Halcrow Pension Scheme (No.2)

Implementation Statement, covering the Scheme Year from 1 January 2020 to 31 December 2020

The Trustee of the Halcrow Pension Scheme (No.2) (the "Scheme") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles ("SIP") during the Scheme Year, as well as details of any review of the SIP during the Scheme Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-11 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 12 below.

This Statement uses the same headings as the Scheme's SIP dated September 2019 and should be read in conjunction with the SIP, which can be found here.

1. Introduction

The Trustees reviewed the Scheme's investment strategy in July 2020. As the investment strategy was not changed, no changes were required to the SIP . The last time the SIP was updated was September 2019 .

The Trustee has, in its opinion, followed the policies in the Scheme's SIP during the Scheme Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

Further information about the Scheme's DC assets is set out in the annual Chair's statement, available here.

2. Investment objectives

The Scheme continued to make good progress against its objectives over the Scheme Year. Regular updates are provided to the Trustee on progress against its funding and investment objectives and the Trustee is also able to view the progress on an ongoing basis using LCP Visualise online (a tool provided by the Scheme's investment adviser, LCP, which shows key metrics and information on the Scheme).

As at 31 December 2020, the Scheme was on track to achieve full funding by the target date.

The Scheme has a DC arrangement in respect of former CHW members. This section provides a benefit based on the better of the member's Guaranteed Minimum Pension (GMP) and the accumulated value the member's DC account – most members are expected to receive the GMP benefit. Members' DC accounts are invested in a with-profits type fund. The Trustee has concluded that this fund continues to be suitable for the DC arrangement.

3. Investment strategy

The Trustee, with the help of its advisers and in consultation with the sponsoring employer, reviewed the Scheme's strategy in July 2020 and concluded that the Scheme's asset allocation and broad framework for de-risking the Scheme's investments over time remained appropriate.

The Scheme's target asset allocation over the Scheme Year was 30% Growth assets and 70% Matching assets, with the target level of interest rate and inflation hedging being 80% on the Technical Provisions basis. (Growth assets include equities, diversified growth assets and property, Matching assets include gilts and corporate bonds.) The Trustee has ensured that the assets held within the Growth and Matching Portfolio are adequately diversified by investing between different asset classes and investment managers as appropriate.

The de-risking framework uses a required return trigger-based approach to move to a low-risk investment strategy based on reaching a "low-dependency" funding target by 31 December 2026. The triggers are monitored daily using LCP Visualise. If a trigger were to be hit, LCP would notify the Trustee and provide advice on the next gradual step to de-risk the Scheme's investments.

In November 2019, the Trustee agreed to increase the overseas component of the Scheme's equity allocation with a corresponding reduction in the UK equity weight. The Scheme completed the transition to the new equity allocation in November 2020.

The Trustee monitors the Scheme's asset allocation against the strategic benchmark on a quarterly basis. The Scheme's asset allocation did not deviate materially from the strategic allocation over the Scheme Year and therefore the Trustee did not carry out any rebalancing action over the Scheme Year. Disinvestments to meet the Scheme's cash flow requirements were taken from the Newton Real Return Fund and the BlackRock bond portfolio over the Scheme Year. This included completing a full disinvestment from the Newton Real Return Fund.

The Trustee reviewed the investment arrangements for the DC assets (former CHW members) and AVCs in November 2020. This involved considering the investment performance of the funds, suitability of the range of funds and charges borne by members.

4. Considerations in setting the investment arrangements

When setting the Scheme's investment arrangements, the Trustee considered the investment risks set out in Appendix 2 of the SIP. It also considered a wide range of asset classes, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

In July 2019, the Trustee reviewed its investment beliefs particularly in regard to Environmental, Social and Governance ("ESG") issues. As part of this, the investment adviser held an ESG training session and a survey was used gather the opinions of the Trustee. The Trustee subsequently updated the investment beliefs in the SIP in September 2019 (the SIP has not been updated since). It added two new investment beliefs to the SIP: "ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors" and "long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions". Following the addition of these beliefs, the Trustee reviewed its investment manager mandates to understand the extent to which ESG factors are incorporated in the funds currently held by the Scheme.

5. Implementation of the investment arrangements

The Trustee has not made any changes to its manager arrangements over the period.

The Scheme's investment adviser, LCP, monitors the investment managers on an ongoing basis through regular research meetings. The investment adviser monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of with regard to the Scheme's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Scheme invests in, or any material change in the level of diversification.

The Trustee was comfortable with all of its investment manager arrangements over the Scheme Year on the basis of reports from LCP.

The Trustee monitors the performance of the Scheme's investment managers on a quarterly basis. The quarterly report shows the performance of each manager over the quarter, 1 year, 3 years, 5 years and 10 years (where applicable). Performance is considered in the context of the manager's benchmark and objectives.

The 31 December 2020 report showed that the Scheme's managers have produced good performance over the long-term. For example, the Baillie Gifford active equity portfolio had outperformed its benchmark by 3.5% pa over the 10-year period to 31 December 2020, and on the basis of the reports provided by LCP, the Trustee believes all other mandates had performed in line with stated objectives.

In November 2020, the Trustee carried out a “value for members” assessment for the DC arrangement which assessed a range of factors, including the fees payable to managers in respect of the DC arrangement. The fees were found to be relatively high, however the Trustee concluded that the returns (net of fees) were reasonable value given the with-profits nature of the fund and the expectation that almost all members are expected to receive a benefit based on their GMP, rather than the value of their DC account.

6. Realisation of investments

The Trustee reviews the Scheme’s net current and future cashflow requirements on a regular basis. The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows whilst maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets.

The Trustee makes regular disinvestments from the BlackRock bond portfolio which is transferred to the Trustee's bank account and used to pay members’ benefits and other Scheme expenses.

For the DC and AVC arrangements, it is the Trustee’s preference to offer funds that offer daily dealing to enable members to readily realise and change their investments.

7. Financially material considerations and non-financial matters

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

In April 2020, the Trustee reviewed LCP’s responsible investment (RI) scores for the DB section’s existing managers and funds, along with LCP’s qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP’s ongoing manager research programme and it is these that directly affect LCP’s manager and fund recommendations. The manager scores and red flags are based on LCP’s Responsible Investment Survey 2020.

The Trustee was satisfied with the results of the review and no further action was taken.

8. Voting and engagement

This is covered in Section 7 above, and further information for the Scheme year is set out in Section 12.

9. Investment governance, responsibilities, decision-making and fees (Appendix 1 of SIP)

Over the Scheme Year, the Trustee has reviewed the Scheme’s governance framework. At the end of the year the Trustee established an Integrated Risk Management (IRM) Committee and a Governance and Operations Risk Committee, which, going forward, will report to the full Trustee board.

The Trustee assessed the performance of the Scheme’s investments by way of the regular monitoring report that it receives, and through regular discussion with its investment adviser at Trustee meetings.

The performance of the professional advisers is considered on an ongoing basis by the Trustee. The Trustee has put in place formal objectives for its investment adviser and reviews the adviser's performance against these objectives on a regular basis. The Trustee reviewed the performance of its investment consultant against the objectives in early 2021.

10. Policy towards risk (Appendix 2 of SIP)

Risks are monitored on an ongoing basis with the help of the investment adviser.

The Trustee's policy for risks is to understand them and to address them if it becomes necessary, based upon the advice of the Scheme's investment adviser or information provided to the Trustee by the Scheme's investment managers. Risks identified include credit risk, equity risk, currency risk and counterparty risk.

With regard to the risk of inadequate returns, the Trustee monitors the required return to achieve the target is to be fully funded on a low risk, low dependency funding basis by 31 December 2026. The Scheme’s asset allocation and de-risking framework has been set such that the expected return on the Scheme’s investment is more than the returns required to meet the target.

With regard to collateral adequacy risk, this is monitored as part of the investment monitoring reports. The Trustee has segregated LDI and corporate bond portfolios managed by BlackRock. As at 31 December 2020, both the LDI and corporate bond portfolios were well collateralised.

The following risks are covered earlier in this Statement: diversification risk in Sections 3 and 5, investment manager risk and excessive charges in Section 5, illiquidity/marketability risk in Section 6 and ESG risks in Section 7.

Together, the investment and non-investment risks set out in Appendix 2 of the SIP give rise generally to funding risk i.e. the value of the Scheme’s assets falls relative to the assessed value of its liabilities . The Trustee formally reviews the Scheme’s funding position as part of its annual actuarial report to allow for changes in market conditions. On a triennial basis the Trustee reviews the funding position allowing for membership and other experience. The Trustee also informally monitors the funding position more regularly, on a quarterly basis at Trustee meetings and the Trustee also has the ability to monitor this and the de-risking triggers daily on LCP Visualise online.

11. Investment manager arrangements (IPID)

There are no specific policies in this section of the Scheme’s Investment Policy Implementation Document (IPID).

12. Description of voting behaviour during the Scheme Year

All of the Trustee’s holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance on the Scheme’s funds that hold equities as follows:

- Baillie Gifford Global Alpha Growth Fund;
- Baillie Gifford UK Equity Focus Fund;
- Baillie Gifford Diversified Growth Fund;
- Newton Real Return Fund; and
- the UBS Global Equity Portfolio.

We have omitted the voting behaviour of the DC arrangements on grounds of materiality – these assets are invested in a fund that is predominately invested in bonds, only a small proportion of the Scheme’s overall assets (c.£1m) are held in the DC section, and Aviva has also not provided voting information

In addition to the above, the Trustee contacted the Scheme’s other asset managers that hold assets other than listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. Whilst the M&G fund and BlackRock segregated mandate do not ordinarily have any voting rights, both managers provided details on their engagement policies which we have included in Section 12.4.

12.1 Description of the voting processes

The following sets out the information obtained from the investment managers.

Baillie Gifford

All voting decisions are made by Baillie Gifford's Governance & Sustainability team in conjunction with investment managers. Baillie Gifford does not regularly engage with investors prior to submitting votes. If a vote is particularly contentious, Baillie Gifford may reach out to investors prior to voting to advise them of this.

Thoughtful voting of its clients' holdings is an integral part of Baillie Gifford's commitment to stewardship. Baillie Gifford believes that voting should be investment led, because how it votes is an important part of the long-term investment process, which is why its strong preference is to be given this responsibility by investors. Ballie Gifford also believes that the ability to vote clients' holdings strengthens its position when engaging with investee companies. Baillie Gifford's Governance and Sustainability team oversees its voting analysis and execution in conjunction with portfolio managers. Unlike many of its peers, Baillie Gifford does not outsource any part of the responsibility for voting to third-party suppliers. It utilises research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with its Governance & Sustainability Principles and Guidelines and it endeavours to vote every one of its investors' holdings in all markets. Baillie Gifford also has specialist proxy advisors in the Chinese and Indian markets to provide it with more nuanced market specific information.

Newton

Overall, Newton prefers to retain discretion in relation to exercising investors' voting rights and has established policies and procedures to ensure the exercise of global voting rights. Newton believes the value of its portfolios can be enhanced by the application of good stewardship. This is achieved by engagement with investee companies and through the considered exercise of voting rights. Newton's understanding of a company's fundamental business enables it to assess the appropriate balance between the strict application of corporate governance policies and taking into account a company's unique situation.

Where Newton plans to vote against management on an issue, it often engages with the company in order to provide an opportunity for its concerns to be allayed. Newton also alerts a company regarding an action it has taken at their annual general meeting (AGM) through an email, to explain its thought process. Newton then often holds a call with the board/investor relations teams to gain a better understanding of the situation and communicate further.

Newton's head of responsible investment (RI) is responsible for the decision-making process of the RI team when reviewing meeting resolutions for contentious issues. Newton does not maintain a strict proxy voting policy. Instead, it prefers to take into account a company's individual circumstances, Newton's investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices.

Contentious issues may be referred to the appropriate industry analyst for comment and, where relevant, Newton may confer with the company or other interested parties for further clarification or to reach a compromise or to achieve a commitment from the company.

Voting decisions are approved by either the deputy chief investment officer or a senior investment team member (such as the head of global research). For the avoidance of doubt, all voting decisions are made by Newton. Newton does not hold a rigid voting policy with any proxy voting service provider.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or an investor that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence. Similarly, it is also only in these circumstances when Newton may register an abstention given its stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management is intended to ensure Newton does not provide confusing messages to companies.

Newton employs a variety of research providers that aid it in the vote decision-making process, including proxy advisors such as ISS. Newton utilises ISS for the purpose of administering proxy voting, as well as its research reports on individual company meetings.

UBS

UBS retain the services of Institutional Shareholder Services (ISS) for the physical exercise of voting rights and for supporting voting research. However, UBS retain full discretion when determining how to vote at shareholder meetings.

ISS will present a voting recommendation to UBS based upon its voting policy and principles. This recommendation is reviewed by UBS' dedicated Stewardship Team, in order for UBS to validate the recommendation, including any additional information arising from engagement, and it is shared with UBS' portfolio managers and investment analysts for further feedback and comment. Any votes which may be proposed that would override the initial recommendation based on additional information are reviewed by the UBS Stewardship Committee, which has the final authority for its voting decisions.

UBS seek to vote consistently and uniformly across all mandates and fund strategies that have a voting position for an issuer. This ensures that UBS can utilise the full weight of its holding when exercising voting rights. Information obtained through its investment processes, including via direct company engagement, is taken into account when determining how to vote in the best fiduciary interests of investors in the Fund.

12.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the period is provided in the table below.

Manager name	Baillie Gifford	Baillie Gifford	Baillie Gifford	Newton	UBS
Fund name	Global Alpha Growth Fund	UK Equity Focus Fund	Diversified Growth Fund	Real Return Fund	Global Equity Portfolio
Total size of fund at end of reporting period	£4,583m	£203m	£6,295m	£5,495m	£68m
Value of Scheme assets at end of reporting period (£ / % of total assets)	£67.5m	£23.9m	£38.0m	£0 (disinvested over period)	£68m
Number of holdings at end of reporting period	101	56	86	91	2,777
Number of meetings eligible to vote	111	66	97	84	2,991
Number of resolutions eligible to vote	1,240	1,019	877	1,179	38,190
% of resolutions voted	94.8%	99.9%	94.5%	99.2%	93.0%
Of the resolutions on which voted, % voted with management	96.9%	97.2%	92.9%	85.5%	85.4%
Of the resolutions on which voted, % voted against management	2.4%	2.3%	5.7%	14.5%	14.2%
Of the resolutions on which voted, % abstained from voting	0.7%	0.6%	1.5%	0.0%	0.4%
Of the meetings in which the manager voted, % with at least one vote against management	16.7%	16.7%	17.5%	41.0%	69%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	N/A (Baillie Gifford does not rely on proxy adviser recommendations)			9.30%	0.1%

Note: columns may not sum due to rounding

12.3 Most significant votes over the Scheme Year

Commentary on the most significant votes over the period, from the Scheme's asset managers who hold listed equities, is set out below. We have interpreted "most significant votes" to mean those that:

- might have a material impact on future company performance;
- the investment manager believes to represent a significant escalation in engagement;
- impact a material fund holding, although this would not be considered the only determinant of significance, rather it is an additional factor;
- have a high media profile or are seen as being controversial; and
- the Scheme or the sponsoring company has a particular interest in.

Baillie Gifford

Ballie Gifford provided the following non-exhaustive list of how it determines potentially significant voting situations:

- Baillie Gifford's holding had a material impact on the outcome of the meeting;
- The resolution received 20% or more opposition and Baillie Gifford opposed;
- Egregious remuneration;
- Controversial equity issuance;
- Shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders;
- Where there has been a significant audit failing;
- Where Baillie Gifford has opposed mergers and acquisitions;
- Where Baillie Gifford has opposed the financial statements or annual reports; and
- Where Ballie Gifford has opposed the election of directors and executives.

We have included details of two votes for each fund below.

Global Alpha Growth Fund

- **Tesla Inc, Sept 2020. Vote:** For

  Summary of resolution: Shareholder proposal requesting a report on the company's use of arbitration to resolve employee disputes. Ballie Gifford take the view that additional disclosure and transparency on this provision would be helpful in understanding Tesla's workplace practices.

  Rationale: Tesla currently does not report on its grievance mechanism for employees or provide the racial, ethnic and gender breakdown of its workforce. Baillie Gifford believe peers provide better disclosure of this information and have started to move away from the use of mandatory arbitration. It will continue to monitor this topic in its discussions with the company.

- **Amazon.com, May 2020. Vote:** For

  Summary of resolution: Shareholder Resolution to improve transparency of Amazon's corporate lobbying policies and governance.

  Rationale: Baillie Gifford supported the shareholder proposal as it believes greater transparency of all political expenditures and lobbying, particularly indirect spending through trade associations, coalitions and charities, would enable shareholders to assess alignment with Amazon's values and corporate goals.

UK Equity Focus Fund

- **British American Tobacco, April 2020. Vote:** Against

  Summary of resolution: Remuneration report

  Rationale: Baillie Gifford has opposed remuneration at British American Tobacco for a number of years due to concerns regarding the size of the potential awards. It continues to engage the company on the issue and push for change. This year 38% of shareholders also opposed the remuneration report which is a clear signal to the company that shareholders have concerns.

- **Vectura, May 2020. Vote:** Against

  Summary of resolution: Remuneration - report

  Rationale: Baillie Gifford opposed the remuneration report because it did not consider the bonus outcome to be aligned with investors' experience as shareholders.

Diversified Growth Fund

- **Gecina, April 2020. Vote:** Against

  Summary of resolution: Incentive Plan

  Rationale: Baillie Gifford opposed three resolutions relating to remuneration as it does not believe there was sufficient alignment between pay and performance.

- **Covivio REIT, April 2020. Vote:** Against

  Summary of resolution: Remuneration - Policy

  Rationale: Baillie Gifford opposed five resolutions regarding the current and proposed long term incentive scheme because it could lead to rewarding under-performance.

Newton

Newton regards all votes against management, including where it supports shareholder resolutions that the company's management are recommending voting against, to be significant votes.

We have included details of two of these votes below.

- **Linde Plc, July 2020. Vote:** Against

  Summary of resolution: Executive compensation arrangements and election of directors.

  Rationale: Newton decided to vote against the advisory vote on executive compensation, and against the members of the remuneration committee. A majority of the proposed long-term pay awards vested based on time served, which meant executive pay would not be subject to rigorous performance conditions and therefore not aligned with shareholders' interests. In addition, some of the perks to the CEO seemed unnecessary and excessive, including the use of company aircraft for personal purposes, financial planning expenditures, and additional years of service credits beyond time served at the company being considered to calculate his pension benefit.

- **The Goldman Sachs Group, April 2020. Vote:** For shareholder proposals (ie against management)

  Summary of resolution: Vote in favour Shareholder Proposal to provide right to act by way of written consent, and a Shareholder Proposal that the Directors conduct a review of the Statement on the Purpose of a Corporation and vote against a proposal to ratify PriceWaterhouseCoopers LLP as Auditors.

Rationale: Newton supported two shareholder resolutions which management recommended voting against. The first resolution related to improving minority shareholder rights by allowing the right to act through written consent. This would provide an opportunity for matters to be raised and approved outside regularly held AGMs. The second resolution was a request that the board of directors conduct a review of the company's governance arrangements in the context of its support of the US Business Roundtable's 'Statement on the Purpose of a Corporation'. While Newton accepts that the company has responded in part to these commitments, it does not have governance documents that detail how trade-offs and prioritisation between different stakeholders are managed, which is a key component of a multi-stakeholder management approach. Newton also voted against the appointment of the auditor owing to long tenure. The firm had been in place since 1922, which brings into question its independence.

UBS

In determining the most significant votes, UBS has highlighted those companies which received a large vote against from all shareholders, including where UBS chose not to support management.

- **Exxon Mobil Corporation, May 2020. Vote:** Against

  Summary of resolution: Elect Director Darren W. Woods

  Rationale: The Company had not shown sufficient progress against UBS' defined climate related engagement objectives since the start of dialogue in September 2018

- **Chevron Corporation, May 2020. Vote:** For

  Summary of resolution: Report on Climate Lobbying Aligned with Paris Agreement Goals

  Rationale: UBS support proposals that require the issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive, and the degree to which a company is in line with its industry sector's 2 degrees glide path.

12.4 Votes in relation to assets other than listed equity

The following comments were provided by the Scheme's asset managers who don't hold listed equities. Whilst the M&G funds and BlackRock portfolio held by the Scheme have no voting rights, the managers provided details on their engagement activities over the quarter which we have included below.

M&G

M&G pro-actively engages with the occupiers in its buildings on ESG issues and partakes in property specific ESG monitoring (such as the annual GRESB process) and if it has any specific concerns it wanted to raise regarding ESG, it would engage directly with the tenants. For example, M&G engages with its tenants to request the sharing of energy performance data on an annual basis. Where data is made available (i.e. environmental performance) this is measured on an absolute, like-for-like and intensity basis by M&G's third-party consultants Verco.

In addition to the above, the Fund regularly meets with its tenants and occupiers to understand their particular approaches to ESG issues. For example, SPIF is actively allowing licences for asset improvements such as solar panels on some of its supermarkets and electric car charging points across SPIF's Tesco assets. The Fund also engages with tenants to ensure that new developments it is funding are rated BREEAM 'Excellent' or 'Very Good'. These metrics and initiatives are specific to property assets.

BlackRock

As a fiduciary to its clients, BlackRock is built to enhance the value of its clients' assets. From BlackRock's perspective, sound management of business-relevant sustainability issues can contribute to a company's sustainable long-term financial performance. Incorporating these considerations into the investment research, portfolio construction, and stewardship process can enhance long-term risk adjusted returns for clients.

Voting is the most broad-based form of engagement BlackRock has with companies, providing a channel for feedback to the board and management about investor perceptions of their performance and governance practices. BlackRock votes annually at more than 16,000 shareholder meetings, taking a case-by-case approach to the items put to a shareholder vote. BlackRock's analysis is informed by its internally developed proxy voting guidelines, its pre-vote engagements, research, and the situational factors at a particular company.