

# Willis Pension Scheme

## APPENDIX IV – IMPLEMENTATION STATEMENT 2020

### 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 2020. 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 which 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 version of the SIP can be found online [at this link](#).

This Statement reflects the Scheme year to 31 December 2020. The SIP linked above reflects the latest version of the SIP which is dated February 2021. Prior to this version, the SIP dated July 2020 covered the majority of the Scheme year and so is the SIP which is covered as part of this report.

### How the trustee has adhered to its engagement and voting policies

#### Trustee Policies

The Trustee’s policies on voting and engagement are set out in Sections 6 and 7 of the Scheme’s SIP dated July 2020 SIP. In summary these are:

- The responsibility of exercising ownership rights (including voting rights and stewardship responsibilities) attached to investments is delegated to the Scheme’s investment managers (Section 6.2.4).
- As part of its engagement policy, the Trustee monitors the Scheme’s investment managers on at least an annual basis in order to assess:
  - the sustainable investment, stewardship (including voting) and ESG characteristics and managers’ engagement activities (Section 6.2.5.1)
  - Other relevant matters including capital structure of investee companies and the associated management of actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings (Section 6.2.5.2).
- 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 manager further to encourage alignment. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager may be replaced (Section 6.2.5).
- Exclusions (banning investments in certain industries/companies) and impact investing (investments with the primary aim of creating a measurable social impact) are not likely to be a material part of investment strategy (Section 6.2.6).
- The Scheme uses a number of different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement. The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the terms of the agreement to ensure consistency with the Trustee’s policies, where relevant to the mandate (Section 7.1).

- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. The Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity where possible to drive improved performance over these periods (Section 7.2).
- 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 (Section 7.3).
- The Trustee's policy is to review the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee compares actual and expected turnover costs for that mandate (Section 7.4).
- The performance of the Scheme's investment managers is reviewed quarterly and a presentation is made when deemed appropriate to the Trustee. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team (Section 7.5).
- 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 required to confirm that the management of the assets is consistent with those policies (Section 7.7).
- The Trustee utilises their investment advisers to reflect their investment beliefs in all aspects of investment advice, and monitor and engage with their advisers to ensure appropriate consideration of ESG factors when reviewing investment manager ratings. In doing this, the Trustee relies on the transparency of their adviser's research process, which considers ESG integration, team diversity, documented policies, voting policies, engagement, transparency and alignment of all investment managers that are researched (Section 6.2.3).

### **Trustee activities and actions**

As noted above, the Trustee has delegated responsibility for the exercising of voting rights and engagement activities to the Scheme's 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 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:

- Received training on the upcoming regulatory developments in Sustainable Investment, including the UK Shareholder's Rights Directive II, which requires the Trustee to report on its policies on engagement. This also included discussion about external collaborative initiatives, which the Trustee may consider subscribing to in the future.
- Received an annual Sustainable Investment review, which covered the activities of the Scheme's investment managers and the Investment Advisor's Sustainable Investment ratings for these mandates. The review included significant information on how each manager is integrating ESG factors in its investment process, engaging with underlying companies and exercising voting rights where relevant. The Trustee considered that the review provided a broadly positive reflection of the underlying managers' approaches and activities. A small number of areas for improvement were identified and noted for future monitoring and discussion with the relevant managers.

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## Trustee activities and actions (contd)

- Completed an in depth review of the Trustee's beliefs in the area of Sustainable Investment (following an initial review prior to the regulatory changes to the SIP).
- Reviewed 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 manager research ratings of the managers that the Trustee employs.
- Received an update on the exclusions applied by the Scheme's underlying managers as part of their management of the Scheme's assets. There are currently few exclusions applied and the Trustee does not seek to employ a blanket exclusionary policy.
- 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. Following the Scheme year end the Trustee also reviewed the level of portfolio turnover within the Scheme's investment mandates and, with the assistance of the investment advisor, assessed the appropriateness of such data.
- Following the end of the Scheme year, the Trustee provided a copy of the Scheme's SIP to each of the Scheme's investment managers and sought confirmation that their management of the Scheme's assets is consistent with the policies it includes. Going forward, such confirmation will be sought on an annual basis.

Shortly before the end of the Scheme year, the Trustee agreed to appoint Willis Towers Watson as Fiduciary Manager ('FM') for the Scheme's assets. As part of the process of appointing the FM, the Trustee ensured it was comfortable with its approach to Sustainable Investment. Following this change, a key focus for the Trustee will be on how the FM ensures that the Trustee's voting and engagement policies are implemented across the Scheme's assets.

## Voting policy and information

As noted earlier in the statement, the Trustee's policy is to delegate the Scheme's voting rights to its investment managers. The Trustee expects the investment managers employed by the Scheme to exercise the voting rights attached to the Scheme's investments and, where appropriate, to engage with the companies in which they invest.

The table below sets out the voting activities of the Scheme's investment managers, including any votes cast on the Trustee's behalf and detail on the Scheme's investment manager's use of proxy voting and examples of votes cast that they deem to be significant.

The Scheme is invested in a diverse range of asset classes. Some of the Scheme's underlying investment strategies, such as fixed income (where these holdings do not have voting rights attached) or secure income investments (where voting is not applicable as the strategy has a high level of ownership and control), have been excluded from the table below. The Scheme's equity holdings are invested with one investment manager, Towers Watson Investment Management ("TWIM"), through the following pooled investment funds:

- **Towers Watson Partners Fund ("TW Partners"):** A Fund of Funds Diversified Growth Fund which invests in a diverse array of return seeking assets such as global equities, diversifying strategies, hedge funds and private equity.
- **Towers Watson Global Equity Focus Fund ("TW GEFF"):** A multi-manager pooled fund which invests in listed global equities and seeks to outperform a market capitalisation based index. The underlying managers manage a global equity portfolio on an active basis.

TWIM has its own voting policies that determines its approach to voting and the principles it follows when voting on investors' behalf. It also makes use of a proxy voting advisor, which aids in decision-making when voting. Details are summarised below:

### Voting policy and information (contd)

- **TW GEF** - Towers Watson Investment Management (TWIM) has engaged with EOS at Federated Hermes to provide voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. Voting rights for the TW GEF's holdings are delegated to TWIM's underlying managers, who are expected to exercise voting rights at all times. TWIM's underlying managers use ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. Where a manager chooses to vote differently to the EOS recommendation, the underlying manager's rationale must be noted and, if required, can be discussed further with EOS.
- **TW Partners** - As the TW Partners Fund is a multi-asset fund, voting rights are reflected differently in each segment of the portfolio. In equities, voting rights are virtually all exercised via the underlying managers, namely the Towers Watson Global Equity Focus Fund (see above) and TWIM's emerging markets managers. For private markets, the underlying fund managers typically own a majority share in the assets they hold with few formal votes taken. Where there are formal votes, typically these are via Investor Advisory Committees (IACs) which are typically made up of larger investors and represent the interests of all investors in the fund. In the credit space, there are no real voting rights, but TWIM's underlying managers may engage with issuers about bond covenants. Finally, in the diversifiers segment, voting rights will vary depending on the strategy, but are typically not applicable due to the elevated portfolio turnover inherent to such strategies.

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## Voting activities of the Scheme's investment managers

The table below sets out the voting activity of the Scheme's investment managers, on behalf of the Trustee over the year:

| <b>Manager and strategy</b>                                  | <b>Portfolio structure</b>  | <b>Voting activity (Over the year to 31 December 2020)</b>   |
|--|---|--|
| Towers Watson Investment Management Global Equity Focus Fund | Multi-Manager Pooled equity fund<br>(0% of Scheme assets as at year end)        | Meetings eligible to vote at: 161<br>Number of eligible votes: 2679<br>% of eligible votes cast: 99%<br>% of votes with management: 90%<br>% of votes against management: 10%<br>% of votes abstained from: 0%<br>% of meetings for in which at least one vote was against management: 58%<br>% of resolutions voted contrary to proxy adviser recommendation: 11% |
| Towers Watson Investment Management Partners Fund            | Diversified Growth Fund (Fund of Funds)<br>(8% of Scheme assets as at year end) | Meetings eligible to vote at: 446<br>Number of eligible votes: 5891<br>% of eligible votes cast: 98%<br>% of votes with management: 87%<br>% of votes against management: 7%<br>% of votes abstained from: 6%<br>% of meetings for in which at least one vote was against management: 25%<br>% of resolutions voted contrary to proxy adviser recommendation: 8%   |

Note: Voting statistics are out of total eligible votes and are sourced from the investment manager

## Significant votes

Outlined below are a number of significant votes cast by the Scheme's investment managers on the Trustee's behalf. All significant votes apply to the Scheme's investments in TW GEF and TW Partners. The commentary below is provided by TWIM on the votes cast:

TWIM reported on the most significant votes cast within the funds managed on behalf of the Scheme over the year to 31 December 2020, including the rationale for the voting decision and the outcome of the vote. A number of these key votes are set out below. The votes shown were chosen taking account of the size of the allocations to the companies affected as a percentage of each pooled fund, whether the votes were against management resolutions and whether the votes were significant in their expected impact on the long-term value of the Company.

**Company:** Cigna Corporation

**Meeting date:** 22 April 2020

**Company summary:** Cigna is an American global health services organisation.

**1. Summary of resolution:** Report on Gender Pay Gap

- **Company management recommendation:** Against
- **How the manager voted:** For
- **Rationale:** We believe the disclosures requested would be very low cost to for the company to produce and that shareholders would benefit from additional information allowing them to better measure the progress of the company's diversity and inclusion initiatives, with significant benefits for the company related to employee and customer satisfaction as it would demonstrate that the company took the concerns seriously.
- **Outcome:** Fail with 21% voting For

**2. Summary of resolution:** Reduce Ownership Threshold for Shareholders to Call Special Meeting

- **Company management recommendation:** Against
- **How the manager voted:** For
- **Rationale:** Shareholder proposal promotes enhanced shareholder rights. We have engaged with Cigna multiple times regarding enhancements we believe it should make to its shareholder rights and Gender Pay gap disclosures. This vote was significant as the 2019 resolution to provide shareholders the right to act by written consent passed with 64% of Yes/No votes. Cigna responded to that vote by instead instituting the ability for shareholders to call a special meeting at a 25% threshold; we generally support thresholds of no more than 10%. We continue to engage with the company to encourage them to continue moving in a positive direction.
- **Outcome:** Fail with 45% voting For

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## Significant votes (contd)

**Company:** Facebook

**Meeting date:** 27 May 2020

**Company summary:** Facebook is an American technology conglomerate.

1. **Summary of resolution:** Require Independent Board Chair

- **Company management recommendation:** Against
- **How the manager voted:** For
- **Rationale:** We believe the company would benefit from independent oversight to help manage potential conflicts of interest between management and shareholders.
- **Outcome:** Fail with 20% voting For

**Company:** Amazon

**Meeting date:** 26 May 2020

**Company summary:** Amazon is a multinational technology company which focuses on e-commerce, cloud computing, digital streaming and artificial intelligence.

1. **Summary of resolution:** Shareholder proposal for report on lobbying payments and policy

- **Company management recommendation:** Against
- **How the manager voted:** For
- **Rationale:** Promotes transparency
- **Outcome:** N/A

**Meeting date:** 27 May 2020

1. **Summary of resolution:** Shareholders proposal requesting an additional reduction in threshold for calling a special meeting. Shareholders are requesting 20%. Current threshold is 30%.

- **Company management recommendation:** For
- **How the manager voted:** For
- **Rationale:** We support managements recommendation in decreasing the current threshold from 30% to 25% was in the best interests of the Company and its shareholders. Lowering the threshold to 20% as suggested increases the risk of special meetings being called by a few shareholders focused on narrow or short-term interests.
- **Outcome:** Defeated

## Significant votes (contd)

**Company:** Citigroup  
**Meeting date:** 21 April 2020  
**Company summary:** Citigroup is an American multinational investment bank and financial services corporation.  
**1. Summary of resolution:** Report on Lobbying Payments & Policy

- **Company management recommendation:** Against
- **How the manager voted:** For
- **Rationale:** We are against any form of political payments, a policy which has been part of our voting policy for a number of years.
- **Outcome:** Only 13% voted for

**Company:** Pegasystems Inc.  
**Meeting date:** 18 June 2020  
**Company summary:** Pegasystems is an American software company which develops software for customer relationship management, digital process automation and business process management.  
**1. Summary of resolution:** Election of Peter Gyenes as Director

- **Company management recommendation:** For
- **How the manager voted:** Against
- **Rationale:** While Mr. Gyenes is a technology industry veteran and is well-acquainted with PEGA's business (having held a board seat since 2009), his most recent executive experience dates back to fifteen years ago. As such, the company may be better served by appointing a director with more recent experience and positive diversity attributes.
- **Outcome:** Director elected

## 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 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 will engage with credit managers where they do not feel that the levels of engagement are sufficient.
- It will continue to monitor the investment managers' voting and engagement practices on an ongoing basis.