## Statement of Investment Principles – The Colgate-Palmolive Pension Plan (September 2021)

### *Introduction*

1 The Colgate-Palmolive Pension Plan (the 'Plan') is a Registered Pension Scheme for the purposes of the Finance Act 2004. It is a defined benefit (DB) plan with a DC underpin, which provides the facility for members to pay Additional Voluntary Contributions (AVCs).

2 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the Plan in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).

3 The Trustees are responsible for all aspects of the operation of the Plan including this SIP. The SIP affects the long-term cost of the Plan and the level of contributions in the short-term. Before finalising this SIP, the Trustees took written advice from the Plan's Investment Consultant (Towers Watson Limited) and consulted Colgate-Palmolive (U.K.) Limited (the 'Company'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

4 From time to time the Trustees may appoint a formal investment sub-committee ('ISC') with responsibility for focussing on all investment issues and bringing any decision to the wider Trustee Group for ratification where necessary. The sub-committee may liaise with the Parent Company Treasury team in the United States as an additional resource. The sub-committee members shall be reviewed on a regular basis. At this time a formal ISC has been appointed and its Terms of Reference have been agreed.

5 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy.

### *Plan objectives*

6 The Trustees have considered (amongst other factors) the nature of the Plan's liabilities and the Plan's Statutory Funding Objective (SFO) when deciding on its investment strategy.

The Trustees' primary investment objective is to limit the risk of the assets not being sufficient to meet the liabilities. It aims to do this by ensuring adequate asset growth, noting that this will be made up of both investment returns and future contributions and by holding assets which match the Plan's liabilities.

7 The Trustees have adopted a de-risking strategy under which the Plan's growth assets are gradually reduced and transferred into the Plan's matching assets. The Trustees hold the secondary funding objective of being self-sufficient, that is, fully funded on a gilts-flat discount rate, and moving towards a strategic benchmark that is more aligned to the Plan's liabilities on this basis. The Plan's benchmark will be modified when pre-defined trigger points of the Plan's funding level are reached in order to allow for pre-planned reductions in its equity holding towards a final portfolio which closely matches the Plan's liability profile. The Trustees have taken high-level advice from their Investment Consultant on the appropriate bonds to hold, in order to more closely match the Plan's liability profile.

8 DC underpin monies are notionally invested in the Plan's assets as a whole and granted returns broadly in line with the return on Plan assets gross of fees.

9 For the AVC section, the investment risk is borne by the member. The Trustees' primary investment objective for this section is therefore to provide a range of investment options, which broadly satisfy the risk profiles of all members.

Details of the current AVC fund options are set out in the Appendix.

10 The Trustees consider that the investment strategies shown on the following pages will ensure:

- There is a reasonable expectation of meeting their investment objectives, and
- The assets are appropriately diversified.

### *Investment strategy*

11 The target asset strategy held by the Trustees as at the date of this SIP is shown in the table below. The funds selected are all managed by Legal and General. The target allocations have been shown for each fund.

**Target allocation**

| Fund | Target Allocation % | Benchmark Index Return |
|---|---|---|
| **Equities** | **20.0** | |
| UK | 2.4 | FTSE All-Share |
| North American* | 11.6 | FTSE World North American Equity Index* |
| Europe (ex UK)* | 2.9 | FTSE Developed Europe (ex-UK) Equity Index* |
| Japan* | 2.3 | FTSE Japan Equity Index* |
| Developed Asia Pacific (ex Japan) (hedged) | 0.8 | FTSE World Asia-Pacific (ex-Japan) Equity Index – Sterling hedged |
| **Bonds** | **80.0** | |
| Long dated Index-linked gilts | 37 | Single Stock Fund[1] |
| Long dated Fixed-Interest gilts | 24 | Single Stock Fund[2] |
| Long dated Corporate Bond Fund | 19 | iBoxx Sterling Non-Gilts over 10 year index |

- North American, Europe (UK) and Japan equity are invested 75% into the Sterling Hedged equivalent funds

[1] Index-linked securities issued by the UK government: 2032 index-linked gilts, 2038 index-linked gilts, 2040 index-linked gilts, 2042 index-linked gilts, 2050 index-linked gilts, 2055 index-linked gilts,2062 index-linked gilts and 2068 index-linked gilts.
[2] Fixed interest securities issued by the UK government; 2038 gilts,2042 gilts and 2068 gilts.

12 The Trustees have set a strategic benchmark allocation for Legal and General (as shown above). There is no automatic rebalancing (with the exception of the overseas equity hedging benchmark within each geographical region) and have put the following strategy in place:

- The Notional Income Service ("NIS") (previously Notional Dividend Income Payments ("NDIP")) enables regular notional income from the Plan's investments to be drawn on an automatic basis. With effect from 1 October 2021 the Trustees have selected NIS payments in respect of all available assets, previously this was only in respect of UK equities and corporate bonds. These payments and employer contributions will be invested in a Liquidity Fund to assist with cashflow management.

- Rebalancing and the Liquidity Fund holding are to be considered on a quarterly basis at each Trustees' meeting;

- The Trustees will review their stance on rebalancing at the quarterly Trustees' meetings;

- Overseas equities are automatically rebalanced to maintain the agreed hedged versus unhedged split of 75%/25%; and

Depending on the timing of the trigger being breached, the Plan's benchmark will be reviewed by the ISC and/or the entire Trustee board when pre-defined trigger points of the Plan's funding level are reached. The ISC may recommend at that time that the pre-planned reductions in equity holdings are made, towards a final portfolio which closely matches the Plan's liability profile. The Trustees will review the de-risking strategy in conjunction with their Investment Consultant and Scheme Actuary following each actuarial valuation

### *Investment managers*

13 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Plan competently.

14 The Plan may use different managers and mandates to implement its investment policies. The Trustees ensure that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also review the investment objectives and guidelines of any particular pooled vehicle for consistency with its policies, where relevant to the mandate in question.

15 To maintain alignment, managers are provided with the most recent version of the Plan'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 relevant to the mandate in question.

16 Should the Trustees' monitoring processes reveal that an investment fund's objectives and guidelines, or an investment manager's approach to sustainable investment, do not appear to be sufficiently aligned with the Trustees' policies, the Trustees will engage with the investment manager to ascertain the reasons for this and whether closer alignment can be achieved. If this is not possible, the Trustees may consider alternative options available in order to terminate and replace the manager.

17 For most of the Plan's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustees may invest in certain strategies (e.g. hedge fund strategies) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Plan's allocation to such mandates is determined in the context of the Plan's overall objectives.

18 The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance,

the focus is on longer-term outcomes, and the Trustees 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.

19 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustees' view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures would therefore only be used in a limited number of cases.

20 The Trustees review the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

### *Sustainable investment*

21 The Trustees 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. The Trustees will, however, monitor the performance of each manager relative to its benchmark.The Trustees understand that sustainability factors (those related to Environmental, Social and Govenance ('ESG') considerations including climate change) and stewardship may impact the Plan's financial outcomes. Whilst it is the Trustees' preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interests of the members of the Plan.

22 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the investment managers, as well as the responsibility for the exercising of ownership rights (including voting rights) attaching to the investments. The Trustees recognise that with a largely passive portfolio, the managers take no material decisions on the holdings to be included in the portfolio. However, the Trustees expect the managers to engage with the companies and issuers in which they invest in relation to the financial and non-financial implications of sustainability issues.

23 Accordingly, the Trustees' policy is to engage with the managers, with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, in order to understand their policies on sustainability and stewardship, and review these policies regularly to ensure that the managers are carrying out their delegated responsibilities. The Trustees will also review monitoring reports on sustainability and stewardship from the managers (e.g. voting records) on a regular basis.

24 In addition, the Trustees will seek to incorporate sustainability and stewardship amongst the criteria used when reviewing the Plan's investment strategy and, if relevant, the selection of investment managers, provided that the inclusion of these does not negatively impact the Plan's long-term objectives.

25 Other matters considered by the Trustee to be non-financial matters, such as members' views, are not taken into account.

#### *Managing risk*

26 The Trustees recognise a number of risks involved in the investment of the Plan's assets:

| Risk | How is it monitored? | How is it mitigated? |
|---|---|---|
| Deficit | By assessing the progress of the actual growth of the liabilities relative to the selected investment policy | By setting an investment policy with appropriate regard to the expected risk and return relative to the expected growth of liabilities |

| | | |
|---|---|---|
| Liquidity | By the level of cashflow required by the Plan over a specified period | The Plan's administrators assess the level of cash required to limit the impact of the cash flow requirements on the investment policy. The trustees hold assets of appropriate liquidity |
| Currency | Through the level of exposure to non-Sterling denominated assets | Implementing a currency hedging programme to reduce the impact of exchange rate movements on the Plan's asset value |
| Interest rate and inflation | By comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates | Holding assets that respond to changes in interest rates and inflation in a similar way to the liabilities |
| Sponsor | By receiving regular financial updates from the Company and periodic independent covenant assessments | Through an agreed contribution and funding schedule |

Signed: Edward Jones

Date: 24-Sep-2021

Authorised for and on behalf of the Trustees of the Plan

## Appendix – AVC options

1 The Plan has two AVC providers, one of which is historical (Clerical Medical), and the other with AVIVA (previously Friends Life). The Trustees previously held another historical policy with Equitable Life, this was transferred to Utmost Life and Pensions in January 2020 and then consolidated with the AVIVA AVC policies in March 2020. It should be noted that 'AVC' accounts were also used for some historical transfers in on a money purchase basis.

2 Since the Plan is closed to ongoing accrual, no new AVC contributions can be made, but members are still able to move their existing balances from the historical provider into AVIVA or between the AVIVA fund options.

3 Clerical Medical offer 'with profit' arrangements as Equitable Life did previously. AVIVA offers a range of investment options

4 The AVC range of investment options includes both specific asset options and Lifestyle options with AVIVA as follows:

| **AVIVA Investment options** |
|---|
| Aviva BlackRock (60:40) Global Equity Index |
| Aviva BlackRock UK Equity Index |
| Aviva BlackRock Over 15 Year Gilt Index |
| Aviva Cash |
| **'My Future' lifestyle investment options** |
| My Future |
| My Future Target Annuity |
| My Future Target Cash Lump Sum |
| My Future Target Drawdown |

**The Colgate-Palmolive Pension Plan**
**Annual Implementation Statement for the year ending 31 December 2020**

## 1. Introduction and purpose of this Statement

This document is the Annual Implementation Statement ("the implementation statement") prepared by the Trustees of the Colgate-Palmolive Pension Plan (the "Plan") covering the Plan year to 31 December 2020.

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustees, the Plan's Statement of Investment Principles ("SIP") required under section 35 of the Pensions Act 1995, as amended, has been followed during the year;
- detail any reviews of the SIP that the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review;
- describe the voting behaviour by, or on behalf of, the Trustees over the year; and
- set out the extent to which, in the opinion of the Trustees, the engagement policy within the SIP has been followed during the year.

A copy of this implementation statement will be made available within the Plan's annual report and accounts for the year to 31 December 2020, and will be available alongside the SIP and Chair's Statement on this website: https://www.colgate.com/en-gb .

This is the first year of the Plan providing an Implementation Statement and the format of the statement is expected to evolve over time as practices are established.

## 2. Review of, and changes to the SIP

The SIP was reviewed and subsequently updated during the year to reflect new regulatory requirements to describe the policy in relation to the Trustees' arrangements with any asset manager, covering the following areas:

a how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies;

b how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;

c how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies;

d how the Trustees monitors portfolio turnover costs incurred by the asset manager, and how it defines and monitor targeted portfolio turnover or turnover range; and

e the duration of the arrangement with the asset manager.

The revised SIP was agreed and formally adopted by the Trustees on 28 September 2020.

## 3. Adherence to the SIP

Overall the Trustees believe the policies outlined in the SIP have been fully adhered to during the Plan year. The remaining parts of this implementation statement set out details of how this has been achieved. These details relate to those parts of the SIP which set out the Trustees' policies, and not those which are statements of fact.

**Defined Benefits**

### Governance

The Trustees are responsible for investment matters related to the Plan. Investment matters are dealt with by the Investment Subcommittee (ISC). Four quarterly Trustee meetings were held over the year along with ad hoc ISC meetings. The main investment focus of the Trustees over the course of the Plan year was to ensure that the investment strategy remained appropriate, particularly given the impact on markets of the Covid-19 pandemic.

In addition, the Trustees received training on sustainability issues as part of its work to meet the Shareholders' Rights Directive II. Subsequently, the Statement of Investment Principles was updated as discussed under point 2 above.

### Investment objectives

The Trustees' primary investment objective is to limit the risk of the assets not being sufficient to meet the liabilities.

The Trustees have adopted a de-risking strategy under which the Plan's growth assets are gradually reduced and transferred into the Plan's matching assets. The Trustees hold the secondary funding objective of being self-sufficient, that is, fully funded on a gilts-flat discount rate, and moving towards a strategic benchmark that is more aligned to the Plan's liabilities on this basis.

The Trustees, together with the Scheme Actuary and Investment Consultant, monitor the Plan's funding level on these measures on an ongoing basis through the Willis Towers Watson Asset Liability Suite.

Following the market rebound over the second half of 2020 the Trustees considered some interim de-risking actions as flagged by the journey plan. A full review of the journey plan is due to be carried out in 2021 and further derisking and consideration of ways to improve the matching characteristics of the portfolio with the liabilities will be carried out.

### Investment beliefs

The Plan's SIP includes the Trustees' beliefs on responsible investing. The Trustees understand that sustainability factors (including those related to ESG and climate change) and stewardship may impact the Plan's financial outcomes and their policy is to delegate these factors to the investment managers.

### Investment Strategy

The target investment policy allocates 50% of the Plan's assets to equity assets, 15% to Index-Linked Gilts, 5% to Fixed-Interest Gilts and 30% to Corporate bonds.

As stated in the SIP, following market volatility in 2008 the Trustees suspended rebalancing (with the exception of the overseas equity hedging benchmark within each geographical region which is automatically rebalanced to maintain the agreed hedged versus unhedged split of 75%/25%) and have put the following strategy in place:

- The Notional Income Service ("NIS") (previously Notional Dividend Income Payments ("NDIP")) enables regular notional income from the Plan's investments to be drawn on an automatic basis. The Trustees have selected NIS payments in respect of UK equity and corporate funds only. These payments and employer contributions will be invested in a Liquidity Fund to assist with cash flow management;
- On a quarterly basis, at each Trustees' meeting, the actual asset allocations are compared to the target holdings and any rebalancing considered appropriate discussed;
- The Liquidity Fund holding is considered on a quarterly basis at each Trustees' meeting; and
- The Trustees review their stance on rebalancing at the quarterly Trustees' meetings.

The Plan's benchmark will be modified when pre-defined trigger points of the Plan's funding level are reached in order to allow for pre-planned reductions in its equity holding towards a final portfolio which closely matches the Plan's liability profile as measure on a self-sufficiency basis. The Trustees have taken advice from their Investment Consultant on the appropriate bonds to hold, in order to match the Plan's liability profile.

There were no changes in investment strategy implemented over the Plan year.  However, as part of the required consultation with the Company, representatives (from US Treasury) engaged with the ISC in examining the current investment strategy.

In 2021 the Trustees are carrying out a review of the de-risking strategy to reflect the results of the Plan's actuarial valuation as at 31 December 2019.

**Investment Managers**

The Trustees have appointed one investment manager, Legal and General Investment Management (LGIM). The majority of the funds are held on a passive basis.

The Trustees are not involved in the investment managers' day-to-day method of operation but their policy is to monitor the returns achieved by the manager relative to the respective fund benchmarks on a regular basis. During the year, the Trustees received quarterly reports showing portfolio returns relative to the benchmark from the investment manager. Any relevant investment manager updates have also been discussed at the Trustee meetings with the Scheme Actuary and Investment Consultant.

Over the year, there were no changes to the Plan's investment managers and no selection exercise was undertaken.

The Trustees monitor the cost associated with managing the Plan's assets on an annual basis, which includes the costs associated with portfolio turnover.  In addition, the Trustees monitors the level of turnover within each mandate to ensure that this is consistent with the index that is being tracked.

Over the year there were no specific issues that arose with the investment manager.

**Realisation of investments**

The Trustees receive regular updates from the administrators regarding the likely cash flow position of the Plan. At each quarterly Trustee meeting the Trustees determine whether investment or disinvestment will be required. Procedures are adopted to manage the cash flow position, including the Notional Income Service described above.

The Trustees will, when possible, provide the investment managers with reasonable notice of future cash needs.

**Investment risks**

The Trustees have identified several risks involved in the management of the Plan's assets which are taken into account when reviewing the investment arrangements.

***Deficit risk*** was considered through the analysis undertaken by WTW as part of the investment strategy and journey plan review in 2018 and updated in 2020 as part of the ISC's deliberations. This illustrated the expected progression of the growth in the assets relative to the liabilities as well as considering the downside risks under different strategies.

***Liquidity risk*** is managed by the Trustees and Plan's administrators who measure and manage the level of cash held in order to limit the impact of cash flow requirements.

***Currency risk*** is managed by implementing and monitoring a currency hedging programme to reduce the impact of exchange rate movements in the Plan's asset value.

***Interest rate and inflation mismatching risk*** is managed by holding assets that respond to changes to interest rates and inflation in a similar way to the liabilities. The discussions over 2020 considered ways to improve the level of matching and including the possibility of introducing leveraged Gilts.

***Sponsor risk*** is managed by receiving regular financial updates from the Company.

**Training Knowledge and Understanding**

The Trustees are provided with regular training updates at each Trustee meeting. In addition there is an annual training day which allows the Trustees to further develop their knowledge.

Over the year the Trustees received training on changes required to the SIP from their investment consultant and also ESG training from their investment manager, LGIM.

A training log is maintained and a self-assessment of training needs is carried out annually.

New ISC members are provided with additional training to ensure they are equipped with the knowledge and understanding to make investment decisions and, critically, challenge the advice provided by their advisers.

Over the Plan year, there was change of trustee due to a Company change. All training induction materials were supplied to the new Trustee.

**Defined Contribution money underpin**

DC underpin monies are notionally invested in the Plan's assets as a whole and granted returns broadly in line with the return on Plan assets gross of fees.

## Additional Voluntary Contributions ("AVCs")

The Trustees provided a facility for active members to pay AVCs into the Plan. The assets attributable to these contributions are held separately from the main fund in the form of insurance contracts with life assurance companies. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year.

The Plan has two AVC providers, one of which is historic (Clerical Medical), and the other with Aviva (previously Friends Life). The Trustees previously held another historical policy with Equitable Life, this was transferred to Utmost Life and Pensions on 1 January 2020 and the monies held then consolidated with the Aviva AVC policies in March 2020. Professional advice was given around the manager selection exercise. The principal reasons for moving the assets were the relative charges, investment options and benefits of consolidation of the arrangements.

Within the AVC section, the investment risk is borne by the member. The Trustees' primary investment objective for this section is therefore to provide a range of investment options, which broadly satisfy the risk profiles of all members.

Full details of the lifetime journeys and fund options are included in the Appendix to this implementation statement.

The Trustees have sought advice from the Plan's Investment Consultant throughout the year and in particular around the transfer from Utmost transfer.

The Appendix sets out the fund options for the main policy with Aviva.

### Risk

The Trustees take advice from the Investment Consultant in relation to measuring the level of risk inherent to members via the investment options/funds offered.

The Trustees have considered risks for the AVCs of the Plan from a number of perspectives.

The Trustees provide the Plan's members with a guide and information on all the available investment funds with Aviva, which includes an explanation of the risks associated with investing.

### Monitoring

The Trustees monitor the performance of all the investment funds annually via a report provided by the AVC provider, presented at Trustee meetings. This provides the Trustees with a breakdown of return and risk metrics of the funds. In addition to this, the Trustees currently receive information on fund values as part of an annual update presented to the Trustees by Aviva.

There were no issues with the AVC providers that arose over the year.

## 4. Voting and engagement (Defined Benefits excluding AVCs)

The Trustees have delegated the day-to-day voting and engagement activity relating to the assets to the Plan's investment managers. The Trustees recognise that with a largely passive portfolio, the managers take no material decisions on the holdings to be included in the portfolio. However, the

Trustees expect the managers to engage with the companies and issuers in which they invest in relation to the financial and non-financial implications of sustainability issues.

The Trustees' policy is to engage with the managers to understand their policies on sustainability and stewardship and review these policies regularly to ensure that the managers are carrying out their delegated responsibilities.

During the year the Trustees receive regular sustainability and stewardship reporting from LGIM in line with the Trustees' policy as stated in the SIP. Training was also provided on LGIM approach to sustainability at a quarterly Trustee meeting.

**Summary of voting over the year**

Voting information on the Plan's bond holdings (also managed by LGIM) is not provided as the vast majority of loan and debt securities do not come with voting rights.

The Plan's equity investments are managed by LGIM via pooled funds on an index-tracking basis. Given the indexed nature of the mandates, LGIM are constrained in the equities they must hold in each fund.

A summary of the voting on behalf of the Plan over the year to 31 December 2020 is provided in the following table in respect of all the LGIM equity funds that the Plan invests in. This table shows the number of vote resolutions in which LGIM were eligible to participate for the specified fund, the percentage of those eligible vote resolutions that they exercised, and the percentages of the exercised votes where they voted for management, against management or where they abstained.

| LGIM Fund | Number of votes eligible | % of votes exercised | % of votes for | % of votes against | % abstained/ other |
|---|---|---|---|---|---|
| North American Equity | 10,174 | 99.9% | 72.5% | 27.4% | 0.1% |
| Europe (ex-UK) Equity | 10,695 | 99.9% | 84.4% | 15.3% | 0.3% |
| Japan Equity | 6,697 | 100% | 86.9% | 13.1% | 0% |
| Asia Pacific (excluding Japan) | 4,299 | 100% | 74.6% | 25.4% | 8% |
| UK Equity Fund | 13,941 | 99.9% | 93.1% | 6.1% | 0% |

Voting statistics are sourced from LGIM.

LGIM were asked to provide details of the 5 votes over the year to 31 December 2020 which they consider to be the most significant to the Plan. LGIM advised that they believed no votes were considered significant over the period in question.

**Engagement**

Across both public and private assets, LGIM have established a fully integrated framework for responsible investing to strengthen long-term returns and raise market standards. This is based on investment stewardship with impact and collaborative, active research across asset classes. Ongoing dialogue with companies is a fundamental aspect of LGIM's commitment to responsible investment. Engagement will be triggered in a variety of ways, such as regular catch-ups; analysis of responsible investment themes and voting issues; general knowledge of the company; or a media report. LGIM incorporate ESG assessments into their dialogue with companies, in order to push for real change and long-term sustainable value creation. Due to the size of their holdings, engagements tend to be with board directors.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. Use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports received from ISS for UK companies when making specific voting decisions.

## Appendix – AVC Investment Options

### Fund Range

The following funds are available to the AVC members with Aviva.

- Aviva BlackRock 60:40 Global Equity Index Fund
- Aviva BlackRock UK Equity Index Fund
- BlackRock Over 15 Year Gilt Index Fund
- BlackRock Cash Fund

### Lifetime Investment Programmes

The Plan offers members Lifetime Investment Programme strategy options which take the members from a Growth Phase through the Pre-Retirement Phase to their retirement portfolio over a period of 15 years.

- My Future
- My Future Target Annuity
- My Future Target Cash Lump sum
- My Future Target drawdown

### Default option

- There is no default option

# The Colgate-Palmolive Pension Plan

## Chair's Statement 2020

This statement has been prepared by the Trustees of The Colgate-Palmolive Pension Plan (the "Plan") in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996. The Plan is a hybrid arrangement, the main benefit is Defined Benefit (DB) however the following aspects of the Plan are Defined Contribution (DC) in nature:

- the Plan's Additional Voluntary Contributions (AVC) arrangements with Aviva and Clerical Medical; and
- the old 'protected rights' (PR) and 'personal pension accounts' (PPAs) held within the Plan's assets.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. The Trustees of The Colgate-Palmolive Pension Plan are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how, in relation to the DC benefits, the Trustees have complied with the statutory governance standards where applicable. These standards cover the following key aspects affecting the operation of the DC arrangements:

- Charges and the extent to which they represent good value for members
- The monitoring of core financial transactions; and
- How the Trustees ensure they have sufficient knowledge so that the DC arrangements, and the Plan as a whole, are well run

This statement covers the Plan's financial year from 1 January 2020 to 31 December 2020.

*Transferred in money purchase funds and other AVCs*

Historically members were permitted to transfer benefits from other pension arrangements into the Plan. Money purchase benefits that were transferred in were invested in the Plan's AVC arrangement. Members with transferred in money purchase benefits are able to invest in the range of funds held in the Plan's AVC arrangement. In addition members were able to contribute to the Plan's AVC arrangement. The Plan's main AVC provider is Aviva (previously known as Friends Life). There is an also an historical arrangement with Clerical Medical and, until 31 December 2019, with Equitable Life Assurance Society (ELAS). All monies with ELAS were transferred to Utmost Pensions Ltd on 1 January 2020. All funds had been held in the with-profits arrangement and members were given uplifts to compensate them for the loss of guarantees. In March 2020 the Trustees consolidated the previous ELAS funds with Aviva, transferring the monies to the Cash Fund.

*Former "Protected Rights" and PPAs*

The Plan elected to contract-out on a money purchase basis from April 1997 to April 2012. During that period, contracted-out rebates payable by the members and the employers (due in each month following the month in which they were accrued) and age-related or flat rate rebates/incentive payments payable by HMRC (due in each tax year following the tax year in which they were accrued), together referred to as "protected rights" (or PR), were notionally invested in the Plan. In addition, an allowance for member contributions and an element of employer contributions are added to the PRs to form members' "personal pension accounts" (or PPA). 'Old PPA provisions' were in force prior to 1997 and, where relevant, these monies became part of the member's PPA. These PPAs and PRs form the money purchase underpins.

Contracting-out on a money purchase basis was abolished with effect from 6 April 2012, and from this date the Plan was contracted-out on the Reference Scheme Test basis (an earnings related test). However the PR balances were converted to ordinary money purchase balances and treated in the same way as PPA balances; these PR money purchase underpins still apply. When benefits are drawn, a member's accrued PR and PPA balances are compared to their DB benefits earned during the relevant period(s) and acts as an underpin to their benefits. Some short service members (who previously received a refund of part of their contributions) have PR benefits only. The Plan was closed to new members and contributions in 2005 and closed to ongoing accrual from 1 April 2016.

**The Default Investment strategy**

As the Plan is not used as a Qualifying Scheme for auto-enrolment purposes, there is no default investment strategy in place for any of the AVC Plans.

The Trustees are responsible for the Plan's overall investment governance and in line with requirements have prepared a Statement of Investment Principles (SIP).

The SIP sets out the aims and objectives of the Plan's investment strategy. In particular it covers:

- The Trustees' investment objectives and investment strategy;
- Policies on managing risk; and
- Details of the AVC options.

The Plan's SIP was last updated in September 2020 and is included in the Annual Report and Accounts. A copy of the latest SIP, along with a copy of this statement and implementation statement, is available on the Company's website:
**https://www.colgate.com/en-gb**

*Transferred in money purchase funds and AVCs*

Transferred in money purchase benefits and members' additional contributions are invested in the Plan's AVC arrangement. When transferring in money purchase benefits, commencing AVCs members were required to make a choice in respect of the investment of their funds.

The Trustees receive regular updates from their Professional Adviser with regards to market practice for lifestyle investment strategies in AVC trust-based pension schemes. A review of the investment strategy offered through Aviva was undertaken in June 2017 focusing on the lifestyle options available to members. The Trustees elected to give members a wider choice of lifestyle funds with Aviva, targeting different options at retirement; this became available in May 2017 and was communicated to members in 2018.

The SIP sets out the AVC investment options available to members. Whilst there is no default investment strategy for the AVC arrangements, around 42% of the AVCs held by

Aviva are currently invested in the AV BlackRock UK Equity Index Tracker fund; the next largest fund selected is the AV BlackRock (60:40) Global Equity Index Tracker fund.

*PR and PPAs*

Members of the Plan are not offered investment options with regards to their PR and PPA balances. Rather, these are credited with the gross returns (positive or negative) earned by the Plan. The Trustees monitor the performance of the Plan assets at least quarterly.

From time to time the Trustees undertake a formal investment strategy review.

**Core Financial transactions**

*Transferred in money purchase benefits, AVCs and PR and PPA accounts*

Processing of core financial transactions (such as payments to members and beneficiaries between investments) is carried out by the administrators of the Plan, Mercer Limited. Members with AVCs held in Aviva are able to switch funds via the provider's member website **www.aviva.co.uk/membersite**

The Plan's administrators have confirmed to the Trustees that there are adequate internal controls to ensure that core financial transactions relating to the Plan, being payments to the members/beneficiaries are processed promptly and accurately. There are no further contributions invested into the AVC Plans or PR and PPA accounts so the monitoring of investing funds is not necessary.

The Trustees regularly monitor the core financial transactions of the Plan throughout the year, through the receipt of quarterly reports from the Plan's administrators, which are reviewed at Trustees' meetings. A Service Level Agreement (SLA) is in place with the administrators which, inter alia, covers the accuracy and timeliness of all core transactions. The SLAs are monitored by the Trustees at each of the Quarterly Trustee meetings. If any errors or unreasonable delays or responses are identified, the Trustees hold the administrators or investment manager, as appropriate, to account and seek to ensure that such issues are rectified and prevented from reoccurring. The Plan's accounts are also audited annually by a third party.

Using information provided by the administrators, the Trustees are satisfied that over the period covered by this statement:

- The administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- There has been no material administration errors in relation to processing core financial transactions with relation to the DC arrangement; and
- All core financial transactions have been processed promptly and accurately during the Plan year.

Any member complaints received are handled according to the Trustees' dispute resolution process – being considered by the administrator in the first instance and then by the Trustees if required or on appeal.

The administrators have confirmed there were no outstanding unresolved issues from 2020.

**Charges and transaction costs**

The Trustees are required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by members and reflected in the unit price of the funds.

*Transferred in money purchase benefits and AVCs*

*Charges – Total Expense Ratios*

The Administration Regulations require the Trustees to make an assessment of charges and transaction costs borne by the members with transferred in money purchase benefits and other AVC balances and the extent to which those charges and costs represent good value for members.

The Trustees have reviewed the fees payable by members of the Plan and will continue to do so to ensure charges are competitive based on the size of the arrangement.

The Trustees make available a range of funds through Aviva which may be chosen by members. These funds attract annual charges of 0.50% pa.

Previously the Plan held AVCs with Equitable Life Assurance Society. The funds were transferred to Utmost Life and Pension on 1 January 2020. These funds were held in a cash fund and no charges made to the accounts. They were transferred to the main AVC Provider, Aviva in March 2020 and attracted the same annual charges as the existing funds.

*Transaction charges*

Aviva have provided transaction costs that may be incurred by Plan members. See the appendix to this Statement for the transaction costs.

*Former "Protected Rights" and PPA accounts*

The Plan returns credited to PR and PPA accounts are the Plan returns gross of investment fees. Other Plan expenses are met by the Company.

*Charges – example impact*

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings reduce the amount available to the member at retirement. The Trustees have set out in the appendix to this Statement illustrations of the potential impact of management and transaction charges on members' Aviva fund values. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information; guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

In preparing these examples, we obtained the information from Aviva. The illustrations have been carried out for the two funds that have the highest holdings by value.

We have not shown detailed illustrations for the legacy Clerical Medical AVC funds as the fund values are relatively small compared to those held with Aviva. Clerical Medical investments comprise 0.6% of the total investments. These funds are with-profits and the charges will vary over time depending on the performance of the fund.

An example has also been prepared for the PR and PPAs members, although it should be noted that the members incur no direct charges so the illustration is a projection of fund values.

**Value for members**

*Transferred in money purchase benefits, AVCs and PR and PPA accounts*

The Trustees are committed to ensuring that members receive value for members (VFM) from the Plan (i.e. costs and charges deducted from members' pots provide good value in relation to the benefits and services provided by or on behalf of the Plan) compared to plans of a similar size or structure.

The Trustees have assessed the extent to which the Plan provides value for members, taking into account the charges and transaction costs. The Trustees believe that members get good value in relation to the investment funds for AVC benefits for the following reasons:

- The costs and charges deducted from members provide good value in relation to the benefits and services they receive, when compared to other options available in the market;
- Members are part of a well governed scheme which receives a comprehensive administration service;
- The charges for the Aviva funds available are 0.50%pa, i.e. below the charge cap of 0.75%pa for default funds set out in the Occupational Pension Scheme (Charges and Governance) Regulation 2015; and
- In January 2020 the monies with Equitable Life were transferred to Utmost and as part of the process, Equitable Life increased the enhancement to the policy values (ranging from 70-90% of the policy value). In March 2020 the funds were transferred to Aviva to consolidate the funds. Before the transition the funds were held in cash, the Trustees considered the charges of the proposed default funds offered by Utmost (run by J P Morgan). The AMC was 0.75% of funds, whereas Aviva apply an AMC of 0.5%. Certain funds are subject to a further fund AMC of 0.1%. The fund range was similar to the Aviva range so the Trustees agreed to consolidate the funds. A small number of members invest in Clerical Medical funds, but as this arrangement is a with-profits arrangement the details of the explicit charges for these funds are not available. Clerical Medical advise on their website that there are no explicit fund charges; instead they deduct an amount to cover the expenses of running traditional policies, including investment management expenses, when they are calculating bonuses. They review the level each year to reflect our actual expenses, and periodically check that the deductions are not out of line with comparable rates charged by other companies.

In considering whether the Plan provides value for members, the Trustees also consider the other benefits members receive from the Aviva arrangement, including:

- The range of investment options and strategies; and

- The quality of support services such as the Plan website where members can access fund information onlineThe efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Plan year.

Overall, the Trustees believe that members of the Plan are receiving fair value for money for the charges and costs that they incur. The main reason for this conclusion is the Trustees believe the transaction costs provide value for members. The Trustees wish to undertake a more detailed review of Aviva, the main AVC provider in the coming year and will examine the investment funds available on the current platform and whether there is scope to improve the ESG options for members.

*Former "Protected Rights" and PPAs*

The Trustees are confident that members do get value under the internal accounts in that there are no deductions for expenses in respect of PR and PPA accounts. However, the Trustees also acknowledge the special circumstances of the PR and PPA accounts and recognise there are no investment options available within the Plan to members under this arrangement.

**Trustee knowledge and understanding (TKU)**

The Board of Trustees maintains a strong process to enable it to properly fulfil its role and responsibilities and to ensure the individual Trustees have sufficient knowledge and understanding to run the Plan effectively. The Trustees' approach to meeting the TKU requirements are outlined below:

**New Trustees**

There is an induction programme in place and its objectives are to:

- Provide new trustees with a balanced, accurate, high-level and real-life overview of the Plan and its governance processes to enable them to become effective in their new role as quickly as possible;
- Ensure new trustees have an understanding of the Plan, its infrastructure, membership and the regulatory environment in which it operates;
- Build an understanding of the internal and external environment, and the key challenges and issues facing the Company and the Plan; and
- Facilitate building relationships with the other Trustees and advisors

Over the scheme year in question one new Trustee was appointed and provided with the induction programme.

**All trustees**

In addition, the following arrangements are in place for all trustees:

- Encouraging all Trustees to complete relevant modules of the Pension Regulator's Trustee Toolkit including updates and new modules when added:
- Maintaining a rolling programme of Trustee training which is delivered within Trustees' meetings where appropriate

- Recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chair's statement; and
- Reviewing the training programme regularly following a self-assessment of Trustee knowledge, understanding and skills and input from the Plan's professional advisers on where the training should focus for the coming year.

**Training relating to the AVC Plans**

The Trustees' advisers proactively raise any changes in governance requirements and other matters relevant to the AVC Plans. The Trustees' advisers would typically deliver training on such matters at Trustee meeting or the annual training day.

The Trustees operate an Investment Subcommittee (ISC) who will deal with implementation decisions relating to investments, including the DC investments. Detailed training in 2020 included the consideration of the transition of funds from Utmost to Aviva in March 2020. Relevant information was provided and discussed at meetings in Q1 2020.

Over the Scheme year the hot topics discussions included discussions relating to the impact of Covid 19 on the various asset classes through the calendar year.

As a result of the training undertaken, the specialist skills of the individual Trustees and the professional advice available, we are confident that the combined knowledge and understanding enables the Board of Trustees to exercise properly our functions as Trustee of the Plan. In particular, the Trustees are conversant with the Trust Deed and Rules, the current Statement of Investment Principles, the documents detailing the Trustees' policies, pensions and trust law, and the principles for funding and investment of occupational schemes.

Approved by the Trustees and signed on their behalf by;

Edward Jones 30th July 2021
Chairman of the Trustees
The Colgate-Palmolive Pension Plan

**Appendix – Aviva cost and charge analysis**

**Example illustrations of charges on accumulated funds**

Plan name: The Colgate-Palmolive Pension Plan

Plan year end date: 31 December 2020

The table below sets out transaction costs and certain charges which apply to selected funds together with illustration examples of the cumulative effect of these costs and charges incurred by members. Where we refer to charges in the below, this will also include any expenses.

**Fund transactional costs and charges total (%)**

| | BlackRock (60:40) Global Equity Index Tracker | BlackRock UK Equity Index Tracker |
|---|---|---|
| AMC | 0.50% | 0.50% |
| Additional expenses | 0.00% | 0.00% |
| Transaction Costs | 0.1582% | 0.3813% |

AMC is the annual management charge which is the yearly charge to cover administration costs and to pay the fund manager for managing the funds.

The additional expenses include management fees and expenses that vary with the day to day costs of running the fund.

Transaction costs arise when a fund manager buys or sells the underlying assets of a fund.

**The purpose of these example illustrations**

The purpose of the example is to show how fund related costs and charges can affect the overall value of the funds that the Plan invests in over time.

**Illustrations showing the impact of fund transaction costs and charges in a projected pension fund in today's money (£)**

The "before charges" column shows the projected pension fund without any transaction costs, charges or rebates being applied.

The "after all charges" column shows the projected pension fund after transaction costs, charges and rebates that have been applied.

| | BlackRock (60:40) Global Equity Index Tracker | | BlackRock UK Equity Index Tracker | |
|---|---|---|---|---|
| Years | Before Charges £ | After all charges £ | Before Charges £ | After all charges £ |
| 1 | 10,293 | 10,225 | 10,293 | 10,202 |

| | | | | |
|---|---|---|---|---|
| 3 | 10,904 | 10,690 | 10,904 | 10,619 |
| 5 | 11,552 | 11,177 | 11,552 | 11,053 |
| 10 | 13,344 | 12,492 | 13,344 | 12,216 |
| 15 | 15,414 | 13,962 | 15,414 | 13,502 |
| 20 | 17,806 | 15,606 | 17,806 | 14,923 |
| 25 | 20,569 | 17,442 | 20,569 | 16,494 |
| 30 | 23,761 | 19,495 | 23,761 | 18,230 |

**About these illustrations**

For these illustrations we've assumed;

- The starting age is 35 and the retirement age is 65;
- No future contributions are made;
- Projected pension fund values are shown in today's terms, and do not need to be reduced further for inflation. Inflation is assumed to be 2.5% each year;
- The starting pension fund value in the first year is £10,000; and
- Each illustration has been produced on the basis this is the only fund invested in and that all transaction costs and charges are deducted from that fund.

The growth rate for each fund is set out below. These are for illustrative purposes only and are not guaranteed. The investment growth achieved may be more or less than this and may vary depending on the type of fund.

| | |
|---|---|
| BlackRock (60:40) Global Equity Index Tracker | 5.5% |
| BlackRock UK Equity Index Tracker | 5.5% |

If the growth rate we've used is:

- The same as the rate of inflation, this reduces the growth rate, after making an allowance for inflation, to 0%;
- Less than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.

## Appendix – PR and PPA accounts illustrations

### Example illustrations of charges on accumulated funds

Plan name: The Colgate-Palmolive Pension Plan
Plan year end date 31 December 2020

### Fund transaction costs and charges

The Plan returns credited to PR and PPA accounts are the Plan returns gross of investment fees and all Plan expenses are met by the Company. The member pays no charges.

### The purpose of these example illustrations

The purpose of the example is to show how fund related costs and charges can affect the overall value of the funds that the Plan invests in over time. As the member does not pay any charge the table just shows the projected fund based on the current expected returns on the Fund.

### Illustrations showing the projected pension fund in today's money (£)

The "before charges" column shows the projected pension fund without any transaction costs, charges or rebates being applied.

| | Plan assets | |
|---|---|---|
| Years | Before Charges £ | After all charges £ |
| 1 | 10,112 | 10,112 |
| 3 | 10,340 | 10,340 |
| 5 | 10,574 | 10,574 |
| 10 | 11,180 | 11,180 |
| 15 | 11,822 | 11,822 |
| 20 | 12,500 | 12,500 |
| 25 | 13,217 | 13,217 |
| 30 | 13,975 | 13,975 |

The "after all charges" column shows the projected pension fund after transaction costs, charges and rebates that have been applied. As charges are not paid by the member there is no difference in the projected funds.

**About these illustrations**

For these illustrations we've assumed;

- The starting age is 35 and the retirement age is 65;
- No future contributions are made;
- Projected pension fund values are shown in today's terms, and do not need to be reduced further for inflation. Inflation is assumed to be 2.5% each year; and
- The starting pension fund value in the first year is £10,000.

The growth rate for the fund is set out below. These are for illustrative purposes only and are not guaranteed. The investment growth achieved may be more or less than this.

| | |
|---|---|
| Fund | 3.65% |

The return assumes the investment strategy remains unchanged over the period of projection.

If the growth rate we've used is:

- The same as the rate of inflation, this reduces the growth rate, after making an allowance for inflation, to 0%;
- Less than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.

**The Colgate-Palmolive Pension Plan**
**Annual Implementation Statement for the year ending 31 December 2020**

## 1. Introduction and purpose of this Statement

This document is the Annual Implementation Statement ("the implementation statement") prepared by the Trustees of the Colgate-Palmolive Pension Plan (the "Plan") covering the Plan year to 31 December 2020.

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustees, the Plan's Statement of Investment Principles ("SIP") required under section 35 of the Pensions Act 1995, as amended, has been followed during the year;
- detail any reviews of the SIP that the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review;
- describe the voting behaviour by, or on behalf of, the Trustees over the year; and
- set out the extent to which, in the opinion of the Trustees, the engagement policy within the SIP has been followed during the year.

A copy of this implementation statement will be made available within the Plan's annual report and accounts for the year to 31 December 2020, and will be available alongside the SIP and Chair's Statement on this website: https://www.colgate.com/en-gb .

This is the first year of the Plan providing an Implementation Statement and the format of the statement is expected to evolve over time as practices are established.

## 2. Review of, and changes to the SIP

The SIP was reviewed and subsequently updated during the year to reflect new regulatory requirements to describe the policy in relation to the Trustees' arrangements with any asset manager, covering the following areas:

a how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies;

b how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;

c how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies;

d how the Trustees monitors portfolio turnover costs incurred by the asset manager, and how it defines and monitor targeted portfolio turnover or turnover range; and

e the duration of the arrangement with the asset manager.

The revised SIP was agreed and formally adopted by the Trustees on 28 September 2020.

## 3. Adherence to the SIP

Overall the Trustees believe the policies outlined in the SIP have been fully adhered to during the Plan year. The remaining parts of this implementation statement set out details of how this has been achieved. These details relate to those parts of the SIP which set out the Trustees' policies, and not those which are statements of fact.

**Defined Benefits**

### Governance

The Trustees are responsible for investment matters related to the Plan. Investment matters are dealt with by the Investment Subcommittee (ISC). Four quarterly Trustee meetings were held over the year along with ad hoc ISC meetings. The main investment focus of the Trustees over the course of the Plan year was to ensure that the investment strategy remained appropriate, particularly given the impact on markets of the Covid-19 pandemic.

In addition, the Trustees received training on sustainability issues as part of its work to meet the Shareholders' Rights Directive II. Subsequently, the Statement of Investment Principles was updated as discussed under point 2 above.

### Investment objectives

The Trustees' primary investment objective is to limit the risk of the assets not being sufficient to meet the liabilities.

The Trustees have adopted a de-risking strategy under which the Plan's growth assets are gradually reduced and transferred into the Plan's matching assets. The Trustees hold the secondary funding objective of being self-sufficient, that is, fully funded on a gilts-flat discount rate, and moving towards a strategic benchmark that is more aligned to the Plan's liabilities on this basis.

The Trustees, together with the Scheme Actuary and Investment Consultant, monitor the Plan's funding level on these measures on an ongoing basis through the Willis Towers Watson Asset Liability Suite.

Following the market rebound over the second half of 2020 the Trustees considered some interim de-risking actions as flagged by the journey plan. A full review of the journey plan is due to be carried out in 2021 and further derisking and consideration of ways to improve the matching characteristics of the portfolio with the liabilities will be carried out.

### Investment beliefs

The Plan's SIP includes the Trustees' beliefs on responsible investing. The Trustees understand that sustainability factors (including those related to ESG and climate change) and stewardship may impact the Plan's financial outcomes and their policy is to delegate these factors to the investment managers.

### Investment Strategy

The target investment policy allocates 50% of the Plan's assets to equity assets, 15% to Index-Linked Gilts, 5% to Fixed-Interest Gilts and 30% to Corporate bonds.

As stated in the SIP, following market volatility in 2008 the Trustees suspended rebalancing (with the exception of the overseas equity hedging benchmark within each geographical region which is automatically rebalanced to maintain the agreed hedged versus unhedged split of 75%/25%) and have put the following strategy in place:

- The Notional Income Service ("NIS") (previously Notional Dividend Income Payments ("NDIP")) enables regular notional income from the Plan's investments to be drawn on an automatic basis. The Trustees have selected NIS payments in respect of UK equity and corporate funds only. These payments and employer contributions will be invested in a Liquidity Fund to assist with cash flow management;
- On a quarterly basis, at each Trustees' meeting, the actual asset allocations are compared to the target holdings and any rebalancing considered appropriate discussed;
- The Liquidity Fund holding is considered on a quarterly basis at each Trustees' meeting; and
- The Trustees review their stance on rebalancing at the quarterly Trustees' meetings.

The Plan's benchmark will be modified when pre-defined trigger points of the Plan's funding level are reached in order to allow for pre-planned reductions in its equity holding towards a final portfolio which closely matches the Plan's liability profile as measure on a self-sufficiency basis. The Trustees have taken advice from their Investment Consultant on the appropriate bonds to hold, in order to match the Plan's liability profile.

There were no changes in investment strategy implemented over the Plan year. However, as part of the required consultation with the Company, representatives (from US Treasury) engaged with the ISC in examining the current investment strategy.

In 2021 the Trustees are carrying out a review of the de-risking strategy to reflect the results of the Plan's actuarial valuation as at 31 December 2019.

**Investment Managers**

The Trustees have appointed one investment manager, Legal and General Investment Management (LGIM). The majority of the funds are held on a passive basis.

The Trustees are not involved in the investment managers' day-to-day method of operation but their policy is to monitor the returns achieved by the manager relative to the respective fund benchmarks on a regular basis. During the year, the Trustees received quarterly reports showing portfolio returns relative to the benchmark from the investment manager. Any relevant investment manager updates have also been discussed at the Trustee meetings with the Scheme Actuary and Investment Consultant.

Over the year, there were no changes to the Plan's investment managers and no selection exercise was undertaken.

The Trustees monitor the cost associated with managing the Plan's assets on an annual basis, which includes the costs associated with portfolio turnover. In addition, the Trustees monitors the level of turnover within each mandate to ensure that this is consistent with the index that is being tracked.

Over the year there were no specific issues that arose with the investment manager.

**Realisation of investments**

The Trustees receive regular updates from the administrators regarding the likely cash flow position of the Plan. At each quarterly Trustee meeting the Trustees determine whether investment or disinvestment will be required. Procedures are adopted to manage the cash flow position, including the Notional Income Service described above.

The Trustees will, when possible, provide the investment managers with reasonable notice of future cash needs.

**Investment risks**

The Trustees have identified several risks involved in the management of the Plan's assets which are taken into account when reviewing the investment arrangements.

***Deficit risk*** was considered through the analysis undertaken by WTW as part of the investment strategy and journey plan review in 2018 and updated in 2020 as part of the ISC's deliberations. This illustrated the expected progression of the growth in the assets relative to the liabilities as well as considering the downside risks under different strategies.

***Liquidity risk*** is managed by the Trustees and Plan's administrators who measure and manage the level of cash held in order to limit the impact of cash flow requirements.

***Currency risk*** is managed by implementing and monitoring a currency hedging programme to reduce the impact of exchange rate movements in the Plan's asset value.

***Interest rate and inflation mismatching risk*** is managed by holding assets that respond to changes to interest rates and inflation in a similar way to the liabilities. The discussions over 2020 considered ways to improve the level of matching and including the possibility of introducing leveraged Gilts.

***Sponsor risk*** is managed by receiving regular financial updates from the Company.

**Training Knowledge and Understanding**

The Trustees are provided with regular training updates at each Trustee meeting. In addition there is an annual training day which allows the Trustees to further develop their knowledge.

Over the year the Trustees received training on changes required to the SIP from their investment consultant and also ESG training from their investment manager, LGIM.

A training log is maintained and a self-assessment of training needs is carried out annually.

New ISC members are provided with additional training to ensure they are equipped with the knowledge and understanding to make investment decisions and, critically, challenge the advice provided by their advisers.

Over the Plan year, there was change of trustee due to a Company change. All training induction materials were supplied to the new Trustee.

**Defined Contribution money underpin**

DC underpin monies are notionally invested in the Plan's assets as a whole and granted returns broadly in line with the return on Plan assets gross of fees.

**Additional Voluntary Contributions ("AVCs")**

The Trustees provided a facility for active members to pay AVCs into the Plan. The assets attributable to these contributions are held separately from the main fund in the form of insurance contracts with life assurance companies. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year.

The Plan has two AVC providers, one of which is historic (Clerical Medical), and the other with Aviva (previously Friends Life). The Trustees previously held another historical policy with Equitable Life, this was transferred to Utmost Life and Pensions on 1 January 2020 and the monies held then consolidated with the Aviva AVC policies in March 2020. Professional advice was given around the manager selection exercise. The principal reasons for moving the assets were the relative charges, investment options and benefits of consolidation of the arrangements.

Within the AVC section, the investment risk is borne by the member. The Trustees' primary investment objective for this section is therefore to provide a range of investment options, which broadly satisfy the risk profiles of all members.

Full details of the lifetime journeys and fund options are included in the Appendix to this implementation statement.

The Trustees have sought advice from the Plan's Investment Consultant throughout the year and in particular around the transfer from Utmost transfer.

The Appendix sets out the fund options for the main policy with Aviva.

**Risk**

The Trustees take advice from the Investment Consultant in relation to measuring the level of risk inherent to members via the investment options/funds offered.

The Trustees have considered risks for the AVCs of the Plan from a number of perspectives.

The Trustees provide the Plan's members with a guide and information on all the available investment funds with Aviva, which includes an explanation of the risks associated with investing.

**Monitoring**

The Trustees monitor the performance of all the investment funds annually via a report provided by the AVC provider, presented at Trustee meetings. This provides the Trustees with a breakdown of return and risk metrics of the funds. In addition to this, the Trustees currently receive information on fund values as part of an annual update presented to the Trustees by Aviva.

There were no issues with the AVC providers that arose over the year.

## 4. Voting and engagement (Defined Benefits excluding AVCs)

The Trustees have delegated the day-to-day voting and engagement activity relating to the assets to the Plan's investment managers. The Trustees recognise that with a largely passive portfolio, the managers take no material decisions on the holdings to be included in the portfolio. However, the Trustees expect the managers to engage with the companies and issuers in which they invest in relation to the financial and non-financial implications of sustainability issues.

The Trustees' policy is to engage with the managers to understand their policies on sustainability and stewardship and review these policies regularly to ensure that the managers are carrying out their delegated responsibilities.

During the year the Trustees receive regular sustainability and stewardship reporting from LGIM in line with the Trustees' policy as stated in the SIP. Training was also provided on LGIM approach to sustainability at a quarterly Trustee meeting.

**Summary of voting over the year**

Voting information on the Plan's bond holdings (also managed by LGIM) is not provided as the vast majority of loan and debt securities do not come with voting rights.

The Plan's equity investments are managed by LGIM via pooled funds on an index-tracking basis. Given the indexed nature of the mandates, LGIM are constrained in the equities they must hold in each fund.

A summary of the voting on behalf of the Plan over the year to 31 December 2020 is provided in the following table in respect of all the LGIM equity funds that the Plan invests in. This table shows the number of vote resolutions in which LGIM were eligible to participate for the specified fund, the percentage of those eligible vote resolutions that they exercised, and the percentages of the exercised votes where they voted for management, against management or where they abstained.

| LGIM Fund | Number of votes eligible | % of votes exercised | % of votes for | % of votes against | % abstained/ other |
|---|---|---|---|---|---|
| North American Equity | 10,174 | 99.9% | 72.5% | 27.4% | 0.1% |
| Europe (ex-UK) Equity | 10,695 | 99.9% | 84.4% | 15.3% | 0.3% |
| Japan Equity | 6,697 | 100% | 86.9% | 13.1% | 0% |
| Asia Pacific (excluding Japan) | 4,299 | 100% | 74.6% | 25.4% | 8% |
| UK Equity Fund | 13,941 | 99.9% | 93.1% | 6.1% | 0% |

Voting statistics are sourced from LGIM.

LGIM were asked to provide details of the 5 votes over the year to 31 December 2020 which they consider to be the most significant to the Plan. LGIM advised that they believed no votes were considered significant over the period in question.

**Engagement**

Across both public and private assets, LGIM have established a fully integrated framework for responsible investing to strengthen long-term returns and raise market standards. This is based on investment stewardship with impact and collaborative, active research across asset classes. Ongoing dialogue with companies is a fundamental aspect of LGIM's commitment to responsible investment. Engagement will be triggered in a variety of ways, such as regular catch-ups; analysis of responsible investment themes and voting issues; general knowledge of the company; or a media report. LGIM incorporate ESG assessments into their dialogue with companies, in order to push for real change and long-term sustainable value creation. Due to the size of their holdings, engagements tend to be with board directors.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. Use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports received from ISS for UK companies when making specific voting decisions.

## Appendix – AVC Investment Options

### Fund Range

The following funds are available to the AVC members with Aviva.

- Aviva BlackRock 60:40 Global Equity Index Fund
- Aviva BlackRock UK Equity Index Fund
- BlackRock Over 15 Year Gilt Index Fund
- BlackRock Cash Fund

### Lifetime Investment Programmes

The Plan offers members Lifetime Investment Programme strategy options which take the members from a Growth Phase through the Pre-Retirement Phase to their retirement portfolio over a period of 15 years.

- My Future
- My Future Target Annuity
- My Future Target Cash Lump sum
- My Future Target drawdown

### Default option

- There is no default option