Gates UK Pension Scheme

Implementation Statement for the year ending 5 April 2021

Introduction

This implementation statement has been prepared by the Trustees of the Gates UK Pension Scheme. The Scheme provides benefits calculated on a defined benefit (DB) basis for members in the DB Section and benefits calculated on a defined contribution (DC) basis for members in the DC Section.

The statement:

- sets out how, and the extent to which, the policies set out in the Statement of Investment Principles (the SIP) have been followed during the year;
- describes any review of the SIP, including an explanation of any changes made; and
- describes the voting behaviour by, or on behalf of, the Trustees over the same period.

The Trustees' policies contained in the SIP are underpinned by their investor beliefs, which have been developed in consultation with their investment consultant.

Trustees' overall assessment

In the opinion of the Trustees, the policies as set out in the SIP have been followed during the year ending 5 April 2021.

Review of the SIP

The Trustees' policies have been developed over time by the Trustees in conjunction with their investment consultant and are reviewed and updated periodically and at least every three years.

The SIP was reviewed during the Scheme year as a result of changes in legislation effective from 1 October 2020. This review resulted in the Trustees' policies in relation to their arrangements with their investment managers being updated in July 2020.

Policy in relation to the kinds of investments to be held

The Trustees have given full regard to their investment powers as set out in the Trust Deed and Rules and have considered the attributes of the various asset classes when deciding the kinds of investments to be held. The Scheme invests in pooled funds and cash, to manage costs, diversify investments and improve liquidity.

All investments made during the year have been in line with their investment powers.

Investment strategy and objectives

Investment strategy (DB Section)

The investment strategy for the Scheme is based on an analysis of its liability profile, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values demonstrate higher volatility. The Trustees are prepared to accept this higher volatility in order to aim to achieve the overall investment objective.

The Trustees are responsible for reviewing the investment strategy of the Scheme following each actuarial valuation in consultation with the Scheme's investment consultant. The Trustees may also reconsider the investment strategy outside the triennial valuation period where necessary.

An investment strategy was commenced during the year and it is still ongoing.

Policy in relation to the balance between various kinds of investments and the realisation of investments (DB Section)

The appointed investment manager holds a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market the manager maintains a diversified portfolio of stocks within pooled vehicles.

The Trustees require the investment manager to be able to realise the Scheme's investment in a reasonable timescale by reference to the market conditions existing at the time the disposal is required.

During the year, the Trustees have not made any changes to the mix of investments.

Policy in relation to the expected return on investments (DB Section)

Over the long term, the current investment strategy is considered to be consistent with the actuarial basis used by the Scheme Actuary at triennial actuarial valuations.

Investment strategy (DC Section)

The Scheme provides members in the DC Section with a range of funds in which to invest. These aim to allow members to achieve the following:

- maximising the value of retirement benefits so as to enable a reasonable standard of living in retirement;
- protecting the value of those benefits in the years approaching retirement against equity market falls and fluctuations in the cost of annuities (for those members that wish to purchase an annuity); and
- tailoring their investments to meet their own needs.

The Trustees also provide a default strategy to provide a balanced investment strategy for members who do not make an active investment choice.

The investment strategy was reviewed during the year and is shortly due to be concluded. This also included a review of the default lifestyle strategy and fund range.

As part of this review exercise, the Trustees:

- Considered demographic analysis of their membership
- Considered changes which could be made to the glidepath of the default investment strategy

- Considered alternative asset classes to incorporate into the default strategy and/or alternative lifestyle strategies and/or wider fund range

In considering these factors, the Trustees believe they have complied with their SIP regarding investment strategy considerations.

The next such review will be undertaken in 2023.

Policy in relation to the balance between various kinds of investments and the realisation of investments (DC Section)

During the Scheme year two lifestyle programmes were made available to members. All programmes entail younger members investing in a diversified fund, with the objective of maximising long-term real returns. In 2021 (after the end of the Scheme year) the default option for the Scheme is changing to a lifestyle programme which, at seven years from a member's expected retirement age, gradually switches from a 100% allocation to a diversified growth fund into a mix of 50% diversified growth fund, 25% bond fund and 25% cash fund, at the member's selected retirement age. Alternative lifestyle programmes that operate in a similar fashion to the default option but solely targets cash at retirement or the purchase of an annuity are also available for members to choose from.

Under normal market conditions the Trustees expect to be able to realise investments within a reasonable timescale although there remains the risk that certain assets may become less liquid in times of market stress. Dealing spreads and liquidity are monitored periodically by the investment consultant, particularly during periods of heightened volatility such as during the ongoing COVID-19 pandemic.

Policy in relation to the expected return on investments (DC Section)

The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the membership of the DC Section and having taken into account the risk considerations set out in the SIP.

Risk capacity and risk appetite

Policy in relation to risks (DB Section)

Although the Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustees recognise other contributory risks, including the following. Namely the risk:

- Associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- Of the investment managers failing to achieve the required rate of return.
- Due to the lack of diversification of investments.
- Of failure of the Scheme's Sponsoring Employer to meet its obligations.

The Trustees manage and measure these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

The divergence of the actual distribution of the investments from the benchmark weightings is partially controlled via a re-balancing arrangement with the investment manager.

Policy in relation to risks (DC Section)

The Trustees have considered risk from a number of perspectives. These are the risk that:

- the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
- investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,
- investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit.

The investment strategy for the default option has been chosen with the aim of reducing these risks.

The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves. To help address these risks, the Trustees also review the default option used and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

Stewardship in relation to the Scheme assets

Policies in relation to investment manager arrangements

The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, set by the investment manager, for their services. The Trustees have very limited to no influence over the objectives of these funds or the fees they charge (although fee discounts can be negotiated in certain circumstances).

There have been no changes to the benchmark/ objectives of the funds in which the Scheme invests over the year.

The Trustees, in conjunction with their investment consultant, have introduced a process to obtain and review the investment holding turnover costs incurred on the pooled funds used by the Scheme on an annual basis.

In addition, the Trustees receive information on any trading costs incurred as part of asset transfer work within either the DB or the DC Section, as and when these occur. The exercise is only undertaken if the expected benefits outweigh the expected costs. The Trustees note that, in respect of the DC Section, trading costs are also incurred in respect of member switches (including within the lifestyle strategy). Information on potential ongoing member switching costs for members in the DC Section is included within the Chair's Statement.

The investment managers have invested the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. In return the Trustees have paid their investment managers a fee which is a fixed percentage of assets under management.

The investment consultant has reviewed and evaluated the investment managers on behalf of the Trustees, including performance reviews, manager oversight meetings and operational due diligence reviews.

Investment manager monitoring and changes

During the year the Trustees received reports at Trustee meetings from the investment consultant examining the performance of the pooled funds used.

There have been no changes to the Scheme's existing investment manager arrangements.

Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Stewardship of investments

The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

The Trustees, in conjunction with their investment consultant, appoint their investment manager and choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment manager makes decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve its performance (and thereby the Scheme's performance) over an appropriate time horizon.

The Trustees' objective is to ensure that the investment managers have the financial interests of the Scheme members as their first priority when choosing investments. They may take social, environmental or ethical considerations into account only when these factors do not contradict this objective.

Stewardship - monitoring and engagement

The Trustees recognise that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

As all of the investments are held in pooled vehicles, the Trustees do not envisage being directly involved with peer to peer engagement in investee companies.

Investment manager engagement policies

The Scheme's investment manager is expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustees with information on how each investment manager engages in dialogue with the companies it invests in and how it exercises voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

These policies are publicly available on the investment manager's website.

Exercising rights and responsibilities

The Trustees recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment manager is expected to disclose annually a general description of its voting behaviour, an explanation of the most significant votes cast and report on the use of proxy voting advisers.

The investment manager uses proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

The Trustees do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour.

The Trustees consider the proportion of votes cast, and the proportion of votes against management and believe this to be an important (but not the only) consideration of investor behaviour.

The latest available information provided by the investment managers is as follows:

Voting behaviour

Investment Manager	Period	Proportion of votes cast	Proportion of votes against management
Legal & General Investment Management	12 months ending 31 March 2021	99%	18%

Trustees' engagement

The Trustees have reviewed the investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Trustees recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.