

The BW Plan

## **Implementation statement**

Year ending 31 March 2021





# Section 1: Introduction

This document is the Annual Implementation Statement (“the Statement”) prepared by the Trustee of the BW Plan (“the Plan”) covering the scheme year to 31 March 2021 (“the year”).

The purpose of this statement is to:

- Detail any reviews of the Statement of Investment Principles (“SIP”) the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review
- Set out the extent to which, in the opinion of the Trustee, the Plan’s SIP, required under section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it), has been followed during the year
- Describe the voting behaviour by, or on behalf of, the Trustee over the year (including most significant votes) and state any use of services of a proxy voter during that year.

A copy of this implementation statement will be made available on the following website alongside the Plan’s SIP:

<https://mypension.com/thebwplan/xpsbridge/the-bw-plan/>

**In summary, the Trustee considers that all SIP policies and principles were adhered to over the year.**

## Section 2: SIP reviews/changes over the year

The SIP was reviewed and updated during the year, with the relevant versions over the year:

1. August 2019 – This was the version in place as at the start of the year.
2. September 2020 – this is the most recent version of the document which was formally adopted by the Trustee and published on the website.

Updates to the Plan's SIP over the year were mainly to reflect new regulatory requirements to set out the Trustee's policies on:

- How the arrangement with the Investment Manager incentivises the Investment Manager to align its investment strategy and decisions with the Trustee's policies;
- How that arrangement incentivises the Investment Manager 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 Investment Manager's performance and the remuneration for asset management services are in line with the Trustee's policies;
- How the Trustee monitor portfolio turnover costs incurred by the Investment Manager, and how they define and monitor targeted portfolio turnover or turnover range;
- Sustainable investment, the extent to which non-financial matters are taken into account (if at all) and its policy on voting and engagement.

Other updates include:

- A change to re-base the asset allocation to reflect the strategy excluding the Plan's buy in policy for improved monitoring versus the Journey Plan and De-risking Framework.
- Removal of information on the Plan's AVCs following a bulk transfer of all remaining assets in the Plan's AVC arrangements with Aviva and Utmost to the Aegon Master Trust in September 2020. As such, there are no DC assets remaining in the Plan.
- Added in the performance objective and fee arrangements for the Plan's new investments in the Towers Watson Core Diversified Fund and BlackRock LDI Portfolio.

## Section 3: Adherence to the SIP

Overall, the Trustee believes the policies outlined in the SIP have been adhered to during the year. In this section we set out how this has been achieved.

### Plan's objectives and long-term policy

The Trustee has identified objectives for the Plan which are outlined in section 3 of the SIP. These include:

- a) The acquisition of suitable assets of appropriate liquidity which will generate income and an element of capital growth to meet, together with funding contributions from the Employer, the cost of accrued benefits which the Plan provides.
- b) To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter-term basis.
- c) To minimise the long-term costs of the Plan by generating return on the assets albeit the primary objective is to minimise the risks referred to in b.
- d) The Trustee aims to buy-out the Plan at some point in the next 5-10 years with the long-term journey plan being ratified and formalised during Q3 2020.

The investment policy is structured to support these objectives. To achieve this, the Trustee has an established journey plan for targeting these objectives, which includes adjustments to the strategic asset weights once certain funding goals are reached.

The Trustee regularly considers the strategic weights of its assets to ensure that the liquidity, expected return and risk is in line with Plan's objectives. Over the year investment changes implemented by the Plan included:

- A formalised Journey Plan, setting out the long-term objective of the Plan to reach 110% funded on the Self-Sufficiency basis (broadly equivalent to full funding on a Buy-Out basis) by August 2025.
- A formalised Dynamic De-risking Framework with triggers in place such that if the Plan gets sufficiently ahead of the target journey plan then de-risking can be implemented whilst still maintaining the overall target funding date of August 2025. Prescribed de-risked portfolios to be implemented upon hitting the triggers have been agreed to improve the speed at which de-risking opportunities can be captured.
- Implementation of the Core Diversified Fund, a multi-asset growth fund, in April 2020 for improved diversification across the Plan's return-seeking assets.
- Implementation of the Liability Driven Investments (LDI) portfolio in April 2020 to improve the risk management of the Plan's assets by more accurately hedging the impacts of interest rate and inflation sensitivities on the Plan's liabilities, and ultimately the risk of the funding level changing as a result. A target hedge ratio of 93% of interest rate and inflation was implemented as part of this mandate's objectives.

The Trustee take the below considerations into account when monitoring the performance of the Plan's investments.

SIP Policy Area	Approach	Actions
<b>Monitoring of the Plan's objectives and long-term policies</b>	<ul style="list-style-type: none"> <li>The Trustee conducts investment strategy reviews at least triennially and receives investment advice on an ongoing basis to assess the suitability of the Plan's portfolio. Quarterly performance monitoring is also considered when assessing the suitability of the Plan's portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>During the year, a strategic review of the Plan's investments was carried out to ratify the long-term objectives of the Plan. This was formally documented by the Trustee to target achieving a buy-out funding position by August 2025.</li> <li>During the year the Trustee met regularly to monitor the potential impact to the Plan of the COVID-19 outbreak including assessing any impact on the funding position.</li> <li>The Plan agreed to a de-risking framework to capture market opportunities, which is monitored closely on a daily basis by Asset Liability Suite (ALS) to automatically inform the Trustee if a trigger is close to being hit, or has been hit.</li> <li>The Plan has appointed Portfolio Evaluation as third party performance measurer to improve the quality and independence of performance monitoring of the Plan's assets.</li> </ul>

## Investment manager arrangements

The Trustee takes the below considerations into account when selecting and monitoring the performance of Investment Managers.

SIP Policy Area	Approach
<b>Incentivising Investment Managers to align their investment strategy and decisions with the Trustee's investment policies as set out in the SIP, and detail the length</b>	<ul style="list-style-type: none"> <li>Each Investment Manager is chosen for a targeted asset class or market exposure within the Plan's investment strategy.</li> <li>Investment Managers' investment and risk guidelines, including prescribed benchmarks and tracking error limits, help govern their investment mandates, thereby limiting the deviation from the Plan's investment policy objectives in relation to the kinds of investments held, the balance between different kinds of investments, risks, including the ways in which risks are measured and managed, the</li> </ul>

<b>of arrangements with Investment Managers</b>	expected return on investments, the realisation of investments, and financially material considerations.
<b>Incentivising Investment Managers to base their decisions on assessments of the medium to long-term financial performance of an issuer of debt or equity, and to engage with those issuers to improve their medium to long-term performance</b>	<ul style="list-style-type: none"> <li>• The Trustee conducts reviews of Investment Managers regularly including meeting with Investment Managers to ensure that their investment approach is robust, long-term focused and sustainable.</li> <li>• The Trustee focuses on longer-term outcomes when assessing Investment Manager performance. The Trustee would not expect to terminate a manager's appointment based purely on short term performance.</li> <li>• If, following engagement, it is the view of the Trustee that the degree of alignment between the policies of the Trustee and an Investment Manager remain unsatisfactory, the manager will be terminated and replaced.</li> </ul>
<b>Method and timescale for evaluating that Investment Managers' performance and fees align with the Trustees' investment policies</b>	<ul style="list-style-type: none"> <li>• Performance is monitored and reported to the Trustee on a regular basis. The Trustees understand the importance of assessing performance over longer time periods. Investment Managers' fees are consider as part of any decision to invest in a new investment manager or startegy, and are reviewed from time-to-time as appropriate.</li> </ul>
<b>Monitoring turnover costs and fees incurred by Investment Managers and how the Trustee defines and monitors targeted portfolio turnover</b>	<ul style="list-style-type: none"> <li>• The Trustee receives MiFID II compliant cost reporting on an annual basis that covers all costs charged by managers, including costs associated with portfolio turnover.</li> </ul>

## Risk management and compliance

The Trustee recognises several risks involved in the investment of the Plan's assets in the SIP including solvency risk, manager risk, liquidity risk, currency risk, custodial risk, political risk, sponsor risk and derivative-related risks. These risks are mitigated and considered when setting out the investment policies and are monitored on a regular basis.

The Plan's administrator (XPS) is responsible for ensuring there is sufficient cash reserves to meet any cashflow requirements. Advice on where to source any additional cashflow and is provided to the Trustee on an ad-hoc basis by the Investment Advisor. All disinvestments to meet cashflow requirements are subject to the processes agreed with the Trustee.

## Section 4: Engagement and voting

The Trustee's engagement policy is set out in the SIP.

The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to its Investment Managers. The approach and actions taken by the Trustee in relation to engagement and how it monitors the Plan's investment managers is set out in the previous section.

The table below sets out the voting activities of the Plan's Investment Managers, including any votes cast on the Trustee's behalf, detail on the Plan's Investment Managers use of proxy voting and examples of votes cast that they deem to be significant. For some of the Plan's underlying investment strategies, such as hedge funds, government bonds and property, whereby these holdings do not have voting rights attached these have been excluded from the table below.

Manager and strategy	Voting activity	Use of proxy voting	Most significant votes cast
BlackRock Aquila Life World Equity Index	Number of votes cast: 40,641  Percentage of eligible votes cast: 95.3%  Percentage of votes with management: 94.1%  Percentage of votes against management: 6.0%  Percentage of votes abstained from: 0.9%		Company: <b>Woodside Petroleum Ltd</b>  Resolution: Special Resolution to Amend the company Constitution, Ordinary Resolution on Paris Goals and Targets, Ordinary Resolution on Climate-Related Lobbying Item and Ordinary Resolution on Reputation Advertising Activities  Decision: Against  Rationale for inclusion: BIS voted with management and withheld support for the relevant proposals.  Company: <b>National Fuel Gas Company</b>  Resolution: Director election: to elect Director Jeffrey W. Shaw  Decision: Against  Rationale for inclusion: Insufficient progress with respect to climate-related reporting  Company: <b>Korea Electric Power Corporation</b>  Resolution: Elect Choi Young-ho as an Inside Director2 Item 2:

			<p>Elect Choi Young-ho as a Member of the Audit Committee</p> <p>Decision: For</p> <p>Rationale for inclusion: BlackRock voted in favour of the candidate for reasons including that he is a new nominee and therefore not responsible for KEPCO's past decisions.</p> <p>Company: <b>Facebook, Inc.</b></p> <p>Resolution: Manager Proposal to Elect Director Marc L. Andreessen</p> <p>Decision: Against</p> <p>Rationale for inclusion: Voted against as he serves on the Audit Committee and was considered independent. Vote against recommendations.</p> <p>Company: <b>Air Liquide SA</b></p> <p>Resolution: Re-elect Brian Gilvary as Director</p> <p>Decision: Against</p> <p>Rationale for inclusion: BIS voted against the re-election of Brian Gilvary for the company's lack of progress on climate-related reporting in alignment with the TCFD recommendations. Vote against recommendations.</p>
<p>Towers Watson Core Diversified Fund</p>	<p>Number of votes cast: 16,874</p> <p>Percentage of eligible votes cast: 99.6%</p> <p>Percentage of votes with management: 74.7%</p> <p>Percentage of votes against management: 24.7%</p> <p>Percentage of votes abstained from: 0.6%</p>	<p>Towers Watson Investment Management (TWIM) have engaged with EOS at Federated Hermes to provide voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership.</p> <p>Voting rights for the TW CDF's holdings are delegated to the underlying managers who are always expected to exercise voting rights. The underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. Where they choose to vote differently to the EOS recommendation, the</p>	<p>Company: <b>SF Holding</b></p> <p>Resolution: Authority to Give Guarantees for Company's Wholly-Owned Subsidiary to Issue Debt Financing Instruments Overseas</p> <p>Decision: For</p> <p>Rationale for inclusion: Vote against provider recommendations.</p> <p>Company: <b>Goodman Group</b></p>

		<p>underlying managers' rationale must be noted and if required, can be discussed further with EOS.</p>	<p>Resolution: Advisory Vote to Ratify Named Executive Officers' Compensation</p> <p>Decision: Against</p> <p>Rationale for inclusion: Vote against provider recommendations.</p> <p>Company: <b>Barclays</b></p> <p>Resolution: Resolution 29 Approve Barclays' Commitment in Tackling Climate Change Resolution 30 Approve ShareAction Requisitioned Resolution</p> <p>Decision: For</p> <p>Rationale for inclusion: Significant client interest in voting intentions and engagement activities in relation to the 2020 Barclays AGM.</p> <p>Company: <b>Olympus Corporation</b></p> <p>Resolution: Resolution 3.1: Elect Director Takeuchi, Yasuo at the company's annual shareholder meeting held on 30 July 2020.</p> <p>Decision: Against</p> <p>Rationale for inclusion: This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.</p>
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BlackRock data shown is for year ending 31 December 2020 due to availability of information. Manager's have provided an extensive list of significant votes, and full details can be made available on request.