Headlam Group Pension Plan (‘Plan’) Implementation Statement

1. Introduction

The Trustee is required to make publicly available online a statement (“the Implementation Statement”) covering the Headlam Group Pension Plan (“the Plan”) in relation to the Scheme’s Statement of Investment Principles (the “SIP”).

The SIP was amended twice during the year ending 5 April 2021 and the changes made were predominantly for regulatory updates relating to ESG factors, corporate governance and voting. This current SIP came into force from March 2021 and can be found here: https://www.headlam.com/media/1493/headlam-gpp-sip-2021.pdf.

This first Implementation Statement covers the Plan year from 6 April 2020 to 5 April 2021. It sets out:

- Details of any review of and/or changes made to the SIP;
- How, including the extent to which, the Plan’s SIP has been followed over the year;
- How, including the extent to which, the Trustee’s policies on exercising voting rights and engagement have been followed over the year; and
- The voting by or on behalf of the Trustee, including the most significant votes cast and any use of a proxy.

The Trustee believes that they have acted in accordance with and followed the policies set out in the SIP over the Plan year.

2. Summary of changes to the SIP during the Plan year

The Trustee reviewed the SIP twice during the year to 5 April 2021, with the updated versions coming into effect during September 2020 and subsequently in March 2021. The SIP had previously been updated in July 2019, so reviewing the SIP in 2020 and 2021 fulfilled the commitment to review them at least every 3 years.

The key updates reflected as part of these reviews were to:

- develop further the Trustee’s policy on corporate governance and stewardship. To help form these policies, the Trustee received training from its Fiduciary Manager covering responsible investment, the financial materiality of Environmental, Social and Governance (“ESG”) factors and stewardship. The policies set out in the SIP were formed following robust discussion informed by the training received. The Trustee has added policies to the Plans’ SIP to cover the following stewardship points:
    - how the Trustee incentivises managers to align their investment strategy with the trustee’s own.
    - how they incentivise the manager to assess investee companies’ medium to long-term financial and non-financial performance and engage accordingly.
    - how the method and time horizon for evaluating the manager’s performance, and the basis of its remuneration, are aligned with the trustee’s other investment policies.
    - how the trustee monitors portfolio turnover costs incurred.
    - the duration of their management arrangement.

- reflect the strategy and fund changes made over the Plan year:
    - amended investment strategy for the default lifestyle option, which now targets 25% Annuity, 25% Cash and 50% Pre-Retirement Wealth Builder at retirement.
    - additional lifestyle options targeting Annuity, Drawdown or 100% Cash at retirement,
    - new Annuity funds which replaced gilt funds.

3. Implementation of the Trustee’ policies during the Plan year

The following wording sets out the actions taken by the Trustee over the year to 5 April 2021 in order to follow various policies within the SIP.

Investment governance

The Trustee has governed the Plan in line with the SIP.

The Trustee met four times over the year to discuss investment matters. This allowed the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the appointed Fiduciary Manager as appropriate. There have been no changes to the Plan's investment governance policy over the Plan year.

Over the Plan year the Trustee received quarterly information on the performance of the investment strategy from its Fiduciary Manager. This information was formally reviewed by the Trustee and discussed with the Fiduciary Manager. During these discussions the Trustee ensured it was clear what the key portfolio activity was over the reporting period and the rationale for any portfolio changes, as well as the key contributors and detractors to investment performance over the period.

The quarterly investment governance reports the Trustee receives from its Fiduciary Managers includes information on the default strategy's exposure to ESG, ethical and carbon risk factors. Based on this ongoing assessment the Trustee is comfortable with the default strategy's level of exposure to these risk factors.

The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the Fiduciary Manager. The self-select funds, which comprise passively managed funds, effectively tracked their respective benchmarks gross of fees.

The Trustee is required to review the SIP at least every three years. This was undertaken in September 2020 and March 2021 with changes as described elsewhere in this Implementation Statement.

The Trustee is comfortable the investment strategy performed as expected during the Plan year, given wider market conditions. In particular, the Plan's default strategy protected from the worst of the equity market falls seen during the first quarter of 2020 in light of the coronavirus pandemic. During the volatile market conditions experienced in Q1 and Q2 2020 resulting from the Covid pandemic, the Trustee received regular updates from its Fiduciary Manager, covering market updates, changes made to the Plan's asset allocation and portfolio performance.

Corporate Governance and Stewardship

The SIP sets out how the Trustee delegates responsibility around corporate governance and stewardship to the Fiduciary Manager. The Trustee believes that the specific policies set out in the SIP have been complied with this year based on the below.

The Fiduciary Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the Underlying Investment Managers. The Plan's investments are generally made via pooled investment funds. As such, direct control of the process of engaging with the companies that issue these securities (whether equities, bonds, etc.) is delegated to the Underlying Investment Managers.

The Fiduciary Manager undertakes regular reviews of all Underlying Investment Managers.

Financially material factors including ESG and climate change

The Trustee attributes appropriate weight to ESG factors (and stewardship) when considering changes to the investment strategy and in appointing and reviewing investment managers. The Trustee's expectations for any current or future investment manager depends on the asset class involved, the degree of discretion given to the investment manager, and the time horizon over which the Trustee expect to hold the investment.

This section considers the actions taken and decisions made in connection with those changes.

The Fiduciary Manager, who takes investment decisions on behalf of the Trustee, is expected to follow the Plan's SIP in respect of financially material factors specifically ESG and climate change. The Trustee receives and reviews quarterly monitoring reports which include a matrix of ESG scores of the Plan's portfolio and details of carbon emissions.

The Fiduciary Manager considers the impact of the ESG characteristics and climate change at a total portfolio level and implications for risk and return on investments.

When the Fiduciary Manager invests the Plan's assets in equities, it typically uses a mandate where it can directly invest to take account of relevant factors such as ESG. For example, in its primary equity mandate with BNY Mellon, an Underlying Investment Manager, the Fiduciary Manager seeks to avoid investing in companies with poor or worsening ESG credentials, where ESG represents a risk to the value of the investment and seeks to invest in those companies with good or improving ESG credentials, where ESG represents an opportunity for investment growth. As examples, the Fiduciary Manager excluded a United States Healthcare provider due to poor safety issues and excluded a European pharmaceutical firm over poor corporate governance. The Trustee is satisfied that the policies in the SIP are being adhered to.

Where the Fiduciary Manager selects Underlying Investment Managers where it cannot directly influence ESG factors, how an Underlying Investment Manager evaluates ESG factors and mitigates ESG risks forms an important part of its evaluation at both investment and operational due-diligence stages. This may lead to the exclusion of potential Underlying Investment Managers.

Risk management

This section of the SIP sets out how risks are monitored and managed within the Plan. Many of these aspects are also covered in various other parts of the SIP and hence in this section there may be some repetition from other parts of the Implementation Statement. The Trustee is satisfied that risks are monitored in line with the SIP on the basis set out below.

The Trustee sets investment guidelines for the Fiduciary Manager which cover a range of risks to manage which are mitigated by minimum or maximum amounts of diversification, liquidity and counterparties. The Fiduciary Manager has operated within these restrictions throughout the Plan Year. The Trustee has monitored the Fiduciary Manager against the investment guidelines on a quarterly basis through quarterly monitoring reports and is satisfied that the guidelines have been adhered to on the basis of those reports.

The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the Fiduciary Manager. The self-select funds, which comprise passively managed funds, effectively tracked their respective benchmarks gross of fees.

Non-financially material factors

In line with the SIP, the Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.

Default Investment Strategy and Self-select range

The Trustee's objectives for the Plan are:

- To provide members with a robust default solution which makes available vehicles designed to focus on members' needs by:
    - Optimising the value of members' assets at retirement;
    - Maintaining the purchasing power of members' savings; and
    - Protecting the value of accumulated assets as members approach retirement.
- To provide members with a range of investment options to enable them to tailor their investment strategy to their own needs, should they not wish to partake in the default solution.
- To avoid over-complexity in investment in order to keep administration costs and member understanding to a reasonable level.

In 2019, the Trustee reviewed the composition of the underlying components of the default strategy and self-select options. Based on advice from their Fiduciary Manager, the Trustee decided to implement the following changes during the 2020 Plan year:

- update the default strategy to target 25% Annuity, 25% Cash and 50% Pre-Retirement Wealth Builder at retirement. The change was designed to accommodate members who may wish to access their pension pot flexibly – for example, splitting their retirement income between taking a cash lump sum, buying an annuity and leaving some money invested to draw down over time.
- introduce three alternative lifestyle strategies for members who wish to access their pot by choosing annuity purchase, remaining invested for income drawdown, and encashment at retirement respectively.

- replace Fixed Interest Gilt and Inflation linked Gilt with the Fixed Interest Annuity and Inflation linked Annuity funds respectively. The Trustee believes the new funds better reflect the needs of members who wish to target a fixed or inflation-linked income in retirement.

The Trustee is comfortable the investment strategy reflects the needs of the Plan's membership. In particular:

- a default strategy which gradually de-risks member's investments as they approach retirement, and reflects inflation-related investment return targets which are aligned to member's expected retirement income requirements; and
- a self-select fund range offering outside the default strategy that offers members a wide choice of asset classes and risk-based options, without the range being so large as to be overwhelming and hinder member decision-making. In addition, members can also choose to invest in the alternative lifestyle funds introduced during the Plan year.

Strategy implementation

The Trustee has chosen to incorporate active management within the default arrangement, through its Fiduciary Manager. This is aligned with the Trustee's investment belief that active management can add value by managing risk during adverse market conditions, and taking advantage of investment opportunities to generate return, subject to the agreed risk tolerances of the default arrangement's funds.

The Trustee has chosen to incorporate passive management within the self-select fund range (aside from the new self-select lifestyle profiles, which mirror the default arrangement during the growth phase). The Trustee believes passive management offers low cost, effective access to the core range of asset classes offered within the range, for those members actively choosing to access those asset classes.

The policies set out above were unchanged during the Plan year.

The Fiduciary Manager carried out a full due diligence review of the platform manager, Mobius Life, concluding during the 2020/21 Plan year. This review covered areas including corporate structure, organisational strength, security of assets, platform technology and reporting functionality. Based on this review, the Trustee remains comfortable with the appointment of Mobius Life as platform manager.

The Trustee receives quarterly reports from the Plan's administrators that enable it to monitor the administration service and, in particular, that agreed service levels are being met in relation to the accuracy and timeliness of core financial transactions, including correct investment of ongoing contributions.

Further detail regarding the processing of core financial transactions over the year is set out in the DC governance statement ("chair's statement").

The Trustee delegates the day-to-day management of the assets to various investment managers, these managers are accessed through the Mobius Life platform.

Aspects of implementation related to administration, investment of contributions and transitions are reviewed annually by the Trustee in their Value for Members assessment. Details of this is set out in the DC governance statement ("chair's statement").

4. Voting and Engagement Summary

The Trustee's investment advice is provided by River and Mercantile Investments Limited ("RAMIL"), a division of the River and Mercantile Group. The River and Mercantile Group is a PRI signatory and were rated A+ by PRI for their Strategy and Governance.

The Plan's investments are made via pooled investment funds via the Platform Manager, Mobius Life, in which the Plan's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, monitoring and voting, whether for corporate governance purposes or other financially material considerations, is delegated to the Underlying Investment Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to their Underlying Investment Manager holdings to Mobius Life, which implements its fund voting policy. At the fund manager level Mobius Life hold voting rights and at the underlying company/stock level, the Underlying Investment Manager holds the voting and engagement rights. The default blended funds include allocations to Exchange Traded Funds (ETFs), for which RAMIL holds voting rights. Over the year to 5 April 2021, RAMIL voted on two ordinary and one special resolution in relation to the Vanguard FTSE All-World UCITS fund. From the first quarter of 2020, RAMIL has enlisted a proxy voting service called Institutional Shareholder Services ("ISS") (to vote based on RAMIL's instruction), to increase the robustness of its voting process on these funds.

Summary

The key areas the Trustee note from voting and engagement activity across their Underlying Investment Managers over the Plan year is set out below. Voting activity is set out in the Appendix and engagement activity over the year has been collated separately with a summary provided here:

- Most managers were able to provide evidence of high levels of engagement activity.
- The common themes over the Plan year were environmental issues, (climate strategy in particular), executive pay and board diversity.
- Water stress and engagement on improving social targets were also key themes.
- Each relevant manager demonstrated very high levels of voting rights being acted on.
- Challenge to management was demonstrated through votes against management.
- Significant votes provided were typically in relation to board remuneration.
- BlackRock has a strong engagement philosophy and has made more commitments to this very recently.

The Trustee is satisfied that the voting and engagement activity undertaken by the Underlying Investment Managers is in line with the Trustee's policies contained in the SIP and that no changes are required to these policies at this time. The Trustee will keep the position under review.

Appendix A

As there are c. 30 managers in the default strategy, RAMIL have only included allocations which are 2.5% or higher as at 31 March 2021.

RAMIL have listed out the funds considered in detail below; RAMIL has not shown or considered allocations to gilt funds.

Asset class	Fund name	Maximum allocation within DC blended fund
Equity	BNY Mellon Investment Management – Equity Strategy	53.4%
Equity	Legal & General North America Equity Index – GBP Hedged	7.5%
Equity	Vanguard S&P 500 – ETF (USD)	3.7%
Equity	Vanguard FTSE All-World UCITS ETF	4.0%
Bonds	BlackRock Aquila Connect Corporate Bond All Stocks	4.9%
Bonds	BNY Mellon Efficient Global IG Corporate Beta Fund	7.6%
Bonds	BNY Mellon US High Yield Beta Fund (GBP Hedged)	12.4%
Bonds	Neuberger Berman Global Flexible Credit Fund (GBP hedged)	5.0%
Cash	BlackRock Asset Management – ICS Institutional Sterling Liquidity Fund	25.0%

Equity

Summary of voting activity – BNY Mellon Global Equity Fund

Total meetings eligible to vote	1,124
Total resolutions eligible to vote	14,052
% of resolutions did you vote on for which you were eligible?	98%
% did vote with management?	89%
% vote against management?	9%
% abstained	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	2%

- BNY Mellon uses Institutional Shareholder Services, "ISS", for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Plan holds.

Most significant vote(s) and examples of engagement

WALMART, INC.

BNY Mellon voted for a shareholder proposal requesting that Walmart publish a report on the impact of single-use plastic bags. In terms of phasing out plastic bags, in BNY Mellon's view Walmart does not lag its peers in the retail industry, but it lags it's peers in the grocery sector. BNY Mellon hold companies to a high environmental standard and believe this proposal will result in Walmart acknowledging the positive impact it can have through the elimination or reduction of single-use plastic bags.

THE PROCTER & GAMBLE COMPANY

BNY Mellon believe that Procter & Gamble lags its peers in terms of deforestation commitments and policies that monitor supplier actions. The company has been accused of contributing to the destruction of forests that have high wildlife and climate change value. The lack of information presents potential competitive and reputational risks to the company. As a result, BNY Mellon voted for a shareholder proposal requesting the company report on efforts to eliminate deforestation. BNY Mellon will continue to engage with the company to ensure that the lack of reporting is adequately addressed.

RIO TINTO LIMITED

In May 2020, BNYM voted for a proposal approving emission targets for Rio Tinto. BNYM believe this resolution will provide shareholders with increased transparency, allowing them to understand how the company is addressing climate change and mitigating these risks.

KELLOGG COMPANY

In an effort to promote accountability, BNYM voted for a shareholder proposal in April 2020 to declassify Kellogg's board of directors. BNYM believe it is beneficial for directors to be elected each year. BNYM maintain that a board that is refreshed annually is often best equipped with fresh viewpoints and counsel.

VISA, INC.

In January 2020, BNYM voted against the election of a director to Visa's board as the individual was serving on five boards. Generally, if an individual serves on more than five boards, BNYM vote against electing them to an additional board. BNYM expect the board members they elect to focus on their current board memberships, which BNYM believe is difficult to accomplish beyond a threshold of five boards.

ORACLE CORPORATION

BNYN withheld their vote for a director because the nominee owns a large stake in the company and pledged what BNYM believe is a disproportionate number of shares against that stake. Stock pledging can have a negative impact on the company. Should market conditions deteriorate, sudden forced selling could create an inordinate amount of technical pressure on a company's stock.

Summary of voting activity – Legal & General (LGIM) North America Equity Index – GBP Hedged

Total meetings eligible to vote	794
Total resolutions eligible to vote	9,495
% of resolutions did you vote on for which you were eligible?	100%
% did vote with management?	72%
% vote against management?	28%
% abstained	0%
% of voted resolutions, where voted contrary to ISS recommendation	8%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%

Most significant vote(s) and examples of engagement

MEDTRONIC PLC

- Following the end of the 2020 financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year.
- Prior to the AGM in December 2020, LGIM engaged with the company to communicate their concerns over one-off payments, as they believe it is contrary to best practice to award one-off awards, especially if they are to compensate for a forgone payment.

EXXON MOBIL

- In June 2019, under their annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, LGIM announced that they would be removing ExxonMobil from their Future World fund range, and will be voting against the chair of the board.
- Ahead of the company's annual general meeting in May 2020, LGIM also announced they will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, their voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.

Summary of voting activity – Vanguard S&P 500 – ETF (USD)

Total meetings eligible to vote	515
Total resolutions eligible to vote	6,611
% of resolutions did you vote on for which you were eligible?	99%
% did vote with management?	98%
% vote against management?	1%
% abstained	0%
% of voted resolutions, where voted contrary to ISS recommendation	15%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%

Most significant vote(s) and examples of engagement

JOHNSON AND JOHNSON

- During 2020, Vanguard met with company leaders at Johnson & Johnson (J&J) and discussed its process for developing a COVID-19 vaccine. Their director described how the board had been actively engaged with senior management about the measures implemented and other actions concerning COVID-19. That included J&J's joining eight other drug makers in signing a vaccine safety pledge, demonstrating the company's commitment to developing a vaccine using high ethical standards and sound scientific principles.
- J&J leaders also described both the clinical program and other steps the company was taking to ensure statistical evidence before submitting its vaccine for approval and said the entire board, because of the evolving nature of the pandemic, was part of the oversight of pandemic-related risks and opportunities. Although J&J has an active science, technology, and sustainability committee, oversight of pandemic matters continues to be a full-board operation.

ORACLE

- At each of Oracle's last four annual meetings, shareholders have been asked to vote on a shareholder proposal seeking a report on whether diversity pay gaps exist and on steps being taken to reduce any such gaps.
- In conjunction with these proposals, Vanguard has communicated regularly with Oracle's management and board of directors to better understand their programmes to address workforce diversity and pay equity, as well as the board's role in oversight of the programs. They offered their perspectives on diversity and inclusion and our expectations of portfolio company practices and disclosures.
- Over a number of years, Vanguard observed that Oracle had put in place programmes to improve representation in its workforce and had built a more diverse talent pipeline. They encouraged the company to continue implementing initiatives to address and improve diversity across its workforce.
- In 2020, breaking with their votes in previous years, Vanguard voted in favour of the pay-report proposal presented at Oracle's annual meeting. While they recognise that diversity pay gap disclosures can be imperfect representations of pay equity at a company, Vanguard believe Oracle's disclosure in these areas has shown little progress and has fallen behind their expectations of the market and, importantly, peers that Oracle competes with for talent.

Summary of voting activity – Vanguard FTSE All-World UCITS ETF

Total meetings eligible to vote	4,717
Total resolutions eligible to vote	51,936
% of resolutions did you vote on for which you were eligible?	99%
% did vote with management?	95%
% vote against management?	4%
% abstained	1%
% of voted resolutions, where voted contrary to ISS recommendation	23%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%

Most significant vote(s) and examples of engagement

PROCTER AND GAMBLE (P&G)

- In October 2020, Vanguard voted in favour of a proposal for P&G producing a report on their efforts to eliminate deforestation.
- Their analysis showed there was room for improvement in P&G's deforestation-related disclosure. In Vanguard's view, clear, comparable, and consistent disclosure provides transparency about a company's strategy and the strength of a board's risk oversight. P&G's palm oil and deforestation disclosure on its website did not provide an easy comparison with its own reporting via other platforms or with peers. Also, many of the notable achievements that the company highlighted in its most recent sustainability report were not directly comparable with its previously stated goals.
- As a result of these findings, Vanguard believed that a feasibility study, as suggested in the proposal, would help investors better understand how P&G plans to address material risks caused by deforestation across its supply chain.

NIKE

- In September 2020, Vanguard voted against a proposal to ratify some executive officer's compensation, in the form of "make-whole payments" intended to compensate incoming executives for earned compensation they lost when they left their previous companies.
- In speaking with company representatives, Vanguard learned that the CEO had left a large amount of money on the table when he departed his prior employer. In analysing the make-whole payments, they noted that a significant portion of the equity grant was made in the form of options subject to 20% stock appreciation over a period of up to 10 years, which Vanguard did not believe was sufficiently rigorous.
- As such, Vanguard voted against the Say on Pay; they will continue to monitor the executive compensation programmes at Nike.

Bonds

Voting is not applicable to bond holdings and as such, examples of manager engagement with underlying bond issuers is set out in this section where information is available.

BlackRock Aquila Connect Corporate Bond All Stocks

BlackRock has not provided examples of engagement with underlying issuers for this fund. At a firm level, the BlackRock Investment Stewardship (BIS) framework is applied to BlackRock's credit funds, together with external ESG research to give insight into ESG risks faced by issuers. Extra due diligence is performed on issuers that are low ranking on an ESG basis or are under controversy. BlackRock also produce a Sterling Fixed Income Engagement Report, which outlines their approach to engaging with fixed income issuers in more detail.

BNY Mellon: Efficient Global IG Corporate Beta Fund and US High Yield Beta Fund (GBP Hedged)

The manager's investment process for these funds does not currently involve engaging with issuers. An area under development is an ESG scoring matrix of parameters, which will use MSCI ESG data help the manager de-select especially low-scoring issuers.

Neuberger Berman (NB) Global Flexible Credit Fund

Most significant vote(s) and examples of engagement

ALTICE FRANCE SA (SFRFP)

- NB engaged with SFRFP throughout 2020 to create a set of engagement priorities aligned with sustainable development goals, which include upgrading the company's network to provide improved high-speed broadband access to its subscribers and providing coverage to unserved and underserved areas.
- In line with these goals, SFRFP (through its majority-owned fiber joint venture) completed the acquisition of Covage in December 2020, a French fiber infrastructure company with a significant focus on expanding rural broadband coverage in France. As a result, NB are confident in the company's continued commitment to bringing its services to underserved populations.

VEOLIA ENVIRONMENT (VIEFP)

- NB engaged with VIEFP throughout 2020 to develop a set of engagement priorities with a focus on converting all of its European coal fired generation plants sooner than 2030 and reaching their carbon emissions targets before 2023.
- Despite considering NB's push to implement a more aggressive emissions reduction and coal-fired plant conversion process, VIEFP have not yet committed to changing their timeline for these targets.
- NB continue to engage with VIEFP in these areas.

Cash

BlackRock – ICS Institutional Sterling Liquidity Fund

Due to the nature of this Fund's investments, it does not utilise vote proxies.