Finning Pension Scheme - Defined Benefit Section Implementation Statement for the year ending 31 December 2020

Welcome to the Trustee's Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles (SIP) during the year ending 31 December 2020

Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy during the period from 1 January 2020 to 31 December 2020 and other policies and practices within the Statement of Investment Principles.

What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the funds used and the Trustee's approach to responsible investing (including climate change).

This Implementation Statement is in respect of the Scheme's SIP that was in place as at 31 December 2020. In order to reflect new regulatory requirements, the SIP was reviewed and signed by the Chair during the last Scheme year on 25 August 2020. The main changes to the SIP were as follows:

- Explanation on how the Trustee monitor and engage with key stakeholders relating to its investments; and
- A statement on how the Trustee manage conflicts of interest

Apart from the inclusion of the topics referenced in the above bullet points, the Scheme's SIP between 1 January 2020 and 25 August 2020 was fundamentally the same as the SIP signed on 25 August 2020 from an investment policy, objective and risk management perspective.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at https://www.finning.com/en_GB/policies/finning-uk-pension-scheme.html

What is the Implementation Statement for?

Each year from 2020, the Trustee is required to prepare an Implementation Statement, which sets out how they have complied with the Scheme's SIP relating to DB benefits during the last Scheme year and other related matters. This report covers the SIP that was signed on 25 August 2020 as well as the SIP in place between 1 January 2020 and 25 August 2020.

Overall, the Trustee is satisfied that:

- **Throughout the last Scheme year, the Scheme's DB investments have been managed in accordance with the SIP at that time; and**
- **The provisions in the current SIP remain suitable for the Scheme's DB members.**

How the Scheme's investments are governed

The primary objective of the DB Section of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee's overriding funding principles for the Scheme are to set the employer contribution at a level which is sufficient:

- To recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- To ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The Trustee monitors how well their investment adviser meets the objectives agreed with them, which are designed to align with the Trustee objectives and investment strategy set out in the SIP. During the last year the investment adviser agreed the following DB objectives:

- Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Scheme's investments to progress towards the long-term funding objective;
- Implement a strategy, and amendments to the strategy, that delivers the target returns whilst minimising the associated risk;
- Facilitate the scope to implement a gradual reduction of investment return investment risk over the period to around 2029 from gilts+1.6% p.a. to gilts+1.0% pa.;
- Advise on potential solutions if funding plan not on track;
- Achieve first buy-in on journey path to buy-out; and
- Deliver an investment approach that reflects the Scheme's cashflow position, and likely evolution, and minimises the risk of forced disinvestment.

The Trustee have liaised with their investment adviser in relation to their own objectives and are satisfied that they that have met them, and that the investment adviser is aligned to them.

The Trustee is satisfied that the objectives outlined in the SIP have been followed during the last Scheme year, in particular:

- **To facilitate meeting those objectives, the Trustee's undertook the following activities during the last year to ensure that their knowledge and understanding of investment matters remains up to date:**

Date	Topic	Aim	Trainer
February 2020	Cashflow requirements	The Trustee undertook a review of their cashflow requirements for 2020	Hymans Robertson
April 2020	COVID-19	Analyse the impact of the global pandemic on the investment strategy and discuss appropriate next steps	Hymans Robertson
April/May 2020	Consolidation of the Scheme's AVC arrangements with Aegon following the transfer of legacy policies from Equitable Life to Utmost.	To simplify the AVC arrangements of the Scheme and that these AVC monies are invested in strategies the Trustee deem appropriate for the requirements of members.	Hymans Robertson
June 2020	Cashflow requirements	Enhanced cashflow and collateral management	Hymans Robertson

		monitoring following market volatility caused by Covid-19	
June 2020	Private markets	Update on the impact of covid-19 on the Scheme's active mandates.	Hymans Robertson
June 2020	Responsible Investment	Training on the implications of the new SIP requirements	Hymans Robertson
June 2020	Topical issues – buy-in	An update on the buy-in market and what this means for the Scheme and their long-term objectives	Hymans Robertson
June 2020	COVID-19	Scenario analysis on the impact of potential market recoveries on the investment strategy	Hymans Robertson
August 2020	Responsible Investment	Training on the ESG practises of the Scheme's investment managers, given the Trustee has delegated voting and engagement matters to the managers.	Hymans Robertson
August 2020	Strategy	Check in on appropriateness of strategy and de-risking plans further to outbreak of Covid-19 and the subsequent market recovery	Hymans Robertson
September 2020	Structured equity	Training on structured equity as a potential means to improve the capital efficiency of the Scheme as part of its wider de-risking journey.	Hymans Robertson
November 2020	Stewardship policy checklist	Prepared a stewardship policy checklist highlighting activity undertaken to ensure compliance with policy detailed in the Statement of Investment Principles	Hymans Robertson

How the investment strategy is managed

The objectives and rationale for the investment strategy is set out on page 1 of the Scheme's current SIP.

The Trustee has reviewed certain segments of the investment strategy and structure over the last year, especially following the outbreak of COVID-19 to ensure it remains appropriate. This included reviewing the Scheme's property holdings as well as exploring alternative assets including structured equity.

The Trustee has not carried out a formal investment strategy review over the last Scheme year, but did review the progress of the current strategy (and the evolution of funding). The Trustee is satisfied that

they have met objectives around investment strategy though regular monitoring of strategic objectives at meetings of the Scheme's Investment Sub-Committee throughout the Scheme year.

The Trustee expect to undertake a formal strategy review following the forthcoming triennial actuarial valuation.

How investments are chosen

The Trustee's approach to the selection of new investments is set out in the SIP.

The Trustee reviews the performance of their manager and mandates on a regular basis against a series of metrics, including, but not limited to, financial performance against the benchmark and objectives of the mandate and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Over the last Scheme year, no new investment managers were appointed by the Trustee.

For any future manager appointments, the Trustee will continue to consider the policies set out in the SIP, especially around the remuneration of managers.

Over the last Scheme year, the Trustee monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. The deviations away from long-term targets for some of the funds was caused by the global pandemic. The Trustee subsequently undertook a deep-dive into the impact that COVID-19 had on all of the Scheme's mandates and were satisfied with the actions taken by the managers to navigate this environment and the composition of the Scheme's investment strategy. These actions aided the Trustee in monitoring the investment strategies robusteness in light of the objective to ensure that there is always sufficient assets available to meet 100% of benefits as they fall due.

The expected risks and returns in the DB Scheme

The investment risks relating to the DB Scheme are described in the SIP on pages 2 to 5, and the expected return is described in the SIP on page 5.

The Trustee believes that the main investment risks the Scheme faces as described in the SIP have not changed materially over the last year.

The Trustee is satisfied that through a diversified portfolio, systemic risk can be mitigated, and accept that it is not possible to make specific provision for all possible eventualities which arise under this heading.

The Trustee's views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) and the style of management adopted by the Scheme.

Over the last Scheme year, the Trustee updated its strategic asset allocation to incorporate an allocation to Commercial Real Estate Debt (though the Scheme committed in principle to an allocation in the previous Scheme year). The Trustee also agreed to terminate the Scheme's property mandate – this was completed after the end of the Scheme year. When determining the long-term mix of investments for the Scheme, the Trustee monitored and managed risks as described in the objectives in the SIP.

Ability to invest / disinvest promptly

It is important that member benefits can be received promptly, and that the Scheme's investments can be realised quickly if required as set out in the objectives in the SIP The emergence of the COVID-19 pandemic in March did bring with it concerns over a lack of liquidity, mainly in credit markets, however with central bank support, these concerns were abated.

The Schroder SIRE fund was gated in March 2020 due to material uncertainty clauses being placed on the underlying property assets following the outbreak of Covid-19. This resulted in investors being unable to trade in the fund for a period of around 7 months. This did partially impact the Scheme's objective of being able to invest and disinvest promptly from the Scheme's investment mandates, though given the size of the Schroder mandate (and that income generation from it continued over that period), this did not materially impact the Scheme's ability to meet benefit payments.

Portfolio turnover within funds

Although the Trustee does not currently monitor portfolio turnover, going forward, the Trustee will be putting in place a process for monitoring the volume of buying and selling of underlying assets in each fund.

Short-term changes in the level of turnover may be expected when a manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover might indicate a shift in the amount of risk the manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

A cost transparency exercise was instructed in 2020 with the support of ClearGlass, an organisation specialising in supporting clients understand the total cost of their investments. The Trustee have yet to receive the results of this exercise and may consider similar exercises in future to understand the level of trading of the Scheme's assets carried out by the fund managers, and ensure this has been consistent with the Scheme's objectives.

Additional Voluntary Contributions (AVCs)

The Trustee offers members the opportunity to pay additional contributions and invest in a range of vehicles at the members' discretion. The Trustee holds these assets separately from the Defined Benefit Section to secure benefits on a money purchase basis for those Defined Benefit members electing to pay Additional Voluntary Contributions.

The Trustee periodically monitors the investment suitability of the underlying AVC fund range. Over the last Scheme year, Equitable Life (one of the Scheme's AVC providers) announced that their With Profits Fund would close. In late 2019, High Court approval was received for the Part VII transfer of Equitable Life's business to Utmost Life. The Trustee reviewed the offerings with Utmost and concluded that a transfer to the Scheme's existing AVC arrangement with Aegon would provide better value for members relative to the unit-linked offerings provided by Utmost. This transfer was completed in the May of the Scheme year.

The Trustee has consistently applied the DB policies in the Scheme's SIP to the Scheme's AVCs though we note that that AVCs are largely immaterial in relation to the Scheme's assets and have been considered in the context of their relative importance.

Conflicts of interest

Over the last Scheme year, the Trustee considered any conflicts of interest arising in the management of the Scheme and its investments and have ensured that the appropriate conflicts of interest policies are in place through engagement with the investment managers in conjunction with the investment adviser

Limitations and missing information

The Trustee has been unable to obtain full information on voting data and engagement activity for the Scheme's AVC investments. The Trustee believes that this is a temporary issue while platform providers and fund managers put these new reporting requirements in place. The Trustee and their investment adviser will work with the AVC managers (and voting service agencies) to compile this information in readiness for next year's Implementation Statement.

Responsible Investment

The Trustee believes that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

The Trustee's approach to responsible investing has not changed during the last year.

Sustainable Investment

The Trustee believes that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (called "ESG" factors) can have on the value of the Scheme's investments and in turn the size of member's retirement benefits.

The Trustee is satisfied that during the last year the Scheme's investments were invested in accordance with the policies on sustainable investing and consideration of financially material factors (including ESG factors) set out in the SIP. The Trustee has met their objectives relating to sustainable investment by directly engaging with the Scheme's investment managers throughout the Scheme year where they discussed strategic and structural considerations of the investment mandates as well as stewardship and engagement undertaken on behalf of the Scheme.

Policy implementation

In line with the SIP, no specific actions over the past year have been considered with respect to non-financially material factors in the development and implementation of the Scheme's investment strategy. As outlined on page 6 of the SIP, the Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustee believes it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on their dialogue with the investment managers which is undertaken in conjunction with the investment adviser. The Trustee meets regularly with its managers and the Trustee considers managers' exercise of their stewardship both during these meetings and through reporting provided by the investment adviser.

The Trustee also monitors their compliance with its Stewardship Policy on a regular basis and is satisfied that they have complied with the Scheme's Stewardship Policy over the last year. The latest review of stewardship policy compliance was undertaken at a meeting of the Investment Sub-Committee in August 2020.

Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to:

- the exercise of voting rights attached to assets;
- undertaking engagement activity, including how the Trustee monitors and engages with their investment managers and any other relevant stakeholders;
- monitoring of the managers' evolving approach to ESG issues, including manager voting and engagement activity undertaken on behalf of the Scheme;
- consideration of conflicts of interest arising in the management of the Scheme and its investments;

The Scheme's Stewardship Policy is reviewed on a periodic basis in line with the Scheme's SIP review, with the last review taking place in August 2020.

Voting activity

The Trustee seeks to ensure that its managers are excising voting rights and where appropriate, to monitor manager voting patterns. As the Trustee has exposure to only one manager and mandate with voting rights, the Trustee cannot monitor investment managers voting on particular companies or issues that affect more than one company. As outlined within Tables 1, 2 and 3, BlackRock made use of proxy voting services (Institutional Shareholder Services and Glass Lewis) during the last Scheme year.

Over the period from 1 January 2020 to 31 December 2020, the Trustee invested in equity assets through the BlackRock Aquila Life MSCI World Fund(s), BlackRock Aquila Life Global 3000 Fundamental Weighted Index Fund and BlackRock iShares Emerging Markets Index Fund Aggregate. The investment manager has reported on how votes were cast for this mandate as set out in Tables 1, 2 and 3[1].

[1] BlackRock were asked, but were unable to provide the % of meetings with at least one vote against management. The Trustee intend to liaise with BlackRock and endeavour to ensure that these figures are provided in the following Scheme year.

Table 1: BlackRock Aquila Life MSCI World Fund (Currency hedged and unhedged funds)

Proportion of Scheme assets as at 31 December 2020	9.0%
Did the manager employ the house voting policy in managing the fund?	Yes
No. of meetings eligible to vote at during the year	1,072
No. of resolutions eligible to vote on during the year	15,334
% of resolutions voted	91.4%
% of resolutions voted with management	85.0%
% of resolutions voted against management	6.4%
% of resolutions abstained	0.6%

Table 2: BlackRock Aquila Life Global 3000 Fundamental Weighted Index Fund

Proportion of Scheme assets as at 31 December 2020	3.1%
Did the manager employ the house voting policy in managing the fund?	Yes
No. of meetings eligible to vote at during the year	3,173
No. of resolutions eligible to vote on during the year	38,932
% of resolutions voted	93.9%
% of resolutions voted with management	88.6%
% of resolutions voted against management	5.3%
% of resolutions abstained	1.0%

Table 3: BlackRock iShares Emerging Markets Index Fund Aggregate

Proportion of Scheme assets as at 31 December 2020	1.4%
Did the manager employ the house voting policy in managing the fund?	Yes
No. of meetings eligible to vote at during the year	2,417
No. of resolutions eligible to vote on during the year	22,174
% of resolutions voted	97.1%
% of resolutions voted with management	88.6%
% of resolutions voted against management	8.4%
% of resolutions abstained	3.0%

Significant votes

The Trustee has asked BlackRock to report on the most significant votes cast within the portfolio they manage on behalf of the Trustee for the Scheme's equity assets (or where the manager has voting rights on behalf of the Scheme for the given asset).

While the term 'significant votes' hasn't been defined, guidance suggests that a vote should be considered significant if it relates to situations where there is disagreement between the manager (on behalf of investors) and the company; including matters such as shareholder rights, corporate governance, corporate strategy and corporate behaviour. However, some resolutions which may be significant from an investment point of view, such as uncontroversial mergers and takeovers, may not be included).

BlackRock were asked to explain the reasons why votes were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote.

The majority of public companies hold their Annual General Meeting (AGM) during the second quarter of each year, with most meetings taking place in April and May, though we note that a significant vote referenced by BlackRock took place in October. Details of the significant votes are outlined in Table 4 below.

Table 4: BlackRock significant votes

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Why considered significant
27 May 2020	Chevron Corporation	Shareholders filed a non-binding proposal requesting that Chevron report on how the company's direct and indirect lobbying align with the Paris Climate Agreement goals.	BlackRock voted for the proposal as they believe greater transparency into the company's approach to political spending and lobbying as aligned with their stated support for the Paris Agreement will "help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy".	BlackRock have stated that votes deemed significant were done so as they perceived them to be "more high-profile due to the mediatic exposure of the company or sector"
29 May 2020	Total SA	Shareholder resolution was filed that would instruct the company to set and publish targets for Targets for Greenhouse Gas (GHG) Emissions Aligned with the Goal of the Paris Climate Agreement and Amend Article 19 of Bylaws Accordingly.	BlackRock voted against the resolution as they believe Total's disclosures to be consistent with their expectation of large carbon emitters (relating to targets for scope 1,2 and 3 emissions and TCFD aligned reporting) with a previous history of engagement with BlackRock on the topic.	BlackRock have stated that votes deemed significant were done so as they perceived them to be "more high-profile due to the mediatic exposure of the company or sector
13 October 2020	The Proctor & Gamble Company ("P&G")	Shareholders proposals that requested P&G to publish annual reports assessing the company's diversity and inclusion efforts and on efforts to eliminate deforestation	BlackRock voted for the proposal relating to deforestation and against the proposal requesting a report on diversity and inclusion efforts. The rationale for voting for the former, was due to BlackRock's deeming that there is room for P&G to improve the frequency and depth of disclosures relating to sustainability. BlackRock voted against the latter resolution as	BlackRock have stated that votes deemed significant were done so as they perceived them to be "more high-profile due to the mediatic exposure of the company or sector

			they believed that the requested report would be redundant given the proactive initiatives and disclosures P&G make in this area.	

Engagement activity

The Trustee holds meetings with their investment managers on a regular basis where stewardship issues are discussed in further detail. Over the last 12 months, the Trustee met with two of the four investment managers, discussing the following issues over the course of the year.

Table 5: The Trustee's engagement activity with its investment managers over the year to 31 December 2020

Date	Fund manager	Subject discussed	Outcome
7 February 2020	BlackRock	• Blackrock team and business update • Portfolio performance update and fund breakdown • Update on LDI portfolio and hedging programme • Approach to ESG, means of ESG integration and monitoring and detail on stewardship activity undertaken on behalf of the Scheme	Content with portfolio update. BlackRock were asked to be more proactive with their information sharing on ESG issues going forwards.
18 August 2020	M&G	• M&G team and business update • Portfolio performance update and fund breakdown • Real Estate Debt market outlook • ESG approach to investing	We are satisfied with the comprehensive responses shared by the manager. M&G were asked to be more proactive with their information sharing on ESG issues going forwards.

Summary of manager engagement activity

The following table summarises the key engagement activity for the 12-month period ending 31 December 2020.

Table 6: Summary of management activity

Manager: Fund	Number of engagements	Topic engaged on
BlackRock: Aquila Life MSCI World Fund	1,530 engagements across 817 companies	Most frequent topics engaged on were climate risk management, environmental impact management, operational sustainability and Human Capital management
BlackRock: Aquila Life Global 3000 Fundamental Weighted Index Fund	2,230 engagements across 1,263 companies	Most frequent topics engaged on were climate risk management, environmental impact management, operational sustainability and Human Capital management
BlackRock: iShares Emerging Markets Index Fund Aggregate	398 engagements across 259 companies	Most frequent topics engaged on were climate risk management, environmental impact management, operational sustainability and Human Capital management
M&G: Alpha Opportunities Fund	The M&G fixed income team undertook 464 engagements with investees, 10 of which were directly resulting from securities held in the Alpha Opportunities Fund	Key topics engaged upon were Environment, Leadership & Governance, Business model & innovation and Human Capital
M&G: Real Estate Debt Finance VI ("REDF VI")	No voting rights for this fund. M&G were unable to give specific engagement data for REDF VI but noted 464 engagements were undertaken by the wider fixed income team over 2020, as is detailed in their 2020 sustainability report.	Key topics engaged upon were Environment, Leadership & Governance, Business model & innovation and Human Capital
Partners Group: Multi Asset Credit 2015 (II)	No voting rights for the fund. Partners stated that it is difficult to quantify the number of engagements for the fund given its nature and the structure of their relationships with sponsors and underlying companies.	Corporate issues including refinancing, restructuring and change of ownership.

Partners Group: Multi-Asset Credit V	No voting rights for the fund. Partners stated that it is difficult to quantify the number of engagements for the fund given its nature and the structure of their relationships with sponsors and underlying companies.	Monitoring and corporate issues including financing, performance and the impact of Covid-19.
Schroders: Indirect Real Estate Fund ("SIRE")	No voting rights for the fund. Schroders undertook 20 engagements with the fund's underlying property investment managers.	General governance, underlying management fees, strategy, sustainability.
BlackRock: LDI ("QIF")	No voting rights for the fund.	BlackRock promoted engagement on the RPI reform consultation throughout the year.

Use of a proxy adviser

The Trustee's investment managers have made use of the services of the following proxy voting advisors over the Scheme year:

Manager	Proxy Advisor used
BlackRock	Institutional Shareholder Services (ISS) and GlassLewis

The use of proxy voting is a part of the overall method used by BlackRock to inform its decisions on voting. It is not the only method used.

Review of policies

The Trustee has committed to reviewing the managers' ESG policies on an annual basis. The first review was undertaken by the Trustee in August 2020. The review considered managers broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustee also considered changes to its managers' voting policies.

The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme.