

The Willis Pension Scheme

Annual Implementation statement

For the Scheme year to 31 December 2023

1. Introduction

This document is the Annual Implementation Statement (“the Statement”) prepared by the Trustee of the Willis Pension Scheme (the “Scheme”) covering the Scheme year to 31 December 2023. The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustee, the engagement policy under the Scheme’s Statement of Investment Principles (“SIP”) has been followed during the year.
- describe the voting behaviour by, or on behalf of, the Trustee over the year.

The Trustee has sought appropriate advice from its Investment Adviser in drafting the Statement.

The SIP is a document that outlines the Trustee’s policies with respect to various aspects related to investing and managing the Scheme’s assets, including but not limited to investment managers, portfolio construction and risks.

The latest May 2024 version of the SIP can be found online:

<https://epa.towerswatson.com/accounts/wps/public/wtw-public-scheme-information/>

This Statement reflects the Scheme year to 31 December 2023. The SIP dated February 2022 covered the Scheme year to 31 December 2023 and was reviewed during the year but no material changes were made.

2. How the Trustee has adhered to its engagement and voting policies

Trustee Policies, activities and actions

The Trustee's policies on voting and engagement are set out in Sections 6, 7 and 10 of the Scheme's SIP dated February 2022. The Trustee has delegated responsibility for the exercising of voting rights and engagement activities to the Scheme's Fiduciary Manager and underlying investment managers. As a result, the Trustee considers that it is its responsibility to:

- Agree and document the overall policies for the Scheme with respect to Sustainable Investment, including the exercise of voting rights and engagement activities.
- To monitor, review and engage with the Scheme's Fiduciary Manager and investment managers with respect to how they have undertaken these activities.
- To monitor the overall risks to the agreed objectives presented by Sustainable Investment factors, including climate change, and ensure that these are managed appropriately.

Over the year, the Trustee has undertaken a number of actions in line with the policies documented in the Scheme's SIP, as set out below:

| Trustee Policies | Activity and Actions |
|--|--|
| 6.1. The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of their broader risk management framework. | To support the Trustee's monitoring of ESG factors, the Scheme undertook an annual Sustainability review presented at the Q4 Trustee meeting, which considered the approach of each manager in ESG Integration, Voting and Engagement, where relevant, relative to their peers as well as how this had changed over time. The view was that the majority of the managers were strong in their approach to these factors and the Scheme was in a positive position. |
| 6.3. The Trustee have adopted a medium-term time horizon for the assessment of financially material risks. | The Trustee agreed to maintain their medium-term time horizon for assessment which is currently identified as 2030 with 2040 representing the longer term. In line with this the Trustee identified its most material financial risks as climate change and biodiversity. These are expected to drive future monitoring and engagement. |
| 6.4. As part of its engagement policy, the Trustee considers reporting from the Scheme's Fiduciary Manager on at least an annual basis in order to assess: | As part of the annual SI review, the Trustee also reviewed a number of key sustainability metrics on the underlying assets held within the Scheme's portfolio. As part of this, the Fiduciary Manager, on behalf of the Trustee, engaged further with one |

| | |
|--|---|
| <ul style="list-style-type: none"> • 6.4.1. The sustainable investment policy and activities of the Fiduciary Manager and how these have been applied to the Scheme's portfolio. • 6.4.2. The sustainable investment, stewardship (including voting), ESG characteristics and engagement activities of each of the Scheme's investment managers. • 6.4.3. Other relevant matters in relation to the Scheme's investment managers including capital structure of investee companies and the associated management of actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings. | <p>of the managers to understand the carbon emission exposures within the portfolio and was comfortable with the outcome of the review.</p> <p>The Trustee received further training on the new DWP climate regulations and agreed its annual action plan for meeting the requirements set out. The Trustee published its first TCFD statement in July 2023, which documented its approach followed in relation to climate risks and opportunities. The Trustee is now expanding this work in its 2024 report.</p> <p>In preparation for the publication of the Scheme's second TCFD statement in 2024, the Trustee has also set a climate related target to achieve net zero greenhouse gas emissions (scope 1 and 2) by 2050, with a halving of the portfolio's non-government bond assets footprint by 2030 relative to a 2019 baseline. The Trustee measured and monitored the Scheme during the year against a balanced scorecard of Sustainable Investment metrics alongside this target.</p> |
| <p>6.5. Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the Fiduciary Manager further to understand the reason for this and to encourage it to engage with the manager on the Trustee's behalf.</p> | <p>All Investment managers confirmed alignment with the Trustee's policies in the form of the SIP over the Scheme year.</p> |
| <p>6.6. The Trustee expects the Fiduciary Manager to assess the alignment of each investment manager's approach to sustainable investment (including engagement) with its own before making an investment on the Scheme's behalf and on a periodic basis and engage with the investment managers to encourage further alignment as appropriate.</p> | <p>As part of the annual SI review at the Q4 Trustee meeting the FM assessed the alignment, along with wider ESG characteristics of the Scheme's investment managers.</p> <p>No new fund investments were made over the course of the year.</p> |
| <p>6.7. The Trustee expects the Fiduciary Manager to engage with the Scheme's investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.</p> | <p>The Trustee consider that stewardship is an important tool for managing risk and improving financial outcomes of the Scheme. However, the Trustee also acknowledges that Sustainable Investment is broad and therefore it makes sense to have a small number of stewardship priorities to focus engagements. The Trustee selected climate change and biodiversity as the key priorities going forward due belief that they are currently the most material financial factors. Reporting and engagement is therefore expected to continue to</p> |

| | |
|---|--|
| | <p>focus in those areas. Outlined in section 3 are a number of examples of underlying activities conducted by the Fiduciary Manager and underlying investment managers</p> |
| <p>6.8. The Trustee encourages and expects the Scheme's investment managers to sign up to local or other applicable stewardship codes, in keeping with good practice, subject to the extent of materiality for certain asset classes.</p> | <p>The Fiduciary Manager actively encourages the underlying asset managers to sign up to local stewardship goes, where relevant for the strategy, on an ongoing basis. The Fiduciary Manager is currently a signatory to the UK Stewardship Code over 2022 and has recently submitted its report for 2023 assessment.</p> |
| <p>6.9. The Trustee's policy is to delegate responsibility for exercising ownership rights (including voting rights) attached to investments is delegated to the Scheme's investment managers.</p> | <p>The Trustee reviewed and updated its formal Sustainable Investment (SI) Policy, reflecting the Trustee's newly agreed stewardship priorities (referred to below), the agreed climate metrics that are the focus of the Trustee's monitoring and the approach to conducting climate change scenario analysis.</p> <p>The Scheme has no equities, and thus the attached voting rights, within the investment portfolio. Outlined in section 3 are a number of examples of stewardship activities.</p> |
| <p>7.1. The Fiduciary Manager uses a number of different managers and mandates to implement the Trustee's investment policies.</p> | <p>The Fiduciary Manager has maintained a diverse range of underlying investment managers to implement its investment policies. There was no material change over the year.</p> |
| <p>7.2. The Trustee has delegated investment selection, de-selection and the ongoing management of relationships with investment managers to the Fiduciary Manager within guidelines set by the Trustee in the FMA. Investments will be made by the Fiduciary Manager on behalf and in the name of the Trustee, either directly in pooled vehicles or by the appointment of third-party investment managers to provide discretionary investment management services to the Trustee.</p> | <p>The Fiduciary Manager manages the portfolio dynamically on the Trustee's behalf and although there were no material changes to the funds invested in, there were some changes to the underlying investment managers.</p> |
| <p>7.3. The Trustee considers the Fiduciary Manager's performance in carrying out these responsibilities as part of its ongoing oversight of the Fiduciary Manager. The Trustee expects the Fiduciary Manager to ensure that the Scheme's investment portfolio, in aggregate, is consistent</p> | <p>The Trustee reviewed and updated its objectives for its investment consultant to ensure they were aligned with the goals for the Scheme. The Trustee also reviewed its investment consultant against the objectives set earlier in the year, including an assessment of their performance on the topic of Sustainable Investment. The Trustee</p> |

| | |
|---|--|
| <p>with the policies set out in this SIP. The Trustee expects the Fiduciary Manager to:</p> <ul style="list-style-type: none"> check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies contained in the SIP. set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the Trustee's policies contained in the SIP. | <p>deemed that this work was being carried out to a suitable standard and no action was taken.</p> <p>The Trustee also made some minor changes to the Fiduciary Manager guidelines over the year to ensure they remained consistent with the SIP.</p> |
| <p>7.5. The Trustee and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. However, the Fiduciary Manager may provide investment recommendations to the investment managers of certain pooled funds appointed where it considers it appropriate. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long-term objectives.</p> | <p>The Trustee reviews the Fiduciary Manager and underlying investment manager performance on a quarterly basis, with an emphasis on long-term performance rather than short-term outcomes. Where relevant, this also included considering changes to the WTW research ratings of the managers that the Trustee employs, via the Fiduciary Manager. No changes were made over the year as a result of this analysis.</p> |
| <p>7.6. The Trustee expects the Fiduciary Manager to select investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets.</p> | <p>The Fiduciary Manager maintained the portfolio of long term assets over the Scheme year and maintained conviction in the Scheme's investment managers.</p> |
| <p>7.7. When assessing an investment manager's performance, the Trustee expects the Fiduciary Manager to focus on longer-term outcomes, commensurate with the Trustee's position as a long-term investor. Consistent with this view, the Trustee does not expect that the Fiduciary Manager would terminate an investment based purely on short-term performance but recognises that an investment may be terminated within a short timeframe due to other factors such as a significant change in the relevant manager's business structure or investment team. The Trustee adopts the same long-term focus as part of its ongoing oversight of the Fiduciary Manager.</p> | <p>The Fiduciary Manager provides performance measurement against both an overall target and underlying benchmarks on a quarterly basis over multiple time frames to allow the Trustee to review performance.</p> <p>No investment managers were terminated over the Scheme year on the basis of performance.</p> |

| | |
|---|--|
| <p>7.9. The Trustee expects the Fiduciary Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment.</p> | <p>The FM carries out ongoing engagement with investment managers through their internal research team. Details of these engagements can be found in the Scheme's TCFD statement and the FM's stewardship code submission. Some activities are also included in section 3 of this statement.</p> |
| <p>7.10. The Trustee expects the Fiduciary Manager to consider the fee structures of investment managers and the alignment of interests created by these fee structures as part of its investment decision making process, both at the initial selection of an investment manager and on an ongoing basis.</p> | <p>Over 2023 the FM provided a full review of the Scheme's annual costs including investment manager fees, custodian fees, PPF levy, legal fees and audit fees as a proportion of the Scheme's overall costs. The Investment managers fees were further broken down into management fees, performance fees, ancillary costs and transactions costs confirming whether they were in line with expectations. No action was taken as a result of this monitoring over the year.</p> |
| <p>7.11. Investment managers are paid an ad valorem fee, in line with normal market practice, based on the value of assets that they manage for a given scope of services which includes consideration of long-term factors and engagement. Some of the managers may be paid incentive fees based on the performance achieved. The Trustee expects the Fiduciary Manager to review and report on the costs incurred in managing the Scheme's assets regularly, which includes the costs associated with portfolio turnover.</p> | <p>The Trustee reviewed the annual turnover of its underlying investment managers and compared these against comparable managers in the same asset class over the same year to confirm it is in line with the industry and the Trustee's expectations.</p> <p>The Trustee received MiFID II compliant cost reporting on the Scheme's investment managers, which covered the management fees, ancillary costs and transaction costs incurred over the year.</p> |
| <p>7.12. To maintain alignment with the SIP, investment managers are provided with the relevant sections of the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are requested to confirm that the management of the assets is consistent with those policies.</p> | <p>The Trustee has provided a copy of the Scheme's SIP to their Fiduciary manage to ensure the management of the Scheme assets are in line with this. No concerns were highlighted as part of this.</p> |

3. Voting policy and Engagement

Over 2023 the Scheme held no public market equities and thus had no voting rights attached to any of its underlying holdings. As such, the Scheme was not subject to any votes over 2023.

The Trustee believes Climate Change is a current priority when engaging with public policy, investment managers and corporates.

The Fiduciary Manager has committed to targeting net zero greenhouse gas emissions (scope 1 and 2) of the Scheme's non-government bond assets by 2050 at the latest, with a 50% reduction by 2030, in the portfolios that it manages including the Scheme's.

From a wider engagement perspective, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Fiduciary Manager represents client policies/sentiment to EOS via the Client Advisory Council, of which its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds. Some highlights from EOS' activities over 2023:

- Engagements with 1,041 companies on a total of 4,272 issues and objectives.
- 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
- Voting recommendations on 128,101 resolutions, with 22,716 against management.
- Active participation in a range of global stewardship initiatives.

The Fiduciary Manager engaged in several industry initiatives including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave, and subsequently retaining that status in 2021 and 2022. A report to seek to retain signatory status has recently been submitted for 2023.
- Co-founder of the Net Zero Investment Consultants Initiative
- Member of Net Zero Asset Managers Initiative
- Signatory of the Principles for Responsible Investment (PRI)
- Member of the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC)
- Co-founder of the Investment Consultants Sustainability Working Group
- Founding member of The Diversity Project
- Supporter of the Transition Pathway Initiative

A few additional key activities over 2023 included:

- Engaging with the Scheme's private markets managers to improve the provision of climate change related metric information
- Having TCFD reporting as a key priority for engagement with the underlying investment managers over the year

- Had several meetings with the Pensions Regulator covering topics such as improving the robustness of climate scenario analysis, the application of climate regulations to smaller schemes and how regulations might evolve in the area of Sustainable Investment

The Fiduciary Manager also ensures that the Scheme's underlying investment managers engagement on important ESG topics on behalf of the Scheme. Over 2023, key activities from the Scheme's investment managers included:

- The Scheme's long term credit manager, AXA, engaged with 31 issuers on ESG Topics. Of these engagements, 13 of these were on Climate Change and 5 were on biodiversity, which are the two stewardship priorities selected by the Trustee over 2023.
- The Scheme's other high quality credit manager, M&G, have invested heavily in proprietary and third party tools to increase transparency in periodic and ad-hoc reporting, using this to produce an ESG scorecard.
- Alcentra, the Collateralised Loan Obligations (CLO) manager, has enhanced its data quality and consistency for SI by engaging with MSCI and Bloomberg. It has also taken a more active role in engagement by becoming a signatory to the Principles for Responsible Investment (PRI) by and encouraging issuers to act in a sustainable manner
- TWIM SIF has improved the data collection process in line with the ongoing evolution of ESG requirements in the market and continues to engage with managers on their sustainability efforts to improve the stewardship efforts and reporting.
- CBRE, who manage a Secure Income Property mandate, have updated their Global Sustainability Policy to include new tools developed by their Sustainability Team and more accurately describe their approach given the greater complexity of sustainability requirements, regulations and disclosures.
- The Scheme's LDI manager BlackRock continues to engage with the UK Debt Management Office (DMO) and Her Majesty's Treasury (HMT) on the green financing framework they have developed

4. Conclusion

As a result of the activities set out in this document, the Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the Scheme year. In particular, the Trustee would highlight the following:

- It is satisfied that it has met the engagement policies over the Scheme year as set out in the SIP.
- It is satisfied with the ESG integration and levels of engagement of the Scheme's Fiduciary manager and underlying investment managers.
- Levels of engagement amongst credit managers are typically lower than in equity, and the Trustee expects this to improve over time. The Trustee expects the Fiduciary Manager to engage with credit managers where they do not feel that the levels of engagement are sufficient and will engage with the FM if this is not deemed adequate.
- It will continue to monitor, with input from the Fiduciary Manager, the investment managers' engagement practices on an annual basis.