Annual Engagement Policy Implementation Statement

Tomkins Retirement Benefits Plan

Report to 5 April 2021

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The Trustee's primary objective is to meet their obligations to the beneficiaries both in the short and long-term, by maximising the probability of the Plan paying accrued benefits as they become due using the funding assumptions under the ongoing funding basis applying to the Plan.

The Trustee has the following specific objectives for how this primary objective is to be met.

- To have regard to the likelihood of the Plan's insolvency.
- To have regard to the Statutory Funding Objective following the most recent actuarial valuation.
- To have regard to the long-term cost of benefit provision.
- To have regard to the factors which might contribute to the contribution rate rising.
- To have regard to the Company's investment preferences.
- To consider and implement as appropriate any revised controls deemed necessary in accordance with the Plan's risk register.
- To have regard to the extent to which the asset allocation policy in place results in an appropriately diversified portfolio.

The Trustee regards the asset allocation as the decision which has most influence on the likelihood that they will achieve the primary objective in part through investment returns. The Trustee has direct responsibility for this decision which is made on the advice of its investment consultant and in consultation with the Company.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in exercising rights and stewardship obligations attached to the Plan's investments. The SIP was last reviewed in September 2020. The Trustee keeps the policies under regular review with the SIP subject to review at least triennially.

The Trustee believes that stewardship and ESG issues, including climate change, 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.

As the assets with the Investment Manager are managed in pooled funds, the Trustee accepts that the assets are subject to the investment manager's own policy when evaluating ESG issues, including climate change, and in exercising rights and stewardship obligations attached to the Plan's investments.

Similarly, the Trustee accepts that the Plan's voting rights are exercised by the investment manager in accordance with their own corporate governance policy and taking account of current best practice including the UK Corporate Governance Code and UK Stewardship Code. The Trustee reviews the managers' ESG and stewardship policies from time to time.

Equity managers who are authorised in the UK are expected to report to their adherence to the UK Stewardship Code on an annual basis.

The Plan's investment managers, Mercer Global Investments Europe Limited ("MGIE") and Legal & General Investment Management ("LGIM"), confirmed that they are signatories of the current UK Stewardship Code. LGIM and MGIE submitted the required reporting to the Financial Reporting Council by 31 March 2021 in order to be on the first list of signatories for the UK Stewardship Code 2020 (effective from 1 January 2020).

The Plan invests solely in bond assets (gilts, secured finance and corporate bonds). Whilst ESG issues are still relevant to risk control, there is less opportunity to influence investee company behaviour compared to equity holdings, although where relevant managers are encouraged to use their position as lenders of capital to engage with companies.

The following work was undertaken during the year to 5 April 2021 relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement policies were followed and implemented during the year.

Engagement

- The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The Trustee will consider the ESG ratings provided by their investment consultant and how each investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically. The Trustee will also consider ESG integration, climate change and stewardship when implementing future investment strategy decisions.

- Given that MGIE does not invest directly in companies, engagement with underlying companies is largely undertaken on behalf of MGIE by MGIE's appointed sub-investment managers, with MGIE monitoring and reporting on these engagements. MGIE has recently sent out its annual manager engagement survey, which aims to assess managers engagement activities, both at a general and thematic level which includes a focus on MGIE’s key priority engagement areas relating to climate change, modern slavery and diversity.

- LGIM engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).

- LGIM are able to provide multiple examples of active and successful engagement with issuers. An example of a specific engagement relating to the Buy and Maintain Credit Fund in which the Plan invests is BP. Specifically, LGIM engaged in relation to the firm’s strategy and role in the energy transition to a low carbon economy. LGIM’s key focus from a credit perspective was to re-enforce the stability of the credit rating and strength of the balance sheet as management take these decisions. Through investor calls and meetings with management and investor relations, LGIM highlighted their desire to see a credible plan to reposition the company and make it more resilient to the energy transition. In early August 2020, BP made a number of announcements that underline its shift towards low-carbon energy, at the expense of shrinking long term investment in fossil fuels.

Voting Activity

The Trustee delegates any voting rights that may be attached to the Plan’s investments to LGIM and the sub-investment managers appointed by MGIE (Schroders and Insight). Only in exceptional circumstances do bondholders have voting rights. The Trustee notes that voting opportunities primarily arise within equities, which the Plan does not explicitly hold, and the Trustee is not aware of any material equity exposure during the year arising from convertible bonds or bonds with equity-like or equity conversion features.