

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

Annual Implementation Statement for the Year Ended 31 March 2023

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 2022 to 31 March 2023 (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 Department of Work and Pensions and the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant version of the SIP that was in place for the Scheme Year, which was the SIP dated 23 September 2020 (covering the period between 1 April 2022 and 31 March 2023).

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.



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.



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 that 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 the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")) and no changes were made over the Scheme Year.

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?



The Trustees made no changes to the Scheme's DB, DC or AVC arrangements over the year. The triennial DC investment strategy review was initiated at the November 2022 Trustees' meeting and is due to complete at the November 2023 Trustees' meeting.

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?



Over the year, the DB Section held a diversified portfolio consisting of readily-realizable 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.



Members' investments within the DC Section are traded and priced on a daily basis. There were no liquidity issues during the Scheme year.



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?



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.

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?



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 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 expect 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?

  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 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?

  Over the year, the Trustees received quarterly investment performance reports that show performance (versus relevant benchmarks and targets) over shorter and longer-term periods. Performance and remuneration 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 (completed annually and last completed in October 2023), although the challenge in assessing these costs was acknowledged given the lack of an industry wide benchmark approach.

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?



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

 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.

 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.

The SIP sets out the benchmarks applicable to each fund and manager targets. The Trustees monitor performance versus benchmarks in the quarterly performance reporting and in the annual Value for Members assessment.

How has this policy been met over the Scheme Year?

 During the Scheme Year, the Trustees have maintained the investment strategy, which aims to provide protection against movements in the estimated cost of securing benefits with an insurance company.

 The triennial default strategy review began during the Scheme Year and is expected to complete at the November 2023 meeting. This included a review of the default strategy and self-select options alongside consideration of member demographics within the Scheme. The review provided several recommendations (which also included self-select range changes) which the Trustees are considering.

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.

Strategic Asset Allocation

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

 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.

 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.

Risks are considered on a regular basis as part of the triennial investment strategy review or as part of regular monitoring (as part of quarterly performance reporting).

How has this policy been met over the Scheme Year?

  In addition to the comments made in the previous section, relating to the balance of investments held, the Trustees received updates from its Investment Consultant on developments concerning the Scheme's investment managers. None of these updates resulted in any recommended changes to the DB, DC or AVC arrangements.

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



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 tech companies and recent lay offs

Since the beginning of the year, tech companies have announced waves of workforce reductions. These layoffs are partially due to the macroeconomic environment, but also a need to protect profit margins and for cost discipline as a result of the slowing demand since the end of the COVID19 lockdowns, during which new hires had grown to match the increase in sales. Companies announcing recent layoffs include Alphabet, Meta, Microsoft, Salesforce and SAP.

As a result of these layoffs, Aviva's ESG team conducted engagements with the companies concerned. Aviva wanted to gain a better understanding of the company's decision-making in the lead up to announcements, as well as ensure that companies had taken sufficient measures to minimise the impact of job losses on those directly and indirectly affected.

Encouragingly Aviva received responses from all companies they reached out to which helped clarify some of the context behind the layoffs. Aviva were also pleased to follow up with a dedicated engagement call with SAP, which their equity team joined. SAP differentiates itself from the other technology companies in that these role reductions are to an extent offset by a broader ongoing multi-year transition to expand their cloud offering. The company was able to provide clarity over internal mobility opportunities that some employees were able to benefit from.

Aviva engages with Home Depot on global plastic crisis

The rapid growth in global plastic production from fossil fuel feedstock, single-use plastic products and packaging, and mismanagement of post-consumer plastic waste disposal has resulted in a global plastic crisis. Widespread pollution of natural ecosystems from plastics and microplastics is a threat to biodiversity and human health. The level of greenhouse gas emissions associated with the production, use and disposal of conventional fossil fuel-based plastics is forecast to grow to 19 per cent of the global carbon budget by 2040. Aviva believe that businesses are playing an increasingly critical role in tackling the global plastic crisis by adopting a circular plastic model within their businesses.

Aviva have been engaging with the company as part of their Stewardship Funds' bespoke engagement programme. During a joint engagement call between ESG analysts and the company's Chief Sustainability Officer, Aviva requested disclosure of volumes of plastic packaging used, increasing the level of recycled content and trialing of circular or alternative packaging solutions. This is aligned to the Ellen McArthur Foundation's New Plastics Economy Global Commitment.

Aviva were pleased with the momentum made regarding targets as Home Depot explained that they were on track to meet some of their 2023 plastic targets and intend to expand their scope. However, Aviva wish to see more progress in the future around their reporting as they do not currently measure or report on absolute plastic usage across their product portfolio. Although they do not have a specific engagement programme in place to encourage adoption of circular models with suppliers, they are engaging with their suppliers on this. Aviva have encouraged the company to join either the Plastics Economy Commitment or the US Plastics Pact alongside publicly disclosing absolute plastics use and performance against plastic targets.

Baillie Gifford engages with Amazon on ESG topics

Baillie Gifford met with the company's head of ESG engagement to discuss a broad range of ESG topics including climate strategy, unionisation and employee health and safety.

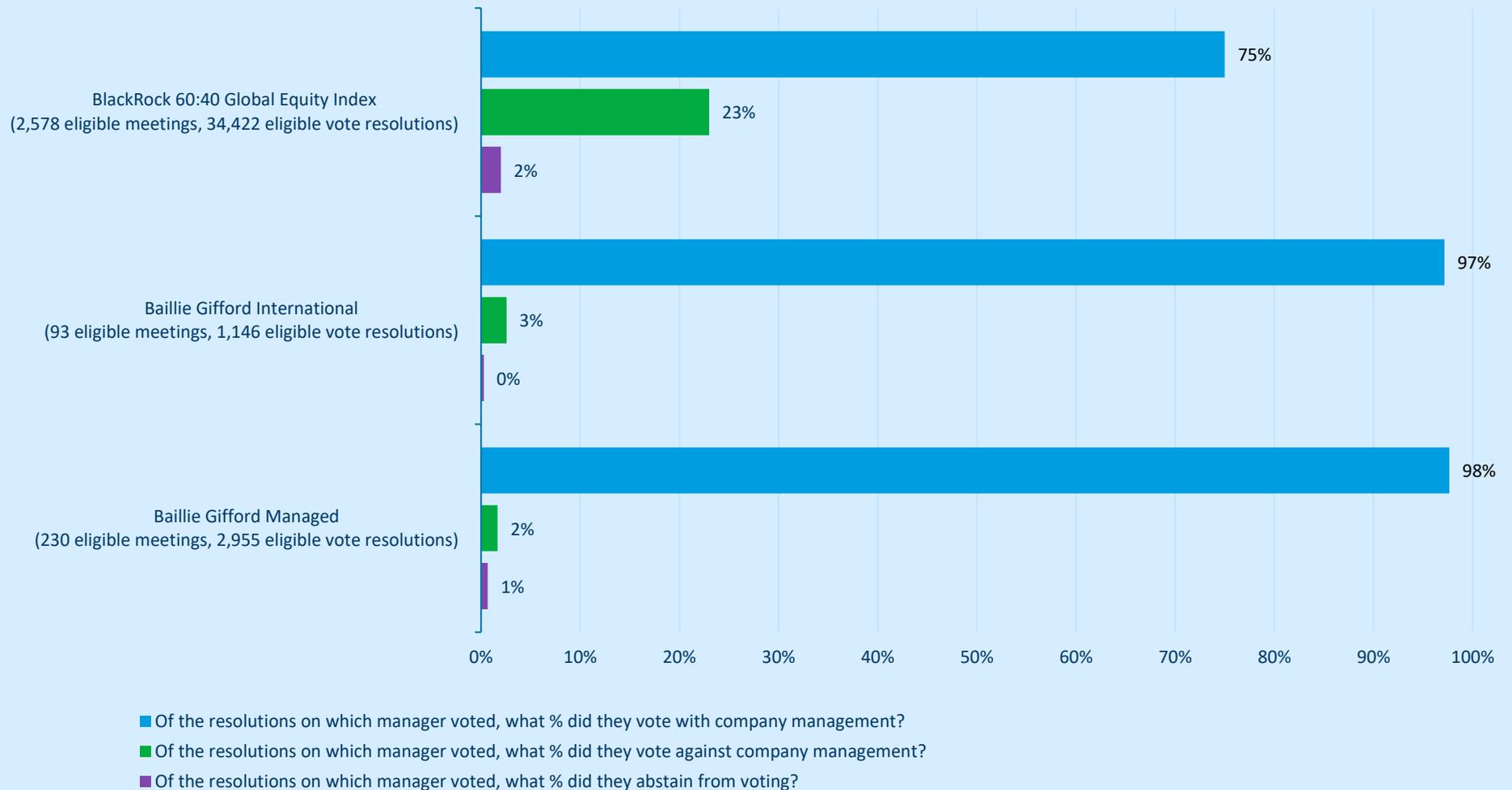
Baillie Gifford were encouraged to learn that work to progress Amazon's climate strategy is ongoing. This work includes a plan to publish a science-based target later this year and expand carbon labelling on products and delivery choices. Unionisation is a high-profile issue, and they discussed the recent successful vote at a New York facility as well as employee engagement efforts. On a related note, Baillie Gifford spoke about the company's recently disclosed health and safety statistics. This is an area where Baillie Gifford have been encouraging enhanced disclosure for several years and they are pleased to see the company has responded positively to their requests. The data shows a positive year-on-year trend in employee injury rates, although these remain average relative to the broader industry.

Baillie Gifford were encouraged by Amazon's ongoing efforts to develop its approach to environmental and social practices. Going forward, they will continue to monitor the company's interaction with employees and their efforts to unionise, as well as supporting the business to lead the industry in workplace health and safety.



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 2022 to 31 March 2023.

Source: Investment managers, data may not sum due to rounding. For the BlackRock 60:40 Global Equity Index, Aviva voted on 95.7% of eligible resolutions, for the Baillie Gifford International, Baillie Gifford voted on 98.2% of eligible resolutions, for the Baillie Gifford Managed, Baillie Gifford voted on 99.4% of eligible resolutions.



Most significant votes



Resolution **not** passed

Resolution passed

The Trustees have selected the ‘most significant votes’ by focussing on shareholder resolutions with a specific focus on the following Environmental, Social and Governance priorities:

- **Environmental:** Climate change: low-carbon transition & physical damages resilience; pollution & natural resource degradation: air, water, land (forests, soils, biodiversity)
- **Social:** Human rights: modern slavery, pay (minimum/living wage etc.) & safety in workforce and supply chains, abuses in conflict zones
- **Governance:** Diversity, Equity and Inclusion (DEI) - inclusive & diverse decision making, executive remuneration and board composition

It is not possible to disclose all voting information in this statement, therefore, the Trustee has disclosed the votes that they deem to be most significant. A “significant vote” is defined as one that is linked to the Scheme’s stewardship priorities/themes, set out above. The Trustees have weighted this analysis towards companies that have the largest holdings within the equity funds for which the Scheme invests (i.e. significant holdings).

Fund	Company	% Holding in Fund	Engagement priority	Date of vote	Summary of resolution	How the Manager voted	Rationale of Manager vote	Final outcome
BlackRock ¹ 60:40 Global Equity Index	Standard Chartered Plc	1.9%	Environmental	4 May 2022	Approve net zero pathway	Against	Lacks Paris-aligned climate transition approach	
	Anglo American Plc	1.4%	Environmental	19 April 2022	Approve climate change report	For	The company has been designated as one of the systemically important carbon emitters within Aviva Investors’ portfolios. Aviva expect all high impact company to fully demonstrate a strategy, with targets, in line with Paris goals.	
Baillie Gifford ² International	Elevance Health Inc	3.5%	Social	18 May 2022	Shareholder proposal requesting a racial impact audit and report	Against	Baillie Gifford opposed the shareholder resolution as company disclosure is sufficient and a similar report was recently undertaken.	
	Microsoft	3.1%	Environmental	13 December 2022	Shareholder Proposal to report on Investment of Retirement Funds in Companies Contributing to Climate Change	Against	Baillie Gifford opposed the resolution requesting as they do not believe this is a material risk for the company and think they are doing enough by offering employees a range of investment options.	
Baillie Gifford ² Managed	Tesla Inc	1.2%	Social	4 August 2022	Stockholder proposal regarding annual reporting on anti-discrimination and harassment efforts.	For	Baillie Gifford supported the resolution as they believe quantitative disclosure would help them understand and monitor the company's efforts.	
	Amazon.com	1.0%	Governance	25 May 2022	Shareholder proposal requesting a policy requiring more director candidates than board seats	Against	Baillie Gifford opposed the as they do not believe that this would be in the interests of the strength or stability of the board.	

Source: Investment managers. Percentage holdings provided as at date of vote.

¹ *While BlackRock is the manager for the Fund, assets are held in investment vehicle that is administered by Aviva. Aviva is responsible for voting and engagement activity in respect of the underlying assets held within the Fund. Aviva subscribes 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 uses research for data analysis only as Aviva has its own robust voting policy, which is applied to all Aviva holdings. Aviva also takes into consideration the views of the fund manager and the conversations with the company through its voting specific engagement.*

² *Whilst Baillie Gifford is cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), Baillie Gifford does 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 votes in line with its in-house policy and not with the proxy voting providers' policies. Baillie Gifford also has specialist proxy advisors in the Chinese and Indian markets to provide them with more nuanced market specific information.*

³ *Voting outcome not provided by the manager*

Baillie Gifford and Aviva did not confirm whether they had confirmed their intention to vote against management prior to the vote taking place