

THE WILLIS PENSION SCHEME

ANNUAL IMPLEMENTATION STATEMENT FOR THE SCHEME YEAR TO 31 DECEMBER 2022

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 2022. 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 February 2022 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 2022. The SIP dated February 2022 covered the majority of the Scheme year and so is the document that was considered in the preparation of this report.

2 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, 7 and 10 of the Scheme's SIP dated February 2022. In summary, these are:

- 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:
 - The sustainable investment policy and activities of the Fiduciary Manager and how these have been applied to the Scheme's portfolio (6.4.1)
 - the sustainable investment, stewardship (including voting), ESG characteristics and engagement activities of each of the Scheme's investment managers (Section 6.4.2)
 - 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 6.4.3).
- 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 (Section 6.5).
- 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 (Section 6.6).
- 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 (Section 6.7).
- 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 (Section 6.8)
- 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 (Section 6.9).
- The Fiduciary Manager uses a number of different managers and mandates to implement the Trustee's investment policies. 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 (Section 7.1, 7.2).
- 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 with the policies set out in this SIP. The Trustee expects the Fiduciary Manager to check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies contained in the SIP and 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 (Section 7.3.1, 7.3.2).
- 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 (Section 7.5).

- 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. (Section 7.6).
- 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 (Section 7.7).
- 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 (Section 7.9).
- 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 (Section 7.10).
- 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 (Section 7.12).
- Exclusions (banning investments in certain industries/companies) are not likely to be a material part of investment strategy but the Trustee will ensure it is comfortable with any applied on the Scheme's behalf. Impact investing (investments with the primary aim of creating a measurable social impact) are to be considered, with the view to invest in line with long term themes which have positive sustainability tailwinds. In the event several investment opportunities are available that equally meet the Scheme's financial obligations then the Trustee has a preference that SI and ESG credentials would be prioritised in the decision making process. (Section 10.8)
- The Trustee expects that the engagement with companies (through the Scheme's investment managers) is likely to be a key pillar of the Trustee policy. Rather than excluding companies, engaging with them to improve their governance practices is appropriate. Participation in collaborative initiatives may be explored in the future to further drive change. (Section 10.9)

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 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:

- The Trustee reviewed and updated its formal Sustainable Investment (SI) Policy established in 2021, outlining the Trustee's beliefs and policies on the topic of Sustainable Investment. As part of the ongoing monitoring of the policy, the Trustee considers the approach and policy of the Fiduciary Manager and Sponsor for the level of alignment between these policies. The Trustee reflected positively on the report, which demonstrated the policies are largely consistent.
- 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 WTW research ratings of the managers that the Trustee employs.
- Completed 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.
- The Scheme 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.
- 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. 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.
- During 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.
- 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 deemed that this work was being carried out to a suitable standard and no action was taken.
- The Trustee reviewed the Scheme's climate change scenario analysis to understand the impact of different climate change scenarios on the Scheme's assets, liabilities and the Sponsor's covenant over time, considering both one-off shocks and longer-term drags. The Trustee is in the process of engaging further with the Sponsor on the topic following further training sessions.
- The Trustee received further training on the new DWP climate regulations and agreed a provisional action plan for meeting the requirements set out. The Trustee expects to publish its first TCFD statement in mid-2023, which will document the approach followed in relation to climate risks and opportunities.
- The Scheme completed its annual Sustainability review, 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. The Trustee also reviewed the Fiduciary Manager's approach to Sustainable Investment, to confirm it was consistent with the Trustee's beliefs and was reassured by the information presented.
- 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 Trustee engaged further with one of the managers to understand the carbon exposures within the portfolio and was comfortable with the outcome of the review.
- In preparation for the publication of the Scheme's first TCFD statement in 2023, 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 portfolios emissions by 2030 relative to a 2019 baseline.

3 VOTING POLICY AND ENGAGEMENT

During July 2021 the Trustee redeemed in full from the Partners Fund as part a move to a lower risk portfolio following improvements in funding level and a lower requirement for expected risk and return.

Consequently, over 2022 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 2022.

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 2021:

- Engagements with over 1,200 companies on a total of 4,154 issues and objectives representing assets under advice of \$1.64tn.
- 64 responses to consultations or proactive equivalents and 71 discussions with relevant regulators and stakeholders.
- Voting recommendations in relation to over 128,000 resolutions, with over 20,000 being against management.
- Active participation in a number of stewardship initiatives including Climate Action 100+, PRI, Investor Alliance for Human Rights and the International Corporate Governance Network.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave, and subsequently retaining that status
- Co-founding the Net Zero Investment Consultants Initiative in 2021, with a commitment across its global Investment business
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee;
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC);
- Co-founding the Investment Consultants Sustainability Working Group;
- Continuing to lead collaboration through the Thinking Ahead Institute and WTW Research Network.
- Being a founding member of The Diversity Project
- Being an official supporter of the Transition Pathway Initiative

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 ongoing basis.