

# Finning Pension Scheme – Defined Contribution Scheme 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

## Why do the Scheme's investments matter to me?

The Scheme provides you with benefits on a defined contribution ("DC") basis (sometimes called money purchase benefits). This means that the size of the benefits paid to you when you retire will depend on how much the funds where your savings are invested grow over the years.

## 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 the investment options which you can choose (including the default arrangements if you don't make a choice), 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. During the Scheme year, the SIP was reviewed and updated to reflect:

- the Trustee's policies on ESG and other financially material considerations; and
- regulatory changes which came into effect in 2020

The SIP was signed on 25 August 2020 and will be included in the annual Chair's Statement that is due to be published in summer 2021. Unless stated otherwise, references to the SIP in this statement should be understood to be with respect to that version, as the most recent version of the SIP in force and applicable over the Scheme year.

If you want to find out more, you can find a copy of the Scheme's latest SIP (and the Scheme's Chair's Statement) at [https://www.finning.com/en\\_GB/policies/finning-uk-pension-scheme.html](https://www.finning.com/en_GB/policies/finning-uk-pension-scheme.html)

## What is this Implementation Statement for?

Each year from October 2020, the Trustee is required to prepare this Statement, which sets out how they have complied with the Scheme's SIP relating to DC benefits during the last Scheme year.

**Overall, the Trustee is satisfied that:**

- **The Scheme's DC investments have been managed in accordance with the SIP; and**
- **The provisions in the SIP remain suitable for the Scheme's DC members.**

Details of the Scheme's DB AVC arrangements in place and how they have been managed in accordance with the DB SIP are covered under the DB Implementation Statement of the Finning Pension Scheme.

## How the Scheme's investments are governed

The Trustee has overall responsibility for how the Scheme's investments are governed and managed in accordance with the Scheme's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

There have been no changes to the Trustee or the governance processes during the last year.

The Trustee has delegated day-to-day investment decisions, such as which investments to buy and sell, to the fund managers, via the Aegon platform.

The Trustee undertook the following during the last year to ensure that their knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
March 2020	Training on Master Trust market	To outline the role of Master Trusts (“MT”) and the landscape, in preparation of supporting future MT procurement exercise.	Hymans Robertson
June 2020	DC default strategy check-in	Discussion pertaining to suitability of current default strategy in context of proposed move to Master Trust.	Hymans Robertson
September 2020	High-level DC investment strategy review with focus on BlackRock Dynamic Allocation Fund	Suitability review of the DC arrangements including the Scheme’s three default lifestyle strategies.	Hymans Robertson

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

- Deliver an investment approach for the default option that maximises risk-adjusted real returns for members, noting that the concept of risk can change throughout a member’s career.
- Provide advice in relation to self-select range that incorporates sufficient choice for members to meet their own needs in terms of investment return, investment risk and retirement choices, reflecting member feedback where relevant.
- Deliver cost efficient implementation of new strategies as required.
- Provide relevant and timely advice
- Develop Trustee’s knowledge and understanding of investment matters
- Provide services to support ongoing governance that is proportionate and competitive in terms of costs relative to investment advisor peer group
- Ensure investment advice complies with relevant pensions regulations, legislation and supporting guidance.

**The Trustee have liaised with their investment adviser in relation to their own objectives and will review their investment adviser against their agreed objectives annually. The last review was in October 2020 and the Trustee was content that objectives had been met.**

**The Trustee is satisfied that during the last year:**

- **The Scheme’s DC governance structure was appropriate; and**

- **The Trustee has maintained their understanding of investment matters.**

#### **How the default arrangement and other investment options are managed**

The objectives and rationale for the default arrangement are set out on page 2 of the SIP and on pages 3 and 4 for the other investment options.

The Trustee has carried out their annual high-level review of the default arrangement and other investment options to ensure they remain suitable for most members. This involved

- Considering the time over which members will be invested in the investment options;
- Deciding whether any changes to the default arrangements and other investment options' objectives are sufficient;
- Considering whether the design of the default arrangement and other investment options, as well as the funds they use, still meet their investment objectives

**Following the review, the Trustee was satisfied that the default arrangement remained suitable for most members because:**

- the glidepath is considered to be appropriate considering the Scheme's membership;
- the funds included in the Scheme's default strategy, including the BlackRock Dynamic Allocation Fund, remain suitable

The Trustee deemed that a full strategy review, looking at all the investment options, was unnecessary given the intention for the DC Scheme to transfer to a Master Trust arrangement in the following Scheme year.

#### **The Trustee's investment beliefs**

The Trustee has developed a set of investment beliefs which are set out on page 7 and 8 of the SIP which they use as a guide when making investment decisions. There were no changes to the investment strategy during the year as the intention is for the Scheme to be transitioned to a Master Trust in the near future.

**The Trustee's investment beliefs were unchanged over the Scheme year.**

#### **The expected risks and returns on your savings in the DC Scheme**

The investment risks relating to members' DC benefits are described in the SIP on pages 5 to 7 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 7.

**The Trustee believes that the main investment risks members face described in the SIP have not changed materially over the last year.**

**The Trustee is satisfied that, taking into account the different categories and ages of members, the current expected rates of investment return for the types of funds described in the SIP are still reasonable relative to the risks that members face, and that the investment options available are appropriate for managing those risks and meet the objectives set out in the SIP.**

**The Trustee are satisfied that the Scheme's mandates have broadly achieved the expected rates of return over the Scheme year, with a majority being passively managed and performing in line with their benchmarks. To achieve objectives relating to risks and returns, the Trustee regularly monitored these in conjunction with the investment adviser throughout the Scheme year.**

The Trustee's view 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) for the Scheme's lifestyle options (which gradually change the funds in which your savings are invested as you approach retirement).

**The Trustee's views on the long-term mix of investments for the Scheme's lifestyle option including the default arrangement did not change during the last year.**

### Platform providers and fund managers

#### Choice of platform providers and funds

The Trustee monitors the service of the platform provider used by the Scheme, Aegon, by:

- Scheduling periodic presentations from the platform provider at investment sub-committee meetings, which also includes the coverage of administrative issues.
- Delivering a Value for Members review every year, relative to the platform fee which members pay to the provider for the funds they operate and administer.

The Trustee monitors the performance of the funds used by the Scheme, with the help of their investment adviser, who produces a quarterly fund performance monitoring report, using data provided by Aegon.

There have been no changes to the platform provider last year, with changes made to the fund range as outlined on page 3 of this Statement.

**The Trustee is satisfied that the platform provider used by the Scheme remains appropriate.**

#### Ability to invest / disinvest promptly

It is important that your contributions can be invested promptly in the default arrangements or the investment options you have chosen and that your investments can be sold promptly when you want to change where they are invested, transfer your pension pot to another scheme or your benefits are due to be paid out when you retire.

**The Trustee is satisfied that money can be invested in and taken out of the Scheme's funds without delay as set out in the SIP.**

#### Changes in where funds are invested

The Trustee monitor the volume of buying and selling of the assets in which each fund is invested that is carried out by the funds' managers.

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund 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 fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

**The Trustee is satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives. Portfolio cashflows are monitored on a quarterly basis by the Trustee.**

#### Security of your savings in the Scheme

In addition to the normal investment risks faced investing in the funds used by the Scheme, the security of your savings in the Scheme depends upon:

- The financial strength of the investment platform provider used by the Scheme;
- The financial strength of the fund managers used by the investment platform; and
- The legal structure of the funds the Scheme invests in.

The financial strength of the platform provider and the fund managers has a bearing on the risk of losses to the Scheme's DC members caused by the remote chance of one of these institutions getting into financial difficulties. The legal structure of the funds used has a bearing on the degree to which the funds' assets are "ring-fenced" from the rest of the provider's or fund managers' business in the unlikely event that the provider or manager becomes insolvent.

**There have been no changes to the structure of the funds used by the Scheme during the last year. The Trustee is not aware of any material changes in the financial strength of the investment platform provider or the fund managers used by the platform in the last year – the Trustee verbally confirmed this with the investment platform.**

### Conflicts of interest

As described on page 14 of the SIP, the Trustee consider potential conflicts of interest:

- When choosing fund managers;
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

The Trustee expect the fund managers to invest the Scheme's assets in the members' best interests: this includes funds that offer a varying level of risk and return in accordance with the requirements of given members depending on their distance from retirement. As the funds used by the Scheme are held at arms-length from the Trustee via an investment platform, the Trustee have asked the platform provider to report on its own investment governance of the funds including potential conflicts of interest.

**The Trustee requests that the platform disclose any notable conflicts that arose during the Scheme year. The Trustee is satisfied that there were no major conflicts of interest that arose during the Scheme year as no major conflicts were declared.**

### Manager incentives

As described on page 8 and 9 of the SIP, the Trustee seek to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

The funds used by the Scheme are held at arms-length from the Trustee via an investment platform. Nevertheless, the Trustee believe it is in the platform provider's best commercial interests to ensure that the fund managers are suitably incentivised to meet their funds' investment objectives.

Funds are chosen which are suitable in terms of fees and expected performance for the Scheme's members. They are then monitored on a quarterly basis by the Trustee to ensure that they are taking the appropriate level of risk for the style of that given strategy. Fees and costs (including transaction costs) are monitored periodically and considered in the annual VfM assessment.

**The Trustee are satisfied that the fund managers are suitably incentivised to deliver good outcomes for the Scheme's members.**

### 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 your retirement benefits.

The Trustee invests in pooled funds and does not have discretion on the parameters and terms in which the funds are managed, including from an ESG angle.

Therefore, the Trustee has an expectation the fund managers will take into account financially material factors into their investment process at the pooled fund level to improve or protect the value of the underlying investments.

The Trustee periodically reviews the platform provider’s and fund managers’ approaches to sustainable investing. The Trustee receives annual reports from Aegon or the fund managers on how the fund managers have managed these risks.

**The Trustee is satisfied that during the last year the Scheme’s investments were invested in accordance with the policies on sustainable investing set out in the SIP.**

### Investment stewardship

As described on page 10 of the SIP, the Trustee believes it is important that the fund managers as shareholders or bond holders take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and / or engaging with the management on major issues which affect a company’s financial performance (and in turn the value of the Scheme’s investments).

As the Scheme’s investments are held at arms-length from the Trustee and members through an investment platform operated by Aegon (who themselves delegate investment management duties to BlackRock Investment management) the Trustee is not able to instruct the fund managers how they should vote on shareholder issues. The Trustee nevertheless:

- Delegates voting on shareholder issues to the underlying fund managers in accordance with the managers’ house policies;
- Expects fund managers to vote in a way which enhances the value of the funds in which the Scheme invests; and
- Monitors (with support from its investment consultant) how the fund managers exercise their voting rights.

The Trustee has also undertaken the following actions relative to the policies stated in the SIP:

- Reviewing the voting and engagement policies at the Scheme’s managers and receiving updates from Aegon (more details below).
- Considered the ESG approach undertaken by BlackRock in relation to the Dynamic Allocation Fund as part of the high-level strategy appraisal

### Voting activity

The Trustee seeks to ensure that their manager is exercising voting rights and where appropriate, to monitor managers’ voting patterns. The Trustee also monitors their investment manager’s voting on particular companies or issues that affect more than one company.

The Trustee is aware that their investment managers have used proxy voting services including Institutional Shareholder Services (“ISS”) and Glass Lewis, with some of the significant votes below highlighting instances where managers have voted against the recommendation from the proxy adviser.

A summary of each of the funds for which the Trustee was able to retrieve voting activity in the 12 months to 31 December 2020 is given below. We note that the Scheme also invests in the 'Finning Global Equity Fund', which invests solely in Aegon BlackRock World (ex-UK) Equity Index Fund, Aegon BlackRock UK Equity Index Fund and Aegon BlackRock Emerging Markets Equity Index Fund.

**Table 1: Voting summary for the Aegon BlackRock funds with equity exposure**

	Aegon BlackRock World (ex-UK) Equity Index	Aegon BlackRock UK Equity Index	Aegon BlackRock Emerging Markets Equity Index	Aegon BlackRock Dynamic Allocation
Proportion of total DC Scheme assets	50.8%	8.4%	6.1%	30.3%
No. of meetings eligible to vote at during the year	2,185	1,168	104	619
No. of resolutions eligible to vote on during the year	26,839	15,603	935	8,225
% of resolutions voted	93.2%	97.1%	82.5%	97.0%
% of resolutions voted with management	93.9%	94.5%	92.5%	95.3%
% of resolutions voted against management	8.2%	5.1%	4.8%	7.0%
% of resolutions abstained	0.3%	1.7%	3.6%	0.4%

**The Trustee are satisfied that the fund managers' voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.**

### Significant votes

The Trustee has asked Aegon to report on the most significant votes cast within the portfolio BlackRock manage on behalf of the Trustee for the Scheme's equity assets (or where an underlying security has voting rights). The underlying investment manager, BlackRock, were asked to explain the reasons why votes identified 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.. Each manager responsible for managing equity assets on the Scheme's behalf provided the Trustee with a long-list of significant votes.

Aegon were only able to provide examples of significant votes for the Aegon BlackRock World (ex-UK) Equity Index Fund. For Aegon BlackRock UK Equity Index fund, Aegon BlackRock Emerging Markets Equity Index Fund and Aegon BlackRock Dynamic Allocation Fund, all that was provided was the named investees with who BlackRock deemed significant votes had taken place with over the Scheme year. This information is set out below:

**Aegon BlackRock World (ex-UK) Equity Index**

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"
25 June 2020	Mizuho Financial Group	Mizuho FG received a shareholder proposal from a Japanese NGO to amend the company's Articles of Incorporation to add a clause to disclose in its annual reporting a plan outlining the business strategy to align its investments with the goals of Paris Agreement. In particular, the proponent believed that given Mizuho FG's lending exposure to coal-fired energy plants, the proposal would require Mizuho FG to step up its actions to adapt its strategy and disclosure on climate change risks.	BlackRock voted against the proposal as they believe the company now has policies in place that address the issues raised in the proposal. They took the view that Mizuho can drive more positive outcomes through engagement with clients in the energy and utilities sectors to help them adapt their businesses during the transition to a low carbon economy, rather than simply ceasing to lend to them.	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"



### Aegon BlackRock UK Equity Index fund

Examples of significant votes during Scheme year
Barclays Plc
BHP Group Plc
Evraz Plc
Ocado Group Plc

### Aegon BlackRock Emerging Markets Equity Index

Examples of significant votes during Scheme year
CEZ
Korea Electric Power Corp (KEPCO)
PGE
PT Indofood CBP Suskes Makur (ICBP)Ocado Group Plc

### Aegon BlackRock Dynamic Allocation Fund

Examples of significant votes during Scheme year
Amazon
Equinor
Exxon Mobil
Ocado

#### Ethical Investing

The Trustee recognise that some members will have strong views on where their pension savings should be invested.

The Trustee are comfortable with the current range of self-select funds offered to members. However, they have noted that the Scheme does not offer a property, Shariah or ESG related funds and that they may consider adding these types of funds to the self-select range in the future if the move to Master Trust does not complete in the short timescales expected.

**The Trustee's approach to ethical investing has not changed.**

#### Communication and member engagement

The Trustee's approach to communicating the Scheme's investment options and investment governance has not changed during the last year.

Member engagement is actively encouraged through a variety of means. During the last year the Trustee undertook the following to support member engagement:

- Publishing the SIP online;
- Producing an annual DC benefit statement, including statutory money purchase illustrations;

**During the last year the Trustee followed all of the policies and practices described in the SIP.**

### **Limitations and missing information**

The Trustee has been unable to obtain full information on:

- Aegon were unable to provide case studies for “Significant” votes for the Aegon BlackRock UK Equity Index fund, Aegon BlackRock Emerging Markets Equity Index Fund and Aegon BlackRock Dynamic Allocation Fund.

The Trustee believes 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 platform provider, fund managers (and voting service agencies) to compile this information in readiness for next year’s Implementation Statement.

### **More information**

We hope this Statement helps you understand how the Scheme’s investment of your savings for retirement has been managed in the last year. If you have any questions or feedback, please contact [finning.admin@aonhewitt.com](mailto:finning.admin@aonhewitt.com).