

Imperial Tobacco Pension Fund

Statement of Investment Principles – Defined Contribution Section

September 2020

1. Introduction

- 1.1 Imperial Tobacco Trustees Limited (“the Trustee”), as the Trustee of the Imperial Tobacco Pension Fund (the “Fund”), has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Fund’s investments. The Trustee’s investment responsibilities are governed by the Fund’s Trust Deed and Rules.
- 1.2 In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written investment advice from its Investment Consultant Isio Group Limited (“Isio”). In addition, consultation has been undertaken with Imperial Tobacco Ltd (“the Sponsor”) in agreeing this Statement and changes to it, the Fund’s investment arrangements and, in particular on the Trustee’s objectives.
- 1.3 This Statement applies to the Defined Contribution (DC) Section only. There is a separate Statement for the Defined Benefits Section.
- 1.4 This Statement is available to Fund members on request and is published publicly at imperialbrandsplc.com/about-us/governance.
- 1.5 The Trustee will monitor compliance with and review this Statement at least once every three years and will review it without delay if there are relevant, material changes to the investment arrangements, the Fund and/or the Sponsor. Any such review will be based on written expert investment advice and will be in consultation with the Sponsor.

For and on behalf of Imperial Tobacco Trustees Limited, as Trustee of the Imperial Tobacco Pension Fund

Signed

H F Clatworthy

Date 30 September 2020

2. Trustee Investment Objectives

2.1 In relation to the DC Section, the Trustee views its role as the following:

- To establish a default investment option appropriate for the needs of the membership.
- To make available a range of pooled investment funds which serve to meet the needs and risk tolerances of the members in a DC pension arrangement. The Trustee recognises that members of the Fund have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different time horizons and attitudes to risk. The Trustee believes that members should be able to make their own investment decisions based on their individual circumstances.

3. Fund Governance

3.1 The Trustee takes advice from its Investment Consultant and other professional advisers as appropriate. Fees for the Investment Consultant are based on an annually agreed retainer fee, with any work not covered by the retainer charged as a fixed fee or on a time costs basis as agreed in advance.

3.2 The Trustee is responsible for the investment of the Fund's assets and has ultimate control over the decisions on investment strategy. The Trustee decides what to delegate after considering whether it has the necessary internal skills, knowledge and professional support to make informed and effective decisions.

3.3 The Trustee has delegated certain investment powers to an Investment Committee with separate Terms of Reference.

4. Responsible Investment and Corporate Governance (Voting and Engagement)

4.1 The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

4.2 The Trustee has given appointed Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

4.3 The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in monitoring existing Investment Managers. Monitoring is undertaken on a regular basis and is documented at least annually. In particular, the Trustee makes use of ratings provided by Isio, the Fund's Investment Consultant, to facilitate this.

4.4 Once the Trustee has established ESG beliefs and clarified how these will be incorporated into investment decision making, this will be set out in a separate ESG Policy.

4.5 The Trustee has not set any investment restrictions on the appointed Investment Managers in relation to particular products or activities but may consider this in future.

5. Investment Policies

- 5.1 The Trustee has made available a range of individual self-select fund options for investment in addition to the default investment option. All of the funds allocated to within the default investment option are also available as self-select options. More details specifically related to the default investment option are provided in a separate section of this Statement.
- 5.2 The Trustee delegates the day-to-day investment decisions of the assets in the DC Section of the Fund to a range of Investment Managers through the DC service provider's (Aegon) Platform. The Trustee is responsible for the selection, appointment, removal and monitoring of these external Investment Managers. The Trustee has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing the Fund's investments and that the managers are carrying out their work competently.
- 5.3 In considering appropriate investments for the Fund, the Trustee has obtained and considered the written advice of its Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).
- 5.4 The Trustee's policies in relation to the Fund's investment management arrangements with the investment managers are set out in Appendix A.
- 5.5 In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets and therefore should be realisable based on member demand. It is the Trustee's policy to offer both active and passive management options to members, depending on asset class.
- 5.6 A range of asset classes has been made available, including: developed market equities, money market investments, index-linked gilts, diversified growth funds and annuity protection funds.
- 5.7 Members can combine the investment funds in any proportion in order to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances.
- 5.8 In addition, the Trustee has made available three different lifestyle investment options built to be suitable for a member who wishes to take either cash, an annuity (secured income) or follow income drawdown (variable income) at retirement. The lifestyle switching periods commence eight years before a member's Selected Retirement Age in the Fund.
- 5.9 The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
<p>Inflation Risk</p> <p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<p>The Trustee provides members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation</p>
<p>Pension Conversion Risk</p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The Trustee makes available three lifestyle strategies for DC members, each targeting either cash, drawdown or annuity.</p> <p>These lifestyle strategies increase the proportion of assets that more closely match the chosen retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination).</p>
<p>Market Risk</p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The Trustee provides members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.</p> <p>For the multi-asset funds which are targetting non-market benchmarks this is delegated to Investment Managers.</p>	<p>Monitors the performance of investment funds regularly.</p>
<p>Counterparty Risk</p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>Delegated to external Investment Managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitors the performance of investment funds regularly.</p>
<p>Currency Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>The Trustee provides diversified investment options that invest in local as well as overseas markets and currencies.</p> <p>Delegated to Investment Managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitors the performance of investment funds regularly.</p> <p>Considers the movements in foreign currencies relative to pound sterling in performance reporting.</p>

Risk	How it is managed	How it is measured
<p>Operational Risk</p> <p>A lack of robust internal processes, people and systems.</p>	<p>The Investment Consultant's ratings for fund managers include consideration of management of operational risk.</p>	<p>Concerns regarding operational risk are raised by the Investment Consultant.</p>
<p>Liquidity Risk</p> <p>Assets may not be readily marketable when required.</p>	<p>The Trustee accesses daily dealt and daily priced pooled funds through a unit-linked insurance contract from Aegon.</p>	<p>The pricing and dealing terms of the funds underlying the unit-linked insurance contract.</p>
<p>Valuation Risk</p> <p>The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.</p>	<p>Some multi-asset managers may hold illiquid assets. In such cases, the management of valuation risk is delegated to the external Investment Manager.</p> <p>The majority of Investment Managers invest solely in liquid quoted assets.</p>	<p>The Trustee monitors performance of funds.</p>
<p>Environmental, Social and Governance Risk</p> <p>ESG factors can have a significant effect on the performance of the investments held by the Fund e.g. extreme weather events, poor governance.</p>	<p>Delegated to Investment Managers.</p> <p>The Trustee's policy on ESG factors is set out in Section 3 of this Statement.</p>	<p>The Trustee reviews its Investment Managers' policies and actions in relation to this regularly.</p>
<p>Manager Skill / Alpha Risk</p> <p>Returns from active investment management may not meet expectations, leading to lower than expected returns to members.</p>	<p>The Trustee makes available a number of actively managed funds to DC members where they deem appropriate.</p> <p>The actively managed funds made available are highly rated by its Investment Consultant, based on forward-looking expectations of meeting objectives.</p>	<p>The Trustee considers the ratings of investment strategies from their Investment Consultant during the selection process.</p> <p>Trustee monitors performance and rating of funds on an ongoing basis relative to the fund's benchmark and stated targets/objective</p>

5.10 The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their Selected Retirement Age. It is for this reason that a number of lifestyle options have been made available to members.

Member views, when expressed, relating to all financial and non-financial matters are considered.

DEFAULT INVESTMENT OPTION

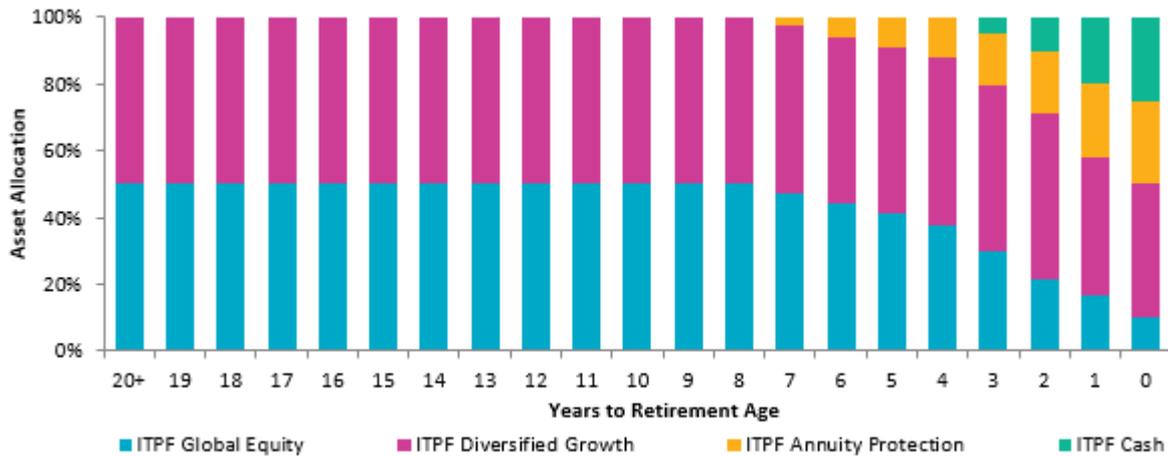
The Trustee recognises that not all members wish to make an active choice that is tailored to their individual circumstances. The vast majority of DC Fund members do not make an active investment decision and are, therefore, invested in the default option. However, it is expected that a proportion of members will actively choose the default option because they feel it is most appropriate for them.

6. Aims and Objectives

- 6.1 The lifestyle strategy targeting variable income drawdown has been chosen as the default investment option by the Trustee. This strategy initially aims to maximise returns, at an appropriate level of risk, for the majority of the members' working life before switching as retirement approaches into diversified funds, to target income drawdown.
- 6.2 The lifestyle strategy's growth phase invests in equities and other growth-seeking assets that will provide growth with some downside protection and some protection against inflation erosion.
- 6.3 As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default strategy which seeks to reduce investment risk as the member approaches retirement is appropriate.
- 6.4 An investment strategy that targets income drawdown at retirement is likely to meet a typical member's requirements for income in retirement. This is based on the Trustee's understanding of the Fund's membership profile. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or choosing their own investment strategy.

7. Investment Policies

- 7.1 In selecting assets, the Trustee considers the liquidity of the investments in the context of the likely needs of members. All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets and therefore should be realisable based on member demand. The default investment option includes both active and passive management, depending on asset class.
- 7.2 The default variable income lifestyle strategy aims to target an allocation which provides an appropriate retirement position for members wishing to take income drawdown in retirement. The target allocation consists of 30% cash, with the assumption that the average member opting for drawdown will want 25% tax free cash at retirement and then sufficient cash thereafter to meet the first year's expected income requirements. In addition, 50% is allocated to diversified growth assets, with the intention that this is the growth engine for the drawdown portfolio (with lower volatility than an explicit equity allocation given the path dependency issues associated with regular withdrawals). Finally, there is a 20% allocation to a Pre-Retirement Fund as a more defensive allocation as well as being an on-going source of liquidity. The strategy is as follows:



7.3 When designing the current default lifestyle strategy, the Trustee explicitly considered the trade-off between risk and expected returns. Risk was not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The default investment option allocates to a diversified strategic asset allocation consisting of traditional and alternative assets. The asset allocation is consistent with the expected amount of risk that is appropriate given the age of a member and their Selected Retirement Age.

7.4 The Trustee has considered risks from a number of perspectives The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
<p>Inflation Risk</p> <p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<p>During the growth phase of the default investment option the Trustee invests in a diversified range of assets which are likely to grow in real terms. The Trustee monitors the performance of the growth phase against the change in CPI.</p> <p>The default investment options invests in a diversified range of assets which are considered likely to grow in excess fo inflation.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation</p>
<p>Pension Conversion Risk</p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The default investment option is a lifestyle strategy which targets flexible access income drawdown as a retirement destination.</p> <p>The Trustee believes that a strategy targeting drawdown minimises the overall pension conversion risk for the relevant members accessing pots in a different manner (annuity or drawdown).</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation (the retirement destination).</p> <p>As part of the triennial default strategy review, the Trustee ensure the default destination remains appropriate.</p>

Risk	How it is managed	How it is measured
<p>Market Risk</p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p> <p>For the diversified growth funds which are targeting non-market benchmarks this is delegated to Investment Managers.</p>	<p>Monitors the performance of the default investment strategy regularly.</p>
<p>Counterparty Risk</p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>In line with the main DC section.</p> <p>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p>	<p>Monitors the performance of the default investment strategy regularly.</p>
<p>Currency Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>The equity allocation of the default investment option is invested in a fund without a currency hedge. Within the diversified growth funds the currency risk management is delegated to Investment Managers.</p> <p>Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p>	<p>Monitors the performance of the default investment strategy regularly.</p> <p>Considers the movements in foreign currencies relative to pound sterling in performance monitoring.</p>
<p>Manager Skill / Alpha Risk</p> <p>Returns from active investment management may not meet expectations, leading to lower than expected returns to members.</p>	<p>In line with the main DC Section.</p> <p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p>	<p>In line with the main DC Section.</p>

7.5 The above items listed in this section of this Statement are in relation to what the Trustee considers 'financially material considerations'. The appropriate time horizon for which to assess these considerations is the same as for the main DC Section.

7.6 Member views, when expressed, relating to all financial and non-financial matters are considered.

8. Member's Best Interests

- 8.1 Taking into account the demographics of the Fund's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the default strategy outlined in this document is appropriate.
- 8.2 In order to ensure this remains appropriate the Trustee will undertake a review the default investment option, at least triennially, or after significant changes to the Fund's demographic, if sooner.

Appendix A

The Trustee has the following policies in relation to the investment management arrangements for the Fund:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.</p>	<ul style="list-style-type: none"> • The Fund is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund's strategic objective.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> • The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.</p>	<ul style="list-style-type: none"> • The Trustee reviews the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fee rates are reviewed annually to ensure that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> • The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. The investment managers are required to provide transaction cost information on an annual basis, on the slippage cost methodology, for disclosure to members.
<p>The duration of the Fund's arrangements with the investment managers</p>	<ul style="list-style-type: none"> • The Fund invests in pooled funds, the duration of which is flexible and the Trustee will from time-to-time consider the appropriateness of the fund range and whether they should continue to be held.

Imperial Tobacco Pension Fund

Statement of Investment Principles – Defined Benefits Section

December 2020

1. Introduction

- 1.1 Imperial Tobacco Trustees Limited (“the Trustee”), as the Trustee of the Imperial Tobacco Pension Fund (the “Fund”), has drawn up this Statement of Investment Principles (the “Statement”) to comply with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Fund’s investments. The Trustee’s investment responsibilities are governed by the Fund’s Trust Deed and Rules.
- 1.2 In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written investment advice from its Investment Consultant Isio Group Limited (“Isio”). Where matters described in this Statement may affect the Fund’s funding policy, input has been obtained from the Fund Actuary. In addition, consultation has been undertaken with Imperial Tobacco Ltd (“the Sponsor”) in agreeing this Statement and changes to it, the Fund’s investment arrangements and, in particular on the Trustee’s objectives.
- 1.3 This Statement applies to the Defined Benefit (DB) section only. There is a separate Statement for the Defined Contribution (DC) section.
- 1.4 This Statement is available to Fund members on request and is published publicly at imperialbrandsplc.com/about-us/governance.
- 1.5 The Trustee will monitor compliance with and review this Statement at least once every three years, and will review it without delay if there are relevant, material changes to the investment arrangements, the Fund and/or the Sponsor. Any such review will be based on written expert investment advice and will be in consultation with the Sponsor.

For and on behalf of Imperial Tobacco Trustees Limited, as Trustee of the Imperial Tobacco Pension Fund

Signed H F Clatworthy

Date 15 December 2020

2. Fund Governance

- 2.1 The Trustee takes advice from its Investment Consultant, the Fund Actuary and other professional advisers as appropriate. Fees for the Investment Consultant are based on an annually agreed retainer fee, with any work not covered by the retainer charged as a fixed fee or on a time cost basis as agreed in advance.
- 2.2 The Trustee is responsible for the investment of the Fund's assets and has ultimate control over the decisions on investment strategy. The Trustee decides what to delegate after considering whether it has the necessary internal skills, knowledge and professional support to make informed and effective decisions.
- 2.3 The Trustee has delegated certain investment powers to an Investment Committee with separate Terms of Reference.

3. Responsible Investment and Corporate Governance (Voting and Engagement)

- 3.1 The Trustee believes that environmental, social, and corporate governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.
- 3.2 The Trustee has given appointed Investment Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.
- 3.3 The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in monitoring existing Investment Managers. Monitoring is undertaken on a regular basis and is documented at least annually. In particular, the Trustee makes use of ratings provided by Isio, the Fund's Investment Consultant, to facilitate this.
- 3.4 Once the Trustee has established ESG beliefs and clarified how these will be incorporated into investment decision making, this will be set out in a separate ESG Policy.
- 3.5 The Trustee has not set any investment restrictions on the appointed Investment Managers in relation to particular products or activities, but may consider this in future.

4. Investment Objectives

- 4.1 The Trustee's primary investment objective for the DB section is to invest the Fund's assets in an appropriate and secure manner such that members' benefit entitlements can be paid as and when they fall due.
- 4.2 In consultation with the Sponsor, the Trustee has adopted the following specific objectives:
 - 4.2.1 to target an expected return in excess of the growth in the liabilities, which in conjunction with the contributions to be paid by the Sponsor under the agreed Recovery Plan, is consistent with the following funding objective

- 4.2.2 To achieve and maintain an ongoing funding level of at least 100% on a buy-out basis by 2028.
- 4.3 With advice from Isio and the Fund Actuary, the Trustee has determined a target mix of asset types set out in Section 7. It is the intention of the Trustee to review the investment strategy on a regular basis, taking account of all financially material considerations over the Fund's anticipated lifetime.

5. Investment Policies

- 5.1 Overall investment policy falls into two parts:
 - 5.1.1 The strategic management of the assets, which is fundamentally the responsibility of the Trustee; and
 - 5.1.2 The day to day management of the assets, which is delegated to professional investment management firms, described in Section 8.
- 5.2 Member views, when expressed, relating to all financial and non-financial matters are given due consideration.
- 5.3 In considering appropriate investments for the Fund, the Trustee has obtained and considered the written advice of its Investment Consultant, whom the Trustee believes meet the requirement of Section 35 (5) of the Pensions Act 1995. The advice received and arrangements implemented are, in the Trustee's opinion, also consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

6. Risk and Return Targets

- 6.1 In order to meet the long-term funding objective, the Trustee takes investment risk in order to target a greater return than a pure liability matching portfolio.
- 6.2 Before deciding to take investment risk, the Trustee received appropriate advice and consulted with the Sponsor on the Strategic Investment Benchmark. In particular, the Trustee considered carefully the following possible consequences:
 - 6.2.1 The assets might not achieve the excess return relative to the liabilities anticipated over the longer term, potentially resulting in a deterioration of the Fund's financial position. This may result in a requirement for higher contributions from the Sponsor.
 - 6.2.2 The relative value of the assets and liabilities may be more volatile over the short term than if investment risk had not been taken. This volatility may expose the Fund to placing more reliance on the support of the Sponsor. This consequence is particularly serious if it coincides with the Sponsor being unable to make good an increased deficit.
 - 6.2.3 This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Sponsor's contribution rate set at successive actuarial valuations.
- 6.3 The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Sponsor and its willingness to contribute appropriately to the Fund. The financial strength of the Sponsor and its perceived commitment to the Fund is monitored, and the Trustee will review the investment strategy should either of these deteriorate.

- 6.4 In determining its investment policy, the Trustee has considered a number of financially material investment risks to which the Fund is exposed. As part of this, analysis has been undertaken to understand the Fund's funding level sensitivity to:
- Interest rates
 - Inflation
 - Credit risk
- 6.5 In addition, when considering the implementation of the investment policy, the Trustee has considered the risk associated with longevity, exposure to overseas currencies and illiquidity.
- 6.6 The Trustee has implemented the following measures to manage the risk associated with the investments:
- 6.6.1 To protect the Fund against changes to interest rates and market-implied inflation, the Trustee has implemented a Liability-Driven Investment ("LDI") strategy designed to replicate the majority of the sensitivities of the Fund's liabilities to these risk factors;
- 6.6.2 To diversify the risks that the Fund faces, the Trustee has set an investment strategy that uses multiple asset types, strategies, regions and sectors;
- 6.6.3 The Investment Managers are responsible for hedging any currency risk to reduce the potential impact of overseas currency exposure on the performance of mandates with exposure outside of the UK; Counterparty risk in derivatives is mitigated by both the Fund and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of derivatives held;
- 6.6.4 The assets are divided between a number of Investment Managers. This reduces the risk associated with one manager having responsibility for all of the Fund's assets;
- 6.6.5 The Trustee has a written agreement in place with the custodian (Northern Trust), which provides reasonable assurances of the physical security of the Fund's assets held by the custodian;
- 6.6.6 The Trustee has considered the liquidity of the Fund's assets in the context of likely cash flow needs, and is comfortable that the Fund's assets strike a suitable balance between accessing higher expected returns from less liquid investments and being able to meet these cash flow needs.
- 6.7 The Trustee monitors these risks on a regular basis and will consider any new financially material risks that may emerge from time to time.

7. Strategic Investment Benchmark

- 7.1 The Trustee's current target investment strategy is set out in the table below. The Fund's actual allocation is compared to this at regular Investment Committee meetings and adjustments are made as appropriate. There are no set ranges around the asset allocation and there may be substantial deviations from the below where the Trustee believe it is appropriate.

Asset Class	Strategic Benchmark
Bonds	70.0
Liability Driven Investments	48.5
Corporate Bonds	21.5
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Cashflow-Driven Alternatives	29.0
Property	6.0
Private Debt	5.0
Ground Lease Property	6.0
Secured Finance	8.5
Multi-Asset Credit	3.5
Cash	1.0
Total	100.0

- 7.2 Using capital market models, the above investment strategy is expected to strike the appropriate balance between expected return and risk, resulting in an acceptable probability of achieving the Trustee's objectives set out in Section 4.
- 7.3 The Trustee, with advice from the Fund's Investment Consultant and Fund Actuary, and in consultation with the Sponsor, reviews the Fund's investment strategy regularly. These reviews consider the Trustee's investment objectives, its ability and willingness to take risk and the appropriate mixture of the different types of investment risk.

8. Investment Manager Structure

- 8.1 Day-to-day management of the assets is delegated to professional Investment Managers who are all regulated.
- 8.2 The Investment Managers have full discretion to buy and sell investments on behalf of the Fund, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and each manages investments for the Fund to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.
- 8.3 The Trustee assesses the continuing suitability of the Fund's Investment Managers via quarterly reporting, the services provided by their Investment Consultant and when meeting each Investment Manager.
- 8.4 The Trustee invests the assets of the Fund via a mixture of pooled funds and direct holdings, under a mixture of active and passive management. The Trustee is satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments for risk management purposes.
- 8.5 The Trustee's policies in relation to the Fund's investment management arrangements with the investment managers are set out in Appendix A.

9. Cashflow Policy

- 9.1 The Trustee has adopted a rebalancing policy to keep the Fund assets broadly in line with the overall strategic benchmark. This is monitored at each Investment Committee meeting.

10. Additional Voluntary Contributions (“AVCs”)

- 10.1 The Trustee has made available a range of unit-linked funds for members of the Fund to invest their AVCs, having taken account of factors such as expected investment performance, risks, charges and administrative efficiency. Some members of the Fund hold AVCs in with-profits investments.

11. Realisation of Investments

- 11.1 The Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. When disinvestment is required in order to meet benefit outgo etc, the Trustee’s agreed policy is for the Investment Committee to determine the necessary disinvestments so as to maintain, as far as possible, the Fund’s overall asset allocation in line with its strategic benchmark as set out in Section 7 of this Statement.

Appendix A

The Trustee has the following policies in relation to the investment management arrangements for the Fund:

<p>How the investment managers are incentivised to align their investment strategy and decisions with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Fund is invested in some pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee’s policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund’s strategic objective. • The Trustee also has some segregated arrangements with the investment managers, thereby allowing investment managers to align their strategy with the Trustee’s policies. This is reviewed on an ongoing basis. • The Fund’s investments in the Hayfin Private Debt mandates and the M&G Secured Finance fund are subject to a performance related fee.
<p>How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.</p>	<ul style="list-style-type: none"> • The Trustee reviews the investment managers’ performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers’ engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
<p>How the method (and time horizon) of the evaluation of investment managers’ performance and the remuneration for their services are in line with the Trustee’s policies.</p>	<ul style="list-style-type: none"> • The Trustee reviews the performance of all of the Fund’s investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers’ performance objective, which is typically 3 to 5 years. • Investment manager fees are checked quarterly to make sure the correct amounts have been charged, and the fee rates are reviewed annually to ensure that they remain competitive.
<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> • Investment managers are asked to discuss portfolio turnover costs as part of their regular presentations to the Investment Committee. • The Trustee are in the process of engaging the services of a third party to analyse and optimise the Fund’s investment costs. • In practice, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the Fund's arrangements with the investment managers

- The duration of the arrangements is considered in the context of the type of fund the Fund invests in.
 - For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Fund's liquidity requirements.
 - For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

June 2021

Imperial Tobacco Pension Fund Implementation Statement

June 2021

Background and Implementation Statement

Background

The Department for Work and Pensions (DWP) is increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation statement.

Statement of Investment Principles (SIP)

The Imperial Tobacco Pension Fund ("Fund") has updated both its Defined Benefit ("DB") and Defined Contribution ("DC") SIPs in response to the DWP regulation to cover:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments
- policies in relation to investment management arrangements for the DB and DC sections

In addition, the SIP has been updated to reflect the creation of a specific ESG policy by the Trustee and a change in the strategic asset allocation for the DB Section.

The SIP can be found [here](#) and changes to the SIP are detailed on the following pages.

Implementation Statement

This Implementation Statement is to provide evidence that the Fund continues to follow and act on the principles outlined in the SIP. This statement details:

- actions the Trustee has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Trustee has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the year up to 31 December 2020 (due to the availability of data for the DC Section funds) for and on behalf of the Fund including, where available, the most significant votes cast by the Fund or on its behalf

Summary of key actions undertaken over the Fund's reporting year

- Over the year to 31 March 2021, the Investment Committee ("IC") refined the LDI portfolio in the DB Section to improve the match between the LDI assets and the liabilities.
- In November 2020, the IC agreed to move the Liability Driven Investment ("LDI") mandate to a 95% hedge ratio on an "additive basis" and to move to a more modern Investment management agreement (latest version signed in April 2021).
- As part of this decision, the IC agreed to transfer £150m from the Fund's LDI mandate to the Corporate Bond mandates. The proceeds were split evenly across the two existing Corporate Bond mandates, with £75m invested with AXA and £75m invested with LGIM. This was reflected in the new strategic asset allocation in the SIP update in December 2020. The transition completed in April 2021 (post reporting year-end).
- During the reporting year the Trustee conducted a review of the DC Section of the Fund's investment strategy. The review focused on 'strategic, structural and performance' considerations while looking at the appropriateness of the default lifestyle, alternative lifestyles and self-select fund range. As part of the review the Trustee considered how the DC section aligned with their ESG beliefs and policies and agreed to add an ESG equity fund and an equity fund which follows Shariah law to the self-select range.

Implementation Statement

This statement demonstrates that the Trustee of the Imperial Tobacco Pension Fund has adhered to its investment principles and its policies for managing financially-material considerations including ESG factors and climate change.

Signed *H F Clatworthy*
Position **Chair of Trustees**
Date **28 June 2021**

Managing risks and policy actions

Trustee policies for managing risks

The Trustee has identified the following risks that it has considered in the Fund's SIP. These risks and the Trustee's policies are set out in the tables below.

The key actions the Trustee has taken over the accounting year to address some of these risks have been highlighted in the table.

Defined Benefit Section

Risk / Policy	Definition	Policy	Actions
Interest rate and inflation	The Fund suffers a financial loss through exposure to interest rate and inflation risks on its liabilities or through exposure to interest rate and inflation risks on its assets, which differ from those on the liabilities.	The Trustee uses LDI to hedge the interest rate and inflation exposure, reducing the risk as far as practically possible.	<p>The Trustee has a segregated LDI portfolio to provide a bespoke interest rate and inflation hedge that replicates the majority of the sensitivities of the Fund's liabilities to these risk factors.</p> <p>The Trustee reviewed the target hedge ratio and hedging strategy, electing to increase the hedge to better align the LDI assets with the liabilities.</p>
Credit	Default on payments by issuers of corporate bonds and other debt assets the Fund holds or through reductions in the market values of those assets.	<p>The Trustee diversifies this risk by investing in a range of credit opportunities.</p> <p>The Trustee appoints investment managers who actively manage this risk and avoid defaults.</p>	No action.
Longevity	The risk that life expectancy and actual survival rates exceed expectations or the Fund's pricing assumptions.	The Trustee considers the risks associated with longevity when implementing the investment policy.	No action.
Concentration	Over-exposure to a single asset which suffers losses relative to the Fund's liabilities.	The Trustee has set an investment strategy that uses multiple asset types, strategies, regions and	No action.

		sectors to ensure diversification.	
Currency	The Fund suffers a financial loss through exposure to currencies other than sterling.	The Investment Managers are responsible for hedging any currency risk to reduce the potential impact of overseas currency exposure on the performance of mandates with exposure outside of the UK.	No action.
Counterparty	The Fund suffers a financial loss as a result of the failure of a counterparty to meet its obligations to the Fund (or to a fund in which the Fund invests).	The Fund and the counterparty both post collateral to the other party on a daily basis to account for market movements in the value of derivatives held.	No action.
Manager	The risk associated with one manager having responsibility for all of the Fund's assets.	The Trustee reduces this risk by dividing the assets between a number of investment managers. The Trustee monitors the investment managers' performance versus their benchmark and target on a regular basis.	The performance and capabilities of the existing managers were reviewed throughout the year.
Custodian	A custodian defaults or fails in its safekeeping of the Fund's assets leading to a financial loss for the Fund.	The Trustee has a written agreement in place with the custodian to assure the physical security of the Fund's assets held by the custodian.	No action.
Liquidity	The Fund is unable to raise cash when it needs to without incurring excessive costs.	The Trustee considered the liquidity of the Fund's assets in the context of likely cash flow needs.	No action.

Environmental, Social and Governance	<p>Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can have a material impact on investment risk and return outcomes.</p>	<p>The Trustee has a separate policy for ESG factors, and this can be found later in this document.</p>	<p>ESG actions undertaken:</p> <ul style="list-style-type: none"> • The Trustee reviewed the ESG policy in the Fund's SIP during the past year. • The managers' ESG policies were reviewed and presented to the Investment Committee in an Impact Assessment report. • The Investment Committee and Trustee received ESG training from its investment adviser in Q3/4 2020. <p>More details of the ESG policy and how it was implemented are presented later in this statement.</p>
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Defined Contribution Section

Risk / Policy	Definition	Policy	Actions
Inflation Risk	The real value (i.e. post inflation) value of members' accounts decreases.	The Trustee offers a default option which invests in a diversified range of assets which are likely to grow in real terms. There are also self-select fund options available across a range of asset classes, with the majority expected to keep pace with inflation. Members can set their own investment allocations, in line with their requirements versus inflation.	<p>The Trustee reviewed the ongoing suitability of the investment arrangements as part of their quarterly reporting and meeting structure.</p> <p>In addition, the triennial investment strategy review which was carried out in the year concluded the arrangements remained suitable for managing this risk.</p>
Pension Conversion Risk	Member's investments do not match how they would like to use their pots in retirement.	The Trustee makes available three lifestyle strategies, each targeting either cash, drawdown or annuity purchase at retirement. The default investment option is a lifestyle strategy which targets flexible access income drawdown as a retirement destination.	The Trustee undertook the triennial investment strategy review in the year, and concluded the arrangements remained suitable for managing this risk.
Market Risk	The value of securities, including equities and interest-bearing assets, can go down as well as up.	<p>The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.</p> <p>The Trustee also provides members with a range of funds, across various asset classes.</p>	<p>The Trustee reviewed the ongoing suitability of the investment arrangements, throughout the year as part of their quarterly reporting and meeting structure.</p> <p>In addition, the triennial investment strategy review which was carried out in the year concluded the arrangements remained suitable for managing this risk.</p>
Counterparty Risk	A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.	Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee.	No action.
Currency Risk	The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.	Investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustee. Within the diversified growth funds the currency risk management is delegated to Investment Managers.	<p>The Trustee regularly reviewed the impact of currency movements on the performance of funds as part of their quarterly meetings.</p> <p>In addition, the triennial investment strategy review which was carried out in the year concluded the arrangements remained</p>

			suitable for managing this risk.
Operational Risk	A lack of robust internal processes, people and systems.	The Investment Consultant's ratings for fund managers include consideration of management of operational risk.	The Investment Consultant monitors the fund managers on an ongoing basis, including changes to the team, business, risk management process and operations.
Liquidity Risk	Assets may not be readily marketable when required	The Trustee accesses daily dealt and daily priced pooled funds through a unit-linked insurance contract from Aegon.	The Trustee monitored the liquidity risk of assets regularly throughout the year at the quarterly Trustee meetings. In addition, the triennial investment strategy review which was carried out in the year concluded the arrangements remained suitable for managing this risk.
Valuation Risk	The value of an illiquid asset is based on a valuer's opinion, realised value upon sale may differ from this valuation.	The investment strategy predominantly invests in liquid assets. The diversified growth funds may hold illiquid assets. However, the management of valuation risk is delegated to Investment Managers.	The Trustee regularly reviewed the performance of funds as part of their quarterly reporting and meeting structure. In addition, the triennial investment strategy review which was carried out in the year concluded the arrangements remained suitable for managing this risk.
Environmental, Social and Governance Risk	ESG factors can have a significant effect on the performance of the investments held by the Fund e.g. extreme weather events, poor governance.	The Trustee has a separate policy for ESG factors, and this can be found later in this document.	The Trustee reviewed the extent ESG is embedded within the processes of the investment managers as part of the triennial investment strategy review carried out over the year. In addition, it was agreed to add a specialist ESG fund to the self-select range.
Manager Skill / Alpha Risk	Returns from active investment management may not meet expectations, leading to lower than expected returns to members.	The Trustee makes use of a number of actively managed funds to DC members where they deem appropriate.	The Trustee monitored the performance and ratings of the active funds regularly throughout the year at the quarterly Trustee meetings. In addition, the triennial investment strategy review which was carried out in the year concluded the arrangements remained suitable for managing this risk.

Changes to the SIP

Defined Benefit Section

Policies added to the SIP

Date updated: September 2020. In the 'Responsible Investment and Corporate Governance (Voting and Engagement)' section (section 3 of the SIP), reference was added to the Fund's ESG Policy based on the Trustee's ESG beliefs. In Appendix A, a description of policies was included in relation to the investment management arrangements for the Fund.

3.4 – ESG Policy reference

Once the Trustee has established ESG beliefs and clarified how these will be incorporated into investment decision making, this will be set out in a separate ESG Policy.

Appendix A – Investment management arrangements

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	<ul style="list-style-type: none">• The Fund is invested in some pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund's strategic objective.• The Trustee also has some segregated arrangements with the investment managers, thereby allowing investment managers to align their strategy with the Trustee's policies. This is reviewed on an ongoing basis.• The Fund's investments in the Hayfin Private Debt mandates and the M&G Secured Finance fund are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	<ul style="list-style-type: none">• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.• The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.• The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	<ul style="list-style-type: none">• The Trustee reviews the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.• The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.• Investment manager fees are checked quarterly to make sure the correct amounts have been charged, and the fee rates are reviewed annually to ensure that they remain competitive.

<p>The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.</p>	<ul style="list-style-type: none"> Investment managers are asked to discuss portfolio turnover costs as part of their regular presentations to the Investment Committee. The Trustee are in the process of engaging the services of a third party to analyse and optimise the Fund's investment costs. In practice, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
<p>The duration of the Fund's arrangements with the investment managers</p>	<ul style="list-style-type: none"> The duration of the arrangements is considered in the context of the type of fund the Fund invests in. <ul style="list-style-type: none"> For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and Fund's liquidity requirements. For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.

Date updated: December 2020. The target investment strategy of the Fund was updated in anticipation of the transition that took place in Q1 2021.

7.1 – Trustee's current target investment strategy

There are no set ranges around the asset allocation and there may be substantial deviations from the below where the Trustee believe it is appropriate.

Asset Class	Strategic Benchmark
Bonds	70.0
Liability Driven Investments	48.5
Corporate Bonds	21.5
Cashflow-Driven Alternatives	29.0
Property	6.0
Private Debt	5.0
Ground Lease Property	6.0
Secured Finance	8.5
Multi-Asset Credit	3.5
Cash	1.0
Total	100.0

Defined Contribution Section

Policies added to the SIP

Date updated: September 2020. In Appendix A, a description of policies was included in relation to the investment management arrangements for the Fund.

Appendix A – Investment management arrangements

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.

- The Fund is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the Fund's strategic objective.

How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.

- The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements.
- The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process.
- The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.

How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.

- The Trustee reviews the performance of all of the Fund's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
- The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years.
- Investment manager fee rates are reviewed annually to ensure that they remain competitive.

The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.

- The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis. The investment managers are required to provide transaction cost information on an annual basis, on the slippage cost methodology, for disclosure to members.

The duration of the Fund's arrangements with the investment managers

- The Fund invests in pooled funds, the duration of which is flexible and the Trustee will from time-to-time consider the appropriateness of the fund range and whether they should continue to be held.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Trustee's policy with regards to ESG as a financially material risk. This section details the Trustee's ESG policy and how it is implemented, as well as the Trustee's ESG beliefs.

The Trustee agreed the ESG beliefs set out in the ESG policy in December 2020.

Rationale for the policy

The Fund is a large institutional investor, investing on behalf of its members. As part of the Trustee's fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. The Trustee recognises that there is a need for the Fund to be a long-term, responsible investor to achieve sustainable returns.

The Trustee believes that it should be a responsible steward of its assets and consider the wider impacts, where possible, of its investment decisions on the environment and society. Where possible, and in line with the beliefs set out in the Policy, positive ESG outcomes will be targeted within the investment portfolios.

Impact of the policy on investment decision making

The Trustee decides the Fund's investment strategy and asset allocation. This includes which asset classes the Fund should be invested in. In making any portfolio construction decisions, the Trustee will have regard for the policy.

Within each asset class, the Trustee delegates the day-to-day investment decision making to the investment managers e.g. holding a bond issued by a particular company or exposure to a particular sector. In appointing and reviewing the Fund's investment managers, the Trustee, with the assistance of its investment consultant, considers the managers' expertise, track record and stated policies and frameworks on ESG related issues. Going forward, as part of the initial and ongoing due diligence of the Fund's investment managers, the Trustee will assess and monitor their considerations of ESG factors and how these are incorporated into their investment decision making.

In addition, the Trustee will consider opportunities that may arise from regulation on ESG factors or market dislocations and will receive training and updates periodically to update them on these trends and opportunities.

Implementing the policy

The Trustee will implement the policy through the following steps:

- i. The Trustee will continue to develop its understanding of ESG factors through annual training on ESG and keep themselves up to date on the latest sustainable investment opportunities.
- ii. The Trustee's ESG beliefs will be formally reviewed biennially or more frequently if required by the Trustee.

- iii. The Trustee will incorporate ESG criteria as part of new manager selection exercises, with explicit consideration of ESG factors for any segregated mandates.
- iv. The Trustee, with support from its investment consultant, will undertake annual reviews of the investment managers' approach to integrating ESG factors.
- v. Following the initial review, actions will be identified where investment managers are misaligned with the Trustee's ESG beliefs. The investment consultant will engage with each manager on the Trustee's behalf to remedy these issues where possible.
- vi. The investment managers' stewardship and engagement activities will be monitored on an ongoing basis and the Trustee will seek to understand the effectiveness of these activities.

Monitoring and reviewing the policy

The Trustee will monitor the Fund's assets against this policy on an ongoing basis, with the assistance of its investment consultant. The Trustee views the development of the policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the policy, the Trustee will take account of any significant developments in the market to ensure they are taking a best practice approach.

The Trustee's ESG beliefs

The Trustee has formulated a set of ESG beliefs to help underpin overall investment decision making. The Trustee's ESG beliefs have been summarised below.

Risk Management	<ol style="list-style-type: none"> 1. ESG factors can be financially material; identifying and mitigating these risks where possible forms part of the Trustee's fiduciary duty. 2. Whilst the Trustee wishes to invest in managers and funds that exhibit best practice in terms of ESG integration, the Trustee will continue to maximise the risk / reward profile of any investment. Any positive tilts to ESG factors will be made where the Trustee feels that these investments will generate superior long-term returns and/or lower risk. 3. The Trustee will consider the ESG values and priority areas of the sponsor.
Approach / Framework	<ol style="list-style-type: none"> 4. The Trustee will seek to understand how investment managers integrate ESG considerations into their investment decisions and include reference to ESG capabilities in future evaluation criteria when selecting new investment managers. 5. Specialist ESG fund/s will be offered in the self-select range in the DC section.
Voting & Engagement	<ol style="list-style-type: none"> 6. The Trustee will seek to understand each investment manager's approach to engaging with portfolio companies and the effectiveness of these activities. 7. Managers investing in companies' debt, as well as equity, have a responsibility to engage with the management of investee companies on ESG issues. 8. Engaging with investment managers is an effective way of initiating change and ensuring better alignment with the Trustee's ESG beliefs. There is a desire to engage with investment managers in the first instance rather than sell the Fund's holdings if issues are identified.
Reporting & Monitoring	<ol style="list-style-type: none"> 9. ESG factors are dynamic and continually evolving; therefore, the Trustee will receive training to develop and maintain an understanding of these factors. 10. Through the Trustee's regular reporting and ongoing due diligence of the Fund's investment managers, supported by its investment consultant, the

	<p>Trustee will seek to monitor suitable ESG metrics to understand the impact of investments.</p>
Collaboration	<p>11. The Trustee will take advice from its investment consultant to set appropriate ESG targets for the Fund.</p> <hr/> <p>12. Investment managers should sign up and comply with common codes and practices such as the UN PRI and the UK Stewardship Code. If they do not sign up, they should provide a valid reason why.</p> <p>13. Investment managers should engage and collaborate with other market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, social issues, risk management and debtholder rights.</p>

ESG summary and engagement with the investment managers

Impact Assessment results

In Q1 2021, Isio conducted due diligence on the ESG processes of the Fund's investment managers. The results were reported back to the Investment Committee in the form of an Impact Assessment.

The due diligence was conducted in line with the Trustee's ESG beliefs and Isio gave each manager an overall ESG rating and rated them in each of the following areas:

- Risk Management
- Investment Approach/Framework
- Voting and Engagement
- Reporting
- Collaboration

Using the results, Isio advised the Trustee on the potential engagement points, and progress against these points will be monitored over the coming year.

A summary of Isio's view on each of the managers' ESG process, and the key engagement points, is outlined in the following table.

Defined Benefit Section

Manager and Fund	ESG Summary	Actions identified
DTZ Property Portfolio	<p>DTZ have demonstrated that they review ESG risks throughout the life-cycle of an asset, with the fund managers taking responsibility for their respective portfolios.</p> <p>DTZ have an ESG Policy and sufficient support and evidence on how their processes adhere to the Policy.</p>	<p>DTZ should consider having a dedicated ESG team/officer in addition to the ESG oversight committee.</p> <p>DTZ should provide case study examples of their engagements with tenants to investors, along with the ESG-focused outcomes of these engagements.</p>
Apollo Multi-Asset Credit	<p>Apollo have been actively incorporating ESG considerations into their investment process for a number of years and are recognised as one of the leaders in ESG integration. They have a robust framework in place for successfully promoting ESG factors across the industry and portfolio companies.</p>	<p>Apollo should implement a centralised scorecard methodology for quantifying the materiality of ESG risks of each investment. Apollo also currently provide firm-level reporting on ESG activities, and it was proposed that this should be extended to quarterly fund-specific client reporting.</p>

AXA Secured Finance	<p>AXA apply firm-wide ESG standards and principles as part of their portfolio construction and management. However, these appear to be less robustly applied across the fund's holdings (e.g. AXA will still invest in CLOs containing industries that do not meet their firm-wide ESG criteria).</p> <p>Additionally, there is a lack of fundamental ESG reporting and fund-specific engagements.</p>	<p>Private investments give AXA a chance to engage with portfolio companies and push for positive ESG changes. This opportunity is currently not being taken – AXA should look to have impactful engagements with their private holdings in this fund.</p> <p>AXA could provide information relating to their ESG scoring of their public holdings as part of their standard reporting. In addition, AXA should provide case study examples of their engagement activity and outcomes.</p>
M&G Secured Finance	<p>M&G have made good progress on integrating ESG considerations into the fund's investment process and risk management process.</p> <p>M&G do not use KPIs to measure ESG engagements and do not provide any ESG reporting, however, M&G acknowledge this as an area of development for the future.</p>	<p>M&G could develop an ESG scorecard that can quantify ESG risks and define quantifiable objectives for analysts to use during the underwriting.</p> <p>M&G should detail fund-level ESG engagement activities and various ESG metrics (e.g. carbon intensity, water usage) in quarterly reports. Also, M&G should establish KPIs to measure the effectiveness of engagements.</p>
Hayfin Private Debt	<p>Hayfin have outlined ESG priorities, however, Hayfin's focus has been more on providing guidance rather than enforcing any ESG goals with its borrowers or establishing metrics it can use to measure effectiveness.</p> <p>While Hayfin has been a signatory to the UN PRI since 2018, we note that they have not been actively collaborating with others in the industry on ESG issues.</p>	<p>Hayfin could integrate an ESG scoring system into their risk management framework to allow quantitative analysis.</p> <p>Hayfin should incorporate information on engagement activity and ESG metrics in regular reports.</p> <p>Hayfin should actively collaborate with other investment managers to help foster development of ESG within the private credit sector.</p>
PGIM Ground Lease Property	<p>PGIM's ability to influence ESG-related decisions is limited given its position as freeholders on the ground lease contracts. However, we believe that the level of engagement could be greater at the fund level.</p> <p>At the wider firm level, PGIM collaborate well across many areas (UN PRI, GRESB) and include an ESG assessment for each investment.</p>	<p>PGIM should implement a centralised scorecard methodology for quantifying the materiality of ESG risks of each investment.</p> <p>PGIM should ensure they are actively engaging with counterparties on potential areas exposed to material ESG risks.</p> <p>PGIM to include ESG metrics (e.g. carbon emissions) and engagement activity information in fund-level regular reporting.</p>
LGIM LDI	<p>LGIM have a team dedicated to understanding and assessing the impact of ESG factors for the wider business.</p> <p>LGIM use proprietary tools to quantify and monitor ESG risks. LGIM believe engaging with regulators, governments and other industry participants will help mitigate ESG risks.</p> <p>Isio believe LGIM have a strong ESG framework relative to their competitors.</p>	<p>LGIM should include the ESG scoring of counterparties in regular client reporting.</p>

<p>LGIM Buy & Maintain Credit</p>	<p>It is clear LGIM are aware of ESG issues and how the impacts of ESG themes may affect the cash flows of a company, they have taken actions to integrate these themes within their investment process.</p> <p>However, there is a lack of fund-specific information with respect to engagement and reporting.</p> <p>ESG is considered more as a risk management tool at portfolio level and engagement with companies is effectively outsourced to other teams.</p>	<p>LGIM should provide more detail on how they have engaged with the companies held within their Buy and Maintain portfolios, including information on the ESG issues that have been raised/addressed, and the outcomes of LGIM's interventions.</p> <p>LGIM should provide standard and regular reporting (not only available on request), in relation to their Buy and Maintain offerings, outlining ESG risks and carbon emissions exposure.</p>
<p>AXA Buy & Maintain Credit</p>	<p>AXA place an emphasis on ESG integration within all aspects of portfolio construction and management with clear evidence of how this influences their investment decisions.</p> <p>They have identifiable, long-term sustainable development goals and have shown how they are actively pursuing these with their willingness to engage with companies to achieve these goals.</p>	<p>AXA should provide case study examples of their engagements with portfolio companies along with the outcomes of these engagements.</p> <p>AXA could provide a summary of recent engagement activities at fund level within their quarterly reports.</p>

Defined Contribution Section

The funds below are part of the Fund's default lifestyle strategy and self-select fund range.

Manager and Fund	ESG Summary	Actions identified
BlackRock Passive Equity Funds	<p>Given these are passive funds, the level of ESG integration that is possible is limited.</p> <p>BlackRock have a well resourced ESG team that manage ESG-related activity across the firm, however, we feel their approach to ESG is somewhat incoherent and lacks consistency.</p> <p>It is not clear how BlackRock incorporate their stewardship priorities into their voting and engagement activity or how effective their stewardship activities are on delivering on the priorities.</p>	<p>BlackRock could establish KPIs to drive their engagement priorities, e.g. climate change targets.</p> <p>BlackRock should incorporate ESG risk metrics and a voting and engagement summary in their regular fund reports.</p>
BlackRock Diversified Growth Fund	<p>BlackRock have clear firm-wide policies and have a dedicated team to deal with developing and implementing ESG initiatives.</p> <p>However, the lack of specific ESG aims and regular reporting for the fund needs to be addressed.</p>	<p>BlackRock could integrate ESG focussed indices into the fund's allocations.</p> <p>BlackRock should look to quantify KPIs and engage with portfolio companies to establish how they are working towards targets in relation to their ESG objectives. This would allow them to incorporate ESG risk metrics and a voting and engagement summary in their regular fund reports.</p>
Insight Diversified Growth Fund	<p>The fund is, to a degree, a little hamstrung by its investment approach. The lack of stock selection and significant use of derivatives means voting and engagement opportunities are somewhat restricted.</p> <p>We are pleased to see Insight taking into account material ESG risks in the portfolio and seeking to mitigate these via increasing the use of ESG-related derivatives.</p>	<p>Insight should establish ESG priorities for the fund and measure these against relevant risk metrics. Also, Insight should implement ESG risk reporting to regular fund reports.</p> <p>Insight should consider engaging with counterparties to derivatives on ESG issues.</p>
BlackRock Pre-Retirement Fund	<p>BlackRock has a clear firm-wide ESG framework managed by a dedicated team, recognising that ESG issues pose both financial and reputational risks.</p> <p>ESG objectives are not set for the fund's guidelines. As a result, ESG issues are only considered as part of BlackRock's firm-wide ESG beliefs and integrated within the investment process through risk analysis.</p>	<p>BlackRock should consider determining an independent ESG view alongside their fundamental credit view for each issue.</p> <p>BlackRock could develop fund-specific and measurable ESG objectives for the fund.</p> <p>BlackRock should provide engagement information at the fund level within regular reporting. BlackRock should also consider expanding their ESG metrics reporting to issues outside carbon emissions.</p>
BlackRock Passive Gilts Fund	<p>BlackRock has extensive firm-wide capabilities in assessing and applying ESG factors. However, there is limited scope for detailed ESG integration within the cash and government bond space.</p>	<p>BlackRock should incorporate ESG risk metrics and an engagement summary in their regular fund reports</p>

Engagement details

Isio will be engaging with the managers on the Trustee's behalf, to review their ESG policies and set actions and priorities. Isio will report back to the Trustee on a periodic basis with progress reports that will include updates on Isio's engagements with the managers.

Engagement

As the Fund invests via fund managers, the managers provided details on their engagement activity including a summary of the engagements by category.

Defined Benefit Section – 12 months to 31 March 2021

Fund name	Engagement summary	Commentary
DTZ Property Portfolio	Total engagements: 20 Environmental: 20	<p>DTZ operates a stakeholder engagement programme, to engage with all stakeholders and ensure they are supportive of the ESG programme, procedures, and objectives DTZ have in place. The firm also has a programme to engage with tenants and interested parties to help drive environmental and social performance at asset level. An annual survey is distributed to tenants to gauge satisfaction and to understand their ESG needs.</p> <p>DTZ have started to engage with tenants to provide energy and waste data. However, they have found it difficult to encourage responses. In May 2020, DTZ held 20 engagements with tenants to provide energy and waste data. DTZ received responses from 11 of the engagements.</p>
Apollo Multi-Asset Credit	Total engagements: 32 Environmental: 7 Social: 5 Governance: 6 Human Capital: 3 All ESG: 11	<p>Apollo have a clear due diligence and engagement framework. The team continually engage with portfolio companies through discussion with management, and these engagements have been a key driver for the production for formal company ESG reports and Key Performance Indicators. As bond investors, Apollo's voting rights are limited, making it more difficult to engage with portfolio companies in comparison to equity investors.</p> <p>Examples of significant engagements include:</p> <p>Clearway Energy - Apollo met with the firm's CEO and CFO to discuss the efficiency of the company's existing renewable wind farms, as well as the acquisition of new renewable wind and solar powered projects. Following this engagement, the company intend to invest at least \$300m in renewable energy projects during 2020.</p> <p>Gannett Co. Inc. – Apollo has engaged with Gannett at multiple Board meetings; this included discussions around the overall health of the organization and its environmental footprint. Following the engagements,</p>

		Gannett has set a goal of 50%+ of the workforce consisting of underrepresented groups by 2025 and has set a 1 million digital subscriber target by the end of 2020 to reduce newsprint usage.
AXA Secured Finance	AXA currently do not provide details of their engagement activity for the Global Secured Assets fund.	<p>The Fund does not employ specific ESG engagement - all ESG-focused engagement is considered at an AXA Investment Management firm-wide level. AXA's engagement focusses on ESG issues that have a material impact on issuer performance or reputation, and AXA opts to prioritise their key company exposures to maximise the likelihood of engagement success.</p> <p>AXA make use of a framework to judge engagement success, which involves an escalation process for companies not making sufficient progress towards defined milestones.</p>
M&G Secured Finance	<p>Total engagements: 35</p> <p>Environmental: 2</p> <p>Social: 1</p> <p>Governance: 31</p> <p>All ESG: 1</p>	<p>M&G have a systematic and regular approach to engagement throughout the lifetime of a deal. ESG issues, actions and engagement outcomes are documented and tracked by analysts using their internal proprietary dashboard.</p> <p>Examples of significant engagements include:</p> <p>Belmont Green Finance Ltd – M&G engaged with the company to understand the development of the COVID impact on their business and discuss the company's transition plans for LIBOR mortgages. As a result, M&G had an improved understanding of the main risk drivers in payment holidays e.g. self-employed, higher balances, owner-occupied, etc.</p> <p>Leaseplan – M&G engaged with Leaseplan to understand their ESG activity, transition towards less polluting fleet and data disclosure with regards to pool emission. Leaseplan's newly issued deal in 2021 had a high percentage of EV/Hybrid vehicles and high level of ESG disclosures.</p>
Hayfin Direct Lending Fund II	Hayfin currently do not provide details of their engagement activity for the Direct Lending Funds.	Hayfin engage with all borrowers and also with sponsors in instances where it is deemed more appropriate, with the aim of increasing the borrower/sponsor's ESG understanding. This is demonstrated through the annual survey as part of the manager's ESG oversight programme. However, Hayfin do not have any quantifiable targets established to measure engagement effectiveness.
Hayfin Direct Lending Fund III	Hayfin currently do not provide details of their engagement activity for the Direct Lending Funds.	Please see above.

PGIM Ground Lease Property	PGIM currently do not provide details of their engagement activity for the Ground Lease Property account.	Within the ground lease space, PGIM’s ability to influence is limited due to the “arms length” nature of transactions. However, they should still be actively engaging with counterparties on potential areas exposed to material ESG risks. PGIM are unable to provide clear evidence of engagements with counterparties on ESG risks.
LGIM LDI	LGIM currently do not provide details of their engagement activity for individual accounts.	<p>LGIM engage with regulators, governments and other industry participants to address long-term structural issues.</p> <p>LGIM believe in an active ownership approach. Therefore they aim to leverage the wider capabilities of the global firm, to actively engage with companies, to create positive change and value. Where engagements are unsuccessful, the team will assess where problems arose and new approaches to be employed.</p>
LGIM Buy & Maintain Credit	LGIM currently do not provide details of their engagement activity for individual accounts.	<p>LGIM actively co-ordinate engagement activity at a firm level, rather than on a fund-by-fund basis.</p> <p>LGIM do not employ a formal framework for measuring the success of an engagement, as they believe success is difficult to measure and is best reflected in the overall market value of an asset.</p>
AXA Buy & Maintain Credit	<p>Total engagements: 46</p> <p>Environmental: 17</p> <p>Social: 11</p> <p>Governance: 6</p> <p>Environmental & Governance: 3</p> <p>Social & Governance: 1</p> <p>All ESG: 8</p>	<p>AXA’s engagement focusses on ESG issues that have a material impact on issuer performance or reputation and opt to prioritise their key company exposures to maximise the likelihood of engagement success. AXA use a framework to judge engagement success, involving an escalation process for companies not making sufficient progress towards defined milestones.</p> <p>Examples of significant engagements include:</p> <p>BP Plc – AXA met with the Chief Executive Office, along with other investor members of the Climate Action 100+, to discuss the climate announcements and commitments made by the company. BP announced a new strategy that will reshape its business, BP committed to reduce emission by 30-35% and reduce the carbon intensity of products sold by more than 15% by 2030.</p> <p>Verizon Communications Inc – AXA gave the company negative feedback in relation to its first green bond issuance because the company did not commit to publishing an impact report at the time, a key requirement in AXA’s assessment process. Following the feedback, Verizon published impact reporting for the second green bond issues, and committed to keep doing so for future issuances.</p>

Defined Contribution Section – 12 months to 31 December 2020

Aegon has not been able to provide the requested information in the required PLSA template. However, Aegon has confirmed that they are working on a long-term solution to provide the information in the required format in future.

Voting

As the Fund invests via fund managers, Aegon was asked to collate and provide details on the voting actions of the underlying managers of the Fund's default lifestyle strategy funds, including a summary of the activity covering the reporting year up to 31 December 2020 (due to the availability of data for the DC Section funds information to 31 March 2021 was not available). Aegon was also asked for examples of any significant votes.

Given the DB Section does not have any equity investments, there are no voting actions to report.

Defined Contribution Section – 12 months to 31 December 2020

In the table below we report on the funds that are components of the Fund's DC default lifestyle strategy, capturing the majority of the DC Section's assets.

Fund name	Voting summary	Examples of significant votes
Aegon BlackRock Diversified Growth (BLK)	<p>Meetings eligible to vote for: 931</p> <p>Resolutions eligible to vote for: 11,872</p> <p>Resolutions voted: 11,371</p> <p>For votes: 10,456</p> <p>Against votes: 769</p> <p>Abstained from voting: 108</p> <p>Withheld from voting: 29</p> <p>Votes for management: 10,731</p> <p>Votes against management: 640</p>	Aegon has not been able to provide the requested information in the required PLSA template.
Aegon Insight Broad Opportunities (BLK)	<p>Meetings eligible to vote for: 0</p> <p>Resolutions eligible to vote for: 0</p> <p>Resolutions voted: 119</p> <p>For votes: 119</p> <p>Against votes: 0</p> <p>Abstained from voting: 0</p> <p>Withheld from voting: 0</p>	Please see above

	Votes for management: 119	
	Votes against management: 0	
Aegon BlackRock MSCI World Index (BLK)	Meetings eligible to vote for: 1,072	Please see above
	Resolutions eligible to vote for: 15,334	
	Resolutions voted: 14,013	
	For votes: 12,752	
	Against votes: 1,149	
	Abstained from voting: 96	
	Withheld from voting: 13	
	Votes for management: 13,036	
	Votes against management: 977	
Aegon BlackRock MSCI Currency Hedged World Index (BLK)	Meetings eligible to vote for: 1,072	Please see above
	Resolutions eligible to vote for: 15,334	
	Resolutions voted: 14,013	
	For votes: 12,752	
	Against votes: 1,149	
	Abstained from voting: 96	
	Withheld from voting: 13	
	Votes for management: 13,036	
	Votes against management: 977	
Aegon BlackRock Emerging Markets Equity Index (BLK)	Meetings eligible to vote for: 2,417	Please see above
	Resolutions eligible to vote for: 22,849	
	Resolutions voted: 22,174	
	For votes: 19,683	
	Against votes: 1,781	
	Abstained from voting: 678	
	Withheld from voting: 32	
	Votes for management: 20,252	
	Votes against management: 1,922	