth more than the sum of its parts. Their best guess was that the market ascribed negative value to many of these assets as years of marketing spend cast doubt on whether market leadership would ever be reached. On several occasions they quietly encouraged the senior teams at both companies to talk rather than fight. In 2015, Schibsted and Naspers entered a series of joint venture agreements and asset swaps. There was a substantial peace dividend as the leader in each market became clear.

Aviva engages with BP net zero emissions actions

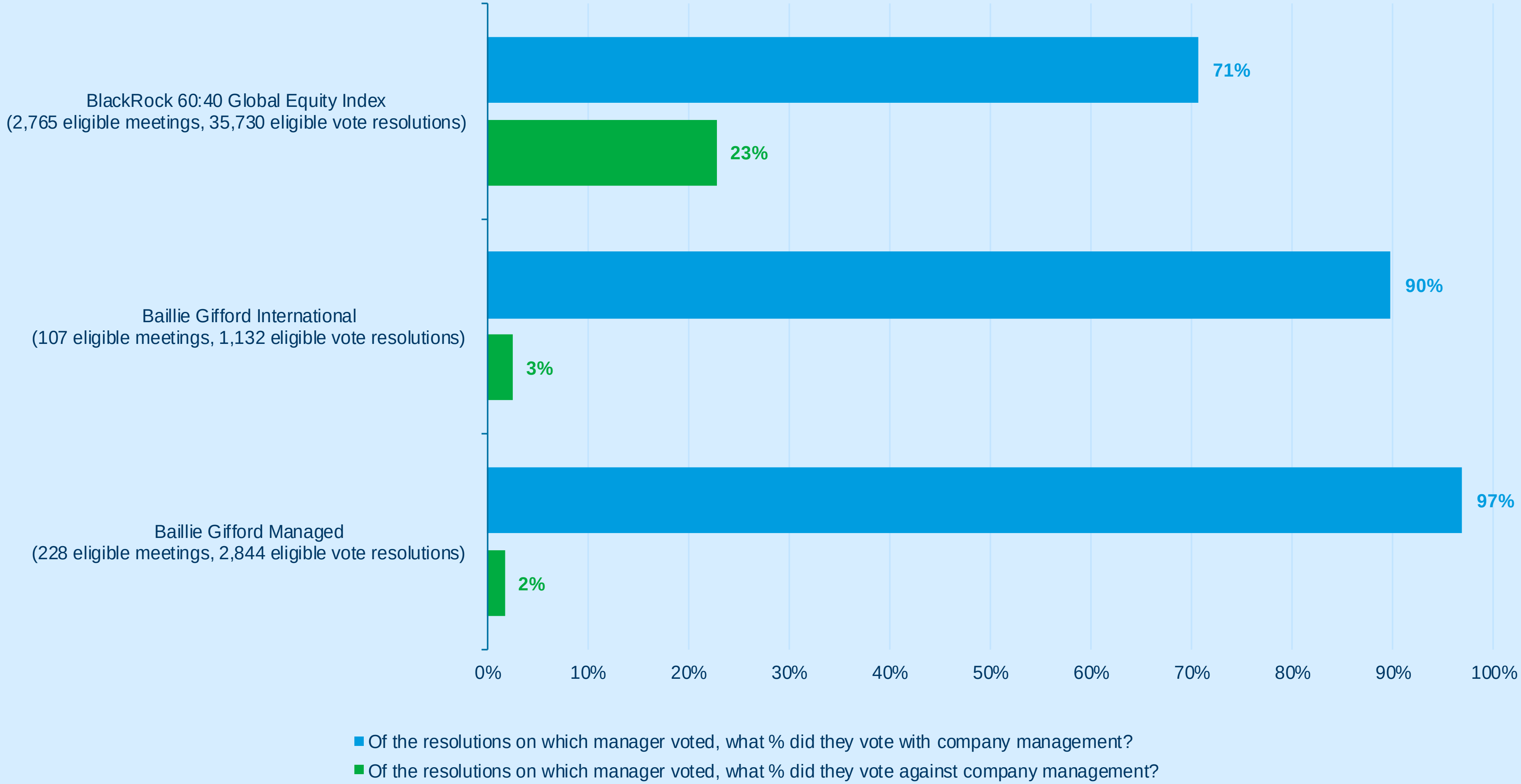
Aviva continued their dialogue with the chief executive of BP to build on the momentum following the 2019 shareholder proposal co-filled by Aviva to push for stronger climate action. BP had responded positively earlier in the year with the launch of its 'Reimagining Energy' strategy which committed the company to net zero emissions for most of its business by the middle of the century.

This was an important first step but Aviva continued to engage with management to translate this ambition into a clear climate transition plan which would enable investors to understand and measure the pace of change and evaluate the credibility of the strategy. They were pleased that the company provided a detailed roadmap for the next decade at its capital markets day in September, including a targeted 40% reduction in fossil fuels and a 10-fold increase in investments in new energy projects. This was potentially not only revolutionary for BP but sets an important new standard for the sector.

The challenge now for BP is being able to demonstrate to the market it is still able to deliver superior returns and cash flows as it transitions from high to low carbon assets.

4. Voting Activity during the Scheme Year

Set out below is a summary of voting activity for this reporting period relating to the relevant strategies in the DC Section of the Scheme. Funds where voting is not applicable (i.e. non-equity funds) are not included in the list below.



Voting data covering the period from 1 April 2020 to 31 March 2021.
Source: Investment managers, data may not sum due to rounding and as a result of the managers' decision to not vote or abstain in certain instances.

Sample of the most significant votes

DC

There is no official definition of what constitutes a significant vote; managers have adopted a variety of interpretations such as:

- There is a particular interest in a specific vote relating to an issue,
- The potential impact on the financial outcome,
- Size of the holding in the fund/mandate, and
- Whether the vote was high-profile or controversial.

✗ Resolution **not** passed ✓ Resolution passed

Manager	Fund	Company	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome following the vote
BlackRock[1]	60:40 Global Equity Index	Amazon.com, Inc	27 May 2020	Voted for the shareholder resolution requiring the Company to produce a human rights risk assessment	Aviva have engaged with Amazon on human rights risks management over the past year. Whilst Aviva have observed improvements, with Amazon's publication of its Global Human Rights Principles, Aviva felt 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 identify the policies the company has implemented to address human rights impacts in its operations and supply chain.	✗
		Unilever Plc	12 October 2020	Voted for the resolution to approve the unification of the Unilever Group under a Single Parent Company	This vote sought shareholder approval for revised plans to simplify the business, which will involve consolidating Unilever into a single UK holding, while maintaining its FTSE and AEX index position. The revised structure is also positive in providing strategic flexibility for future corporate transactions and business responsiveness, and strengthening Unilever's corporate governance, including the creation of a new equal voting basis per share for all shareholders.	✓
Baillie Gifford[2]	International	Tesla Inc	22 September 2020	Voted for the shareholder proposal to adopt a simple majority voting standard.	The company has been using the supermajority voting requirements from the company's bylaws in the past. Baillie Gifford think this change is in the shareholders' best interests.	✓
		Zillow Group Inc.	9 June 2020	Voted against the approval of the new incentive plan	Baillie Gifford opposed the resolution to approve the new long-term incentive scheme because it allows the company to reprice outstanding awards without shareholder approval.	✗
	Managed	Just Eat Takeaway.com	7 October 2020	Voted against the approval of the new remuneration policy	Baillie Gifford opposed the new remuneration policy for incoming Grubhub CEO Matthew Maloney due to concerns around the structure of the long term incentive and severance plans.	✗
		Alphabet Inc	3 June 2020	Voted against the approval of the new remuneration – Say on Pay	Baillie Gifford opposed the executive compensation policy as they do not believe the performance conditions are sufficiently stretching. Baillie Gifford had concerns regarding the short vesting period attached to the transitional award, the short performance period for the Performance Share Units – 50% based on 2 year performance, and the weak Total Shareholder Return hurdles for threshold and target pay-outs. Given the quantum of pay, Baillie Gifford did not think the structure and stringency of objectives were appropriate.	✓

Source: Investment managers

[1] While BlackRock is the manager for the Fund, assets are held in investment vehicle that is administered by Aviva. Aviva are responsible for voting and engagement activity in respect of the underlying assets held within the Fund Aviva subscribe to proxy advisory services for independent research and recommendations including recommendations based on its own policy (where certain resolutions will be referred to Aviva for further consideration). These providers include the IVIS service, ISS-Ethix and MSCI. Aviva use research for data analysis only as Aviva have its own robust voting policy, which is applied to all Aviva holdings. Aviva also take into consideration the views of the fund manager and the conversations with the company through its voting specific engagement.

[2] Whilst Baillie Gifford are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), Baillie Gifford do not delegate or outsource any of its stewardship activities or follow or rely upon its recommendations when deciding how to vote on its clients' shares. All client voting decisions are made in-house. Baillie Gifford vote in line with its in-house policy and not with the proxy voting providers' policies. Baillie Gifford also have specialist proxy advisors in the Chinese and Indian markets to provide them with more nuanced market specific information.