

Trustee's Report (continued)

Implementation Statement DC

Twyford Bathrooms Pension Scheme Defined Contribution Section

Statement of Investment Principles – Implementation Statement

The purpose of this Statement is to provide information which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustee's Statement of Investment Principles (SIP) dated 28 September 2020 for the Defined Contribution (DC) Section of the Scheme have been implemented.

It also includes the Trustee's voting and engagement policies, as well as details of any review of the SIP during the year, subsequent changes made and the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustee, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 January 2022 to 31 December 2022.

Investment Objectives of the DC Section

The investment objectives of the DC Section are set out on page 1 of the Trustee's SIP. The Trustee's overall investment objective for the DC Section is to maximise the value of the member's retirement benefits subject to appropriate levels of investment risk for each member and acceptable management and administration costs.

Stewardship policy

The Trustee expects its Investment Manager to exercise ownership rights attracted to investments, including voting and engagement rights, in order to safeguard sustainable returns over this time frame. On an ongoing basis the Trustee will assess the stewardship and engagement activity of its Investment Manager (delegating to the Investment Consultant where appropriate). This will be done by reviewing the Investment Manager's voting and engagement policy, summary reports detailing the engagement and voting activity undertaken by the investment manager, and asking questions directly to the Investment Manager.

Review of the SIP

The Trustee last reviewed the SIP in September 2020, which was updated to comply with the new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustee has a policy on financially material considerations relating to ESG issues, including the risk associated with the impact of climate change. In addition, the Trustee has a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out in full below and are detailed in the Trustee's SIP.

The Trustee's policies on financially and non-financially material considerations, as well as engagement and voting activities were not updated in the SIP in force during the year.

Investment managers and funds in use

The assets of the DC Section are all invested with LGIM, and the Trustee rates this manager highly for its consideration of ESG factors as well as its active engagement in respect of the investments it holds.

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The Trustee did not change the funds available for use by members during the year. The investment funds used for the DC Section, within both the default lifestyling strategy and the self-select options available to members, are set out in the tables below:

Asset Class	Fund
Equities	LGIM Global Equity Fixed Weights 50:50 Index Fund
	LGIM UK Equity Index Fund
Multi asset	LGIM Managed Fund
	LGIM Distribution Fund
	LGIM Multi Asset Fund
Property	LGIM Property Fund
Corporate bonds	LGIM Corporate Bond Fund
Government bonds	LGIM All Stocks Gilts Index Fund
	LGIM Over 15 Year Gilts Index Fund
	LGIM Index Linked Gilts Index Fund
	LGIM Over 5 Year Index Linked Gilts Index Fund
Cash	LGIM Cash Fund

The default investment strategy, 'Twyford Lifestyle Profile', used for members invested in the DC Section is set out below:

Period prior to a member's target retirement age	Investment Default Approach
Up to 8 years prior to target retirement age	The approach invests wholly in the Global Equity 50:50 Fund.
From 8 years before target retirement age	Phased switches are made between the funds to achieve an allocation of 75% in the LGIM Multi Asset Fund and 25% in the LGIM Cash Fund by target retirement age.

Investment Governance

The Trustee is responsible for making investment decisions, and seeks advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustee's investment consultant.

The Trustee does not actively obtain views of the membership of the DC Section to help form its policies set out in the DC Section's SIP. The DC Section is comprised of a diverse membership, which the Trustee expects to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

The Trustee has put in place strategic objectives for Broadstone, as the Trustee's investment consultant, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were last reviewed by the Trustee in 2021.

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Trustee's Policies

The table below sets out how, and the extent to which, the relevant policies in the DC Section's SIP has been followed:

Requirement	Policy	Implementation of Policy
Process for Choosing Investments	<p>The process for choosing investments is as follows:</p> <ul style="list-style-type: none"> Identify appropriate investment objectives, Consider the risks faced by members of the DC Section, and Identify a range of investment options for members suitable to cover the range of likely investment objectives and risk tolerances over a member's working life. <p>In considering the appropriate investments for the DC Section the Trustee has obtained advice from Broadstone Corporate Benefits Limited, whom the Trustee believes to be suitably qualified to provide such advice as the Investment Consultant.</p>	No deviation from this policy over the year to 31 December 2022
Risk Management and Measurement	<p>The Trustee acknowledges that there are risks associated with any investment policy. The Trustee's policy is to review and manage these risks with their advisers in relation to:</p> <ul style="list-style-type: none"> the performance of the appointed fund managers, the nature of the investments held, and the benefits available to members at retirement. <p>The Trustee's policy is to ensure that any risks relating to the members' benefits that stem directly from their investment policy are managed by investing in assets that are consistent with the principles of their SIP and the wishes of the members.</p> <p>The Trustee monitors the performance of the investments on a regular basis and as a minimum on a yearly basis. The Trustee acknowledges that passive funds will not materially outperform their benchmark, but consider the features of passive investment to be most appropriate and offer best value for money for the Scheme's members.</p>	No deviation from this policy over the year to 31 December 2022
Default Investment Strategy	<p>The Trustee's primary objective for the default arrangement is to offer an investment strategy to satisfy the requirements of the majority of members without introducing complexity of investment. A further objective is to ensure that the funds are provided by a reputable investment manager and that those funds provide good value for money for the members, with charges kept to an appropriate level.</p>	No change in this policy over the year to 31 December 2022
Investment Self-Select Options	<p>Members are free to choose to invest in any combination of the self-select funds available via Legal & General. These funds are listed above.</p>	No change in this policy over the year to 31 December 2022

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Day-to-Day Management of the Assets	<p>The Trustee delegates the day-to-day management of the assets to LGIM.</p> <p>LGIM will supply Broadstone with sufficient information upon request to enable monitoring of financial and non-financial performance.</p> <p>The appropriateness of the Investment Manager's remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives both financial and non-financial.</p>	No deviation from this policy over the year to 31 December 2022
Realisation of Investments	The Trustee has delegated the responsibility for buying and selling investments to LGIM.	No deviation from this policy over the year to 31 December 2022
Financially and Non-Financially Material Considerations	The Trustee's policies on financially and non-financially material considerations is set out on pages 4-5 of the SIP and in full below.	No deviation from this policy over the year to 31 December 2022 (see below)
Additional Voluntary Contributions ('AVCs')	The Trustee is responsible for the investment of AVCs paid by members. AVCs are also invested with LGIM.	No deviation from this policy over the year to 31 December 2022

Financially and non-financially material considerations

The Trustee believes that the consideration of financially material ESG (including climate change and sustainability) factors in investment decision making can lead to better risk adjusted investment returns. The Trustee expects their Investment Manager, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee (delegating to the investment consultant where appropriate) assess the ESG integration capability of its Investment Manager.

Where ESG factors are non-financial (i.e., they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustee expects their Investment Manager, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a material reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG, quality of life considerations and ethical views) in relation to the selection, retention and realisation of investments.

The Trustee's views on how ESG issues are taken account of in each asset class used is set out below.

Asset Class	Active/Passive	Trustee's views
Equities	Passive	The Trustee acknowledges that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if they have concerns relating to ESG. The Trustee expects the investment manager to take ESG considerations into account by engaging with companies that form the index, and by exercising voting rights on these companies.

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Multi asset	Active	The Trustee expects the investment manager to take financially material ESG factors into account, given the active management style of the funds and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustee also expects its investment manager to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.
Property	Active	The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities. However, the Trustee expects the investment manager to have regard to ESG issues when properties are being sold and purchased within the portfolio, together with any opportunities to re-develop existing properties with ESG issues in mind.
Corporate bonds	Active	The Trustee expects the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustee also expects its investment manager to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights.
Government bonds	Passive	The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.
Cash	Active	The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

Voting rights and engagement activities

The Trustee and members currently invest in pooled investment funds with LGIM, and the Trustee acknowledges that this limits its ability to directly influence the investment manager. In particular, all voting activities have been delegated to the investment manager, as the Trustee does not have any legal right to vote on the underlying holdings, given the pooled nature of the DC Section's investments.

However, the Trustee periodically meets with the investment manager, to engage with them on how they have taken ESG issues and voting rights into account for the investment approaches they manage on behalf of the Trustee. As part of this, the Trustee will seek to challenge their investment manager on these matters where they think this is in the best interests of members.

Out of the funds held by the DC Section over the year, the funds shown in the table below contain publicly listed equity holdings. These funds have voting rights attached to the underlying equities held within the funds, and the Trustee has delegated these voting rights to the manager, where the manager sets its own voting policy. A summary of the votes made by the manager from 1 January 2022 to 31 December 2022 on behalf of the Trustee for each fund used by the members or available to use during the year was requested from the manager. We requested that the manager provides voting data broken down into Environmental, Social and Governance categories, however, the manager has informed us that the data is not yet available in this format. We will continue to request the breakdown of this data in future periods. The data in the table below is therefore provided at total fund level.

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Manager	Fund	Resolutions Voted On	Resolutions Voted:		
			For	Against	Abstained
LGIM	Global Equity Fixed Weights (50:50) Index Fund	40,751	82%	18%	-
LGIM	UK Equity Index Fund	10,848	95%	5%	-
LGIM	Managed Fund	72,947	79%	20%	1%
LGIM	Distribution Fund	72,832	79%	20%	1%
LGIM	Multi-Asset Fund	98,633	77%	22%	1%

All of the DC Section's assets are invested in pooled funds. Regarding proxy voting, LGIM do not use a proxy-voting service and voting is performed in-house.

The Trustee has requested details of the significant votes made on behalf of the DC Section by the manager for each fund which has voting rights. In determining significant votes, the manager's investment stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile votes which have such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at the manager's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an any manager engagement campaign, for example in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

Significant votes

The Trustee believes the following is the most significant vote undertaken on their behalf over the scheme year by LGIM:

SIGNIFICANT VOTE	
Investment Manager	LGIM
Company	Apple
Date of vote	4 March 2022
% of portfolio invested in firm	Not provided by LGIM
Resolution	Report on Civil Rights Audit
Why significant	LGIM consider proposals relating to diversity and inclusion policies to be a material risk to companies.
Voting decision	Voted For

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Manager comments	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
Vote outcome	The proposal was carried by the majority of shareholders.

Engagement activities

The Trustee has also delegated engagement activities to the Investment Manager. A notable engagement activity of the investment manager is provided below:

- LGIM’s Investment Stewardship and Climate Solutions teams spoke directly with the management of Capricorn, a smaller-scale oil and gas company who announced their intention to merge with other energy companies in 2022, which had raised some concerns about the company’s governance and decision-making process. LGIM voiced their concerns about the first proposed transaction to African-based Tullow Oil, as it did not seem to advance the energy transition strategy for Capricorn’s shareholders, in light of the increased exposure to oil prices and geographical risks. Additionally, LGIM believed that such a merger would have resulted in increased financial leverage and dramatically elevate climate transition risks. In further conversations with Capricorn, LGIM asked detailed questions about the process they had gone through in terms of deciding on this merger and whether other alternatives were considered. Nevertheless, despite mounting opposition from LGIM and other shareholders, Capricorn and Tullow initially proceeded with the merger before a decision was taken by Capricorn to abandon it, citing concerns about market conditions and external factors as the reason.

A second merger proposal with NewMed, an Israeli-based natural gas producer, was met with rising suspicion and even less support than the first. LGIM met again with Capricorn to voice their concerns. As a result of these unpopular proposals Palliser Capital, a key shareholder of Capricorn, called an Extraordinary General Meeting in January 2023 for shareholders to vote on a complete overhaul of the Capricorn Board of Directors.

The Trustee also considers an investment manager’s policies on stewardship and engagement when selecting and reviewing investment managers.

Monitoring of Investment Arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustee receives performance reports on a quarterly basis from the investment manager to ensure the investment objectives set out in the DC Section’s SIP are being met.

Signed:

Date: 28 July 2023

On behalf of the Trustee of the Twyford Bathrooms Pension Scheme – Defined Contribution Section