Implementation Statement

Yorkshire Copper Tube Pension Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations, amongst other things, require that trustees produce an annual Implementation Statement which outlines the following:

- A summary of the changes made to the Statement of Investment Principles ("SIP") over the scheme year;
- Evidence on how the Trustees have fulfilled the objectives and policies included in the SIP over the scheme year;
- Describe the voting behaviour by, or on behalf of the trustees (including the most significant votes cast by Trustees or on their behalf) during the scheme year and state any use of the services of a proxy voter during that year.

This Implementation Statement ("IS") has been prepared by the Trustees of the Yorkshire Copper Tube Pension Scheme (the "Scheme") and covers the Scheme year 1 April 2020 to 31 March 2021.

The IS covers the Defined Benefit (“DB”) assets of the Scheme and the equity fund in which the Defined Contribution (“DC”) assets were invested until they were transferred out of the Scheme to a Section 32 buy-out policy with Aviva in February 2021. The DC section of the Scheme was also invested in a fixed income fund and a cash fund managed by LGIM. The firm-level engagement policy and example of activity is detailed in the equity section, which remains relevant to this holding. This statement does not disclose information on the additional voluntary contribution (“AVC”) investments on the grounds of materiality. Additionally, annuity policies have not been included as the Trustees recognise that they cannot directly influence the investment process nor stewardship policies and practices of the annuity providers.

Summary of changes to the SIP

The Trustees have updated the Stewardship policy in the SIP in line with regulatory requirements and have expanded the SIP for policies such as costs transparency and incentivising managers. The updated wording outlines how the Trustees would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship policy.

As well as the above, there was a change in the Scheme's investment strategy during the Scheme year, where the assets were transferred to a fiduciary manager. Further to this, the DC investments were transferred to a Section 32 buy-out policy with Aviva in February 2021. The SIP was updated to reflect these developments.

The most recent SIP can be found at:
https://www.kme.com/fileadmin/DOWNLOADCENTER/ABOUT%20US/5%20Corporate/YCT_SIP_2021.pdf

Meeting Objectives and Policies Outlined in the SIP

We have considered the broad themes these objectives and policies fit into and have noted these below together with an explanation of how these objectives have been met and policies adhered to over the course of the year.

Investment objectives, risk and strategy

Policies in relation to the investment strategy and objective

The current investment strategy was set in line with the primary objectives outlined in Section 2.1 on the SIP. The strategy is made up of a hedging component, which aims to protect the funding level against changes in the value of the liabilities, and a growth component, which aims to reduce the funding deficit over time through positive investment returns.

Aon Investments Limited ("AIL") invests in a well-diversified portfolio of assets, across a range of asset classes and managers. There are a number of investment restrictions that apply to the portfolio (outlined in Section 3.5 of the SIP) and AIL invests according to these.

The current strategy targets investment returns of 2.5% p.a. above the Liability Benchmark (over rolling three year periods). AIL monitor the actual asset allocation and when it is appropriate to do so, will adjust the asset allocation.

Policies in relation to managing risk

The Trustees' policies with regards to investment risks as stated within the SIP have been appropriately carried out through various monitoring and actions over the year.

During the Scheme year, the Trustees transferred the assets to a fiduciary solution with AIL. This solution aims to manage mismatching risk by having an effective liability benchmark for the investment strategy. By investing in a well-diversified portfolio across a number of strategies and managers, the risks of inadequate diversification or inappropriate investment are managed. Country risk is managed by investing in assets across several regions and countries.

Liquidity risk is managed by the Scheme being invested in a high proportion of liquid assets through the fiduciary arrangement with AIL.

Underperformance risk, organisational risk and the risk of failing to meet objectives are addressed through the quarterly monitoring of the performance of the underlying managers and the fiduciary manager.

Currency risk is managed by AIL hedging the overseas equity investments.

Arrangements with asset managers

Policies in relation to appointing new managers

AIL will only appoint underlying asset managers who are “Buy” rated and achieve a minimum standard or rating for Environmental, Social and Governance ("ESG") factors from Aon's manager research team. Aon's ESG ratings are designed to assess whether asset managers integrate responsible investment, and more specifically ESG considerations, into their investment decision making process and ongoing stewardship. The ESG ratings are based on a variety of qualitative factors and are updated to reflect any changes or broader responsible investment developments. The ESG ratings of the underlying managers are reported in the quarterly monitoring reports. Additionally, AIL meets with each of the underlying managers on a six-monthly basis to carry out a session focused on ESG. These ESG focused sessions cover both how each manager incorporates ESG considerations into their investment process and their stewardship activity.

As part of Aon's investment manager research process, the governing documentation of investments is reviewed for appropriateness before a "Buy" rating is given.

Policies in relation to engagement with investment managers

AIL considers the suitability of the Plan's underlying investment managers on an ongoing basis, on behalf of the Trustees. Aon's investment manager research team meets the underlying managers on a regular basis to assess any changes in the investment staff, investment process, risk management and other manager evaluation factors to ascertain whether the overall rating assigned to the fund remains appropriate and the manager remains suitable to manage the assets.

The awareness regarding potential ESG risks in the investment strategy is also considered as part of monitoring and assigning the overall rating to the fund. Specifically, and as noted above, AIL meets with each of the underlying managers on a six-monthly basis to carry out a session focused on ESG.

The Trustees receive quarterly monitoring reports from AIL summarising the investment strategy, performance and longer-term positioning of the portfolio. The investment adviser provides a summary of these reports at Trustee meetings.

The Trustees also receive annual stewardship reports from AIL. These provide a summary of AIL's engagement activity as well as voting and engagement statistics for the underlying managers.

Responsible investment

Policies relating to Responsible Investment, ESG and Investment Stewardship

Over the year, the Trustees received verbal updates from its investment adviser on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making. This provided the Trustee with the required information to update the SIP, and also outlined the requirements of the IS.

To date, no managers have found to be falling significantly short of the standards expected by the Trustee in this area. On review of underlying asset managers' stewardship policies and voting statistics as part of the production of this statement, the Trustee is of the opinion that this policy has been adhered to.

Cost and performance

Policies in relation to Scheme charges

The Trustees receive quarterly monitoring reports from AIL which outline the performance of the Scheme's investments. Their investment adviser runs through these reports at Trustee meetings, giving the Trustees the opportunity to raise any questions in relation to performance or otherwise.

The Trustees, with assistance from Aon, will be collating and reviewing data on the costs incurred by the Scheme during the Scheme year; this includes fund management costs as well as other charges, such as transaction costs and custodian charges.

Engagement activity - Fiduciary Manager

Management of the DB Scheme's assets has been delegated to fiduciary manager, AIL. Through the delegated arrangement with AIL, the Scheme invests in a range of assets, including equity, fixed income, Liability Driven Investments ("LDI") and cash. This statement does not disclose stewardship information on any investments in LDI or cash due to the limited opportunity to influence behaviour through stewardship activity in respect of those asset classes.

AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers to manage investments on behalf of the Trustees.

AIL has undertaken a considerable amount of engagement activity over the period. AIL held around 35 ESG specific "deep-dive" meetings in 2020 with most of the equity and fixed income managers across its delegated platform. At these meetings, AIL discussed the voting and engagement activities undertaken by the investment managers during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of Responsible Investment moving forward. Similar meetings have been carried out through the beginning of 2021.

Aon Solutions UK Limited ("Aon") also actively engages with investment managers and this is used to support AIL in their fiduciary services.

Engagement example:

Aon maintained a dialogue with a leading investment manager on behalf of many Aon clients which invest with the manager. At the end of 2020, Aon had a discussion with the manager's Global Head of Stewardship about numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals.

Aon's analysis of the manager's voting actions showed that the manager had not been voting in a manner consistent with its public pledges on sustainability issues. The manager acknowledged that there was a disconnect between voting decisions made in the first half of 2020 and its commitment to sustainability, but that it had markedly changed its voting policies in the second half of 2020. The manager reassured Aon that, in future, voting decisions would better align with its stated positions on ESG matters. Aon expects to see this reflected in voting actions by mid-2021.

The manager has since provided further information on how it is updating its policies in a manner consistent with its strategy of intensifying engagement on sustainability.

Aon will continue to monitor and engage with the manager, scrutinising its voting and engagement actions. Aon is encouraged that the manager plans to strengthen its influence with invested companies to better effect.

Voting and Engagement – Underlying Managers

The Scheme is invested in a number of equity, fixed income and liquid alternative funds within the AIL Managed Growth Strategy, and fixed income via the AIL Low Risk Bonds Strategy. Additionally, the DC section of the Scheme was invested in the Legal & General Global Equity 50:50 Fixed Weights Index fund.

This section provides an overview of the voting (where applicable) and engagement activities of some of the most material managers over the reporting period.

Equity

The material equity investments held in the Scheme over the year were:

- Legal and General Investment Management ("LGIM") Multi Factor Equity Fund
- Legal & General (PMC) Global Equity 50:50 Fixed Weights Index currency hedged (underlying manager is LGIM)
- BlackRock Emerging Markets Equity Fund

The Trustees consider a significant vote broadly as a vote which the respective manager deems most significant to the Scheme, or a vote where more than 15% of votes were cast against management.

The below information relates to the specific funds the Scheme invested in over the period. As the DC allocation to the Legal & General equity fund was held for the majority of the reporting year, voting information for this fund is also shown for the 12 month period to 31 March 2021.

	LGIM Multi Factor Equity Fund	Legal & General Global Equity 50:50 Fixed Weights Index Fund	BlackRock Emerging Markets Equity Fund
% resolutions voted on for which the fund was eligible	99.9%	100.0%	96.8%
% that were voted against management	18.0%	16.3%	9.2%
% that were abstained from	0.2%	0.2%	2.8%

LGIM Multi Factor Equity Fund & L&G (PMC) Global Equity 50:50 Fixed Weights Index currency hedged Fund ("LGIM")

The Multi Factor Equity Fund was held within the DB section allocation to the AIL Managed Growth Strategy, while the DC assets were held in the Global Equity 50:50 Fixed Weights Fund. The following information is provided at a firm level in relation to LGIM and is therefore relevant to both holdings.

<u>Voting</u>

LGIM make use of the Institutional Shareholder Services ("ISS")'s proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools, but does not outsource any part of the strategic decisions. It has put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what it considers to be the minimum best practice standards all companies should observe. LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting example

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voted against the resolution to amend the directors' remuneration policy proposed by Pearson. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new Chief Executive Officer ("CEO") would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant on the basis that LGIM voted against management.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identifying the most material ESG issues
2. Formulating the engagement strategy
3. Enhancing the power of engagement
4. Public Policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on activity

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Engagement example

An example of LGIM's engagement was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of its suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on its effort to eliminate deforestation in its supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G had introduced a number of measures to ensure its business did not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

BlackRock Emerging Markets Equity Fund ("BlackRock")

The BlackRock fund was held within the DB section allocation to the AIL Managed Growth Strategy.

Voting

BlackRock use ISS's electronic platform to execute its vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. BlackRock's voting decisions are informed by internally-developed proxy voting guidelines, pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock increased its level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

Voting example

In December 2020, BlackRock voted against the management proposal to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited. In September 2020, Yanzhou Coal had proposed to acquire the equity interests held by Yangkuang Group. The key assets to be acquired included a coal liquefaction project, a supporting coal mine and a coal-fired power plant.

BlackRock noted Yanzhou Coal's rationale for making the acquisition, namely to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believed it was in its clients' best long-term economic interests to vote against the proposed acquisition due to two primary concerns:

1. The underlying valuation for the terms of the transaction
2. Management's oversight of the increasing uncertainty of the role of coal in the future and the potential stranded asset risk

On the latter, BlackRock is cautious about the potential stranded asset risks at Yanzhou Coal. The coal-fired power sector in China is facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. Therefore, such an acquisition could exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonisation targets.

BlackRock communicated the above concerns with management and requested the company consider reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures ("TCFD"). BlackRock continues to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here: https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf

Engagement

BlackRock Institutional Stewardship ("BIS") Team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism

5. Human capital management

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of its clients' equity investments. It also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020 here: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Engagement Activity – Fixed Income

Whilst voting rights are not applicable to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and there is therefore a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making.

Below are some examples of engagement activity provided by the most material fixed income funds the DB Scheme invested in via the Low Risk Bonds Strategy, managed by AIL.

Robeco

The Robeco Sustainable Development Goals ("SDG") Credit Income strategy aims to make a positive contribution to the achievements of the UN SDGs. Robeco applies a screening process to define the SDG investable universe composed only of issuers that make a neutral or positive contribution to the SDGs.

Over the last few years, Robeco has engaged a number of times with senior employees of a multinational oil company. The focus of the engagement was to encourage the company to take action to contribute towards preventing global warming rising above 2 degrees Celsius, as then the world, and therefore industries, will be increasingly exposed to significant transitional and physical risks, both acute and chronic.

In 2020, the company announced its aim to reduce the net carbon footprint of its energy products by around 50% by 2050. Robeco was supportive of these goals but continued to encourage the company to set short term targets and link these to remuneration packages. In addition to announcing their long-term goal, Robeco agreed a joint statement with the company who agreed to start setting shorter term targets. Robeco believes the company now leads the sector in terms of their planning and positioning for energy transition as it looks to move to lower carbon products and solutions.

BlackRock

BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BIS is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock's Global Fixed Income Responsible Investing team may partner with the BIS team to reflect on ESG related topics from fixed income investors and to attend or host engagement meetings on certain highlighted ESG flagged holdings. (An ESG flagged holding is one where BlackRock holds a significant exposure in fixed income portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by their credit research.)

An example of an engagement by BlackRock was with Exxon. BlackRock discussed several engagement topics with the company such as governance structure, corporate strategy, environmental risks and opportunities. This included questions on the company's approach to the European regulatory environment, their views on electric vehicle penetration as a risk to their business, and their risk management in relation to physical climate change risks.

Insight

Insight proactively engaged on industry and regulatory issues that have implications for clients and the wider market. In 2020, it engaged with Total as the company considered issuing transition bonds on the back of their new

ESG strategy. Insight held a call with Total during one of the energy conferences to discuss in further detail the company's ESG strategy and provide feedback on the potential transition bonds proposed. It has also engaged with the company on concerns relating to the board and accounting practices, and states that it will continue to engage with the company to gain additional disclosure.

Schroders

At a firm level, Schroders is currently engaging with banks on their fossil fuel financing. Schroder's credit team, along with a number on equity teams, selected around 50 banks in Europe, North America and Asia for deeper analysis and engagement. Following each engagement, Schroders highlights three to four objectives it would like the bank to work on over the next 12 months. Examples include:

- Development of a commitment to align the banks financing activities with the goals of the Paris agreement, plus related milestones and targets
- Reviewing and strengthening the bank's fossil fuel policies in line with the latest science and/or good practice
- Development of the TCFD/climate risk reporting, including disclosure of additional climate metrics

For banks that have already made progress in the areas, their discussions have focused on the robustness and evolution of their measurement and target-setting methodologies in relation to the bank's commitment to align its financing activities with the Paris Agreement. Schroders has said it is still too early to assess the impact of these discussions however it has had a positive response from banks so far. Out of the 50 banks contacted over the last six months, it had met with 21 by the end of March 2021.

Engagement Activity – Alternatives

Over the year, the DB Scheme invested in alternatives such as insurance linked securities and gold via the AIL Managed Growth Strategy. This section details examples of policies and practices at Leadenhall, the appointed underlying insurance linked securities manager.

Leadenhall Capital Partners ("Leadenhall")

Leadenhall assesses adherence to ESG principles by considering specific factors including:

- Environmental impact including pollution prevention and remediation, reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards
- Social impact including human rights, welfare and community impact issues
- Governance issues including board structure, remuneration, accounting quality and corporate culture

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin (part of Leadenhall's parent group, and a reinsurer with sourcing and underwriting resources that Leadenhall leverages) is very active in monitoring, studying and looking at ways to tackle climate change. MS Amlin is a member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall performs a detailed review of its investment counterparties' policies and controls including those concerning their explicit ESG and corporate social responsibility frameworks. Where appropriate it will make recommendations to avoid investment counterparties that are not aligned with ESG policies.

Summary

Based on the activity over the year by the Trustees and their service providers, the Trustees are of the opinion that the stewardship policy has been implemented effectively in practice. The Trustees note that their fiduciary manager and its most material underlying investment managers were able to disclose significant evidence of voting and engagement activity.

The Trustees are also comfortable that they are meeting, or on track to meet, the policies outlined in their SIP.

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