

# *Implementation Statement, covering 21 March 2019 to 20 March 2020*

The Trustees of the Panasonic UK Pension Plan (the “Plan”) are required to produce a yearly statement to set out how, and the extent to which, the Trustees have followed their Statement of Investment Principles (“SIP”) during the year, as well as details of any review of the SIP during the 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 year by, and on behalf of, trustees (including the most significant votes cast by trustees 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 Plan’s SIP dated October 2019.**

## **1. Introduction**

The SIP was reviewed and updated during the Plan year in May 2019 (plus a further small update was made in October 2019) to reflect the Trustees’ policies on consideration of financial and non-financial matters. Further detail and the reasons for these changes are set out in Section 7. As part of these SIP updates, the Trustees sought advice from their investment advisers and the employer was consulted and confirmed that it was comfortable with the changes.

The Trustees have, in their opinion, followed the policies in the Plan’s SIP during the year. The following Sections provide detail and commentary about how and the extent to which they did this.

## **2. Investment objectives**

Progress against the long-term journey plan is considered by the Trustees at their regular meetings, alongside the six monthly performance monitoring reports. The Trustees are also able to view the progress on an ongoing basis using LCP Visualise online.

As at 20 March 2020 the Plan was on track to achieve full funding by the target date.

The Trustees continue to believe that the DC default arrangements are consistent with their aims and objectives which are as follows:

- Aim for long-term, real growth while members are far from their target retirement date;
- Gradually reduce the risk taken in the investment strategy as members become close to their target retirement date; and
- Have an asset allocation at the target retirement date that is appropriate and consistent with how most members are expected to take their retirement savings.

## **3. Investment strategy**

The Trustees did not review the DB or DC investment strategies over the period.

The Trustees monitor the asset allocation as part of their six-monthly performance reports and compare this to the strategic asset allocation.

The actual asset allocation did not deviate materially from the strategic allocation over the year and therefore the Trustees undertook no rebalancing action. Disinvestments to meet the Plan’s cash flow requirements were taken from equity dividend and property income and as well as additional disinvestments from LGIM and Insight Absolute Return Bond mandate in order to move the Plan closer to the strategic allocation.

## **4. Considerations in setting the investment arrangements**

When the Trustees reviewed the DB investment strategy in November 2017 they considered the investment risks set out in Appendix 2 of the SIP. They also considered a wide range of asset classes for investment, taking into

account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

The Trustees reviewed their investment beliefs in May 2019 but did not make any changes to the Plan's investment mandates as a result.

## **5. Implementation of the investment arrangements**

While the Trustees considered a switch from Absolute Return Bonds to Short Duration Credit during the year, no actual changes to their manager arrangements over the period (with that switch likely to occur after the yearend).

The Plan'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 Trustees promptly about any significant updates or events they become aware of with regard to the Plan'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 Plan invests in, or any material change in the level of diversification in the fund.

The Trustees regularly invite the Plan's investment managers to present at Trustee meetings. Over the year, the Trustees met with Schroders in May 2019 and Insight in September 2019 to discuss the Plan's investments.

The Trustees were comfortable with all their investment manager arrangements over the year.

The Trustees monitor the performance of the Plan's investment managers using the performance monitoring report which are produced every six months. These reports show the performance of each manager over the quarter, one and 3 years. Performance is considered in the context of the manager's benchmark and objectives.

The most recent performance report shows that most managers produced performance broadly in line with expectations over the long-term (especially when the volatile markets of March 2020 are taken into account). However following a period of underperformance, the Trustees are in the process of reviewing the LGIM Managed Property Fund which may include considering a replacement fund.

Over the period, as part of producing the DC Chair Statement the Trustees undertook a value for members assessment which assessed a range of factors, including the fees payable to managers in respect of the DC Section which were found to be reasonable when compared against schemes with similar sized mandates.

The Trustees regularly review their investment managers' fees with information provided in the six-monthly investment performance monitoring reports. During the year, the Trustees' advisers also carried out an industry wide fee survey in which any clients' fees which are abnormally high are challenged with the managers. Overall the Trustees believe the investment managers provide reasonable value for money.

## **6. Realisation of investments**

The Trustees review the Plan's net current and future cashflow requirements on a regular basis. The Trustees' 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.

Over the year, the Trustees used cashflow to help rebalance the Plan's assets towards the strategic asset allocation. Further details of the disinvestments and income that took place over the reporting period were given in section 3. This is retained in the Trustees' bank account and used towards paying benefit payments.

## **7. Financially material considerations and non-financial matters**

As part of its advice on the selection and ongoing review of the investment managers, the Trustees' 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.

Further the Trustees' investment adviser LCP also completed its Responsible Investment Survey 2020 where all the investment managers they research (which includes all the Plan's managers) were graded on a scale of 4 (strong) and the lowest is 1 (weak) and assessed against a number of 'Red Flag' criteria. There were no concerns highlighted about the Plan's managers from this project and hence no further action was taken.

When Insight presented to the Trustees during the year, this included how the current Absolute Return Bond and potential new Short Duration Credit mandates consider ESG risks and undertake engagement activities. The

Trustees also received reports from their managers containing voting and engagement activities undertaken on their behalf.

## **8. Voting and engagement**

This is covered in Section 7 above.

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

As mentioned in Section 5, the Trustees assess the performance of the Plan's investments on an ongoing basis as part of the six-monthly monitoring reports they receive.

The performance of the professional advisers, including the investment adviser, is considered on an ongoing basis by the Trustees.

The Trustees have put in place formal objectives for their investment adviser and will review the adviser's performance against these objectives on a regular basis.

## **10. Policy towards risk (Appendix 2 of SIP)**

Risks are monitored on an ongoing basis with the help of the investment adviser. The Trustees also maintain a risk register and this is discussed at quarterly meetings.

The Trustees' policy for some risks, given their nature, is to understand them and to address them if it becomes necessary, based upon the advice of the Plan's investment adviser or information provided to the Trustees by the Plan's investment managers. These include credit risk, equity risk, currency risk and counterparty risk.

With regard to the risk of inadequate returns, as at the 2019 Actuarial Valuation, the required return for the Plan to be fully funded on a Technical Provisions basis by 2040 was assessed as gilts + 1.1% pa. The best estimate expected return on the Plan's strategic asset allocation was gilts + 2.8% pa. Therefore, the expected return on the Plan's assets was expected to be sufficient to produce the return needed over the long-term.

The Plan's interest and inflation hedging levels are monitored by the Trustees at their meetings alongside their six-monthly investment performance monitoring reports to consider if either have deviated too far from the Trustees' stated target of hedging 80% of the Plan interest rate and inflation risk measured on a technical provisions basis. This is also considered at other times; for example in March 2020 ahead of receiving a deficit recovery contribution from the employer. Subsequently in May 2020 the Trustees rebalanced the Plan's hedging portfolio to increase interest rate and inflation hedging from around 75% to around 80%.

With regard to collateral adequacy risk, the Trustee holds investments in the Insight Sterling Liquidity Fund and Bonds Plus Fund alongside the LDI portfolio, to be used should the LDI manager require cash to be posted for a deleverage event. The Trustees aim to hold at least enough liquid assets to meet the next capital call on the LDI funds and this was the case at 20 March 2020.

Together, the investment and non-investment risks set out in Appendix 2 of the SIP give rise generally to funding risk. The Trustees formally review the Plan's funding position as part of their annual actuarial report to allow for changes in market conditions. On a triennial basis the Trustees review the funding position allowing for membership and other experience. The Trustees also informally monitor the funding position more regularly, on a quarterly basis at Trustee meetings and the Trustees also have the ability to monitor this daily on LCP Visualise. The DC section is monitored annually as part of producing the Chair Statement.

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.

## **11. Investment manager arrangements (Appendix 3 of SIP)**

There are no specific policies in this section of the Plan's SIP.

## **12. Description of voting behaviour during the year**

All of the Trustees' holdings in listed equities are within pooled funds and the Trustees have delegated to their investment managers the exercise of voting rights. Therefore the Trustees are not able to direct how votes are

exercised but seek to appoint managers that have strong stewardship policies and processes. The Trustees themselves have not used proxy voting services over the year.

In this section we have sought to include voting data on the Plan's funds that hold equities as follows:

- LGIM UK Equity Index Fund
- LGIM North America Equity Index Fund
- LGIM Europe (ex UK) Equity Index Fund
- LGIM Japan Equity Index Fund
- LGIM Asia Pacific (ex Japan) Equity Index Fund
- LGIM World Emerging Markets Index Fund
- Schroder Diversified Growth Fund
- Phoenix Life with-profits policies

The Trustees obtained the relevant voting data for Sections 12.2 and 12.3, for the Plan's equity holdings, however were unable to obtain all the required data in respect of the Schroder Diversified Growth Fund, or any voting data in respect of the Phoenix Life with-profits policies or the LGIM Managed Property Fund. Given this is a new requirement for trustees it is perhaps understandable that this data is not yet available from Phoenix Life (who is less used to dealing with the requirements of institutional pension schemes) and for non-equity mandates (where voting is only required occasionally). The Trustees will continue to work with their advisers, Schroders, Phoenix and LGIM with the aim of providing fuller voting information in future implementation statements.

## 12.1 Description of the voting processes

Explanations provided by the Trustees' investment managers of their voting processes are set out below:

### Legal and General Investment Management

All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

### Schroders

We evaluate voting issues arising at our investee companies and, where we have the authority to do so, vote on them in line with our fiduciary responsibilities in what we deem to be the interests of our clients. We utilise company engagement, internal research, investor views and governance expertise to confirm our intention. Further information can be found in our Environmental, Social and Governance Policy for Listed Assets policy:

<https://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf>

## 12.2 Summary of voting behaviour over the year

A summary of voting behaviour over the period provided by the Trustees' investment managers is set out in the table below.

	LGIM UK	LGIM North America	LGIM Europe (ex-UK)	LGIM Japan	LGIM Asia Pac	LGIM Emerging Markets	Schroders DGF
<b>Total size of fund at end of reporting period</b>	£20.8bn	£16.4bn	£4.4bn	£2.5bn	£1.4bn	£7.4bn	£3.1bn
<b>Value of Plan assets at end of reporting period (£ / % of total assets)</b>	£7.2m	£12.4m	£11.3m	£4.0m	£4.0m	£6.0m	£39.1m
<b>Number of holdings at end of reporting period</b>	685	723	506	513	408	1,635	Not available
<b>Number of meetings eligible to vote</b>	790	696	421	529	436	1480	Not available
<b>Number of resolutions eligible to vote</b>	11,168	8,548	6,722	6,650	3,117	13,642	Not available
<b>% of resolutions voted</b>	100%	99%	99%	100%	90%	95%	Not available
<b>Of the resolutions on which voted, % voted with management</b>	94%	78%	81%	89%	76%	82%	Not available
<b>Of the resolutions on which voted, % voted against management</b>	6%	22%	18%	11%	24%	17%	Not available
<b>Of the resolutions on which voted, % abstained from voting</b>	0%	0%	0%	0%	0%	1%	Not available
<b>Of the meetings in which the manager voted, % with at least one vote against management</b>	65%	88%	65%	71%	64%	52%	Not available
<b>Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor</b>	5%	12%	5%	9%	15%	7%	Not available

## 12.3 Most significant votes over the year

Commentary on the most significant votes over the period, from the Plan's investment managers who hold listed equities, is set out below.

### Process for Legal and General Investment Management

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;

- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

## Actual votes for Legal and General Investment Management

- **BP, UK, May 2019** - LGIM and other major shareholders put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. At the company's annual general meeting, the proposal was passed with overwhelming approval from shareholders. LGIM have since met BP repeatedly – including its chair and incoming CEO – to advise on implementing the resolution. The company has announced industry-leading targets: net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.
- **First Group, UK, June 2019** - The performance of the company had been weak for a number of years. Following a profit warning in February 2018, the chief executive stepped down. On 25 June 2019, shareholder activist Coast Capital convened a shareholder meeting to appoint seven directors to the board of the company and remove six company directors including the board chair and the chief executive. Coast Capital made strategy proposals such as: the company exits its rail business; separate the company's US and UK assets; the immediate payment of a dividend. David Martin, one of the nominees of the activist, failed to confirm his intention to stand for election before the deadline. The resolution on his appointment to the board could not therefore be validly voted on by shareholders. LGIM engaged directly with both sides: the company's Senior Independent Director (SID) and the activist. LGIM also consulted other top shareholders on their views. LGIM decided to cast a vote against the board chair to signal our concerns around the pace of execution of the strategy and poor performance. LGIM supported the rest of the board and opposed the activist's nominees.
- **Bayer AG, Europe, April 2019** - Following its acquisition of agribusiness Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that Monsanto's glyphosate-based weedkiller RoundUp was linked to causing cancer. The damages were reduced upon appeal, and Bayer was adamant that RoundUp was not carcinogenic. We are concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US. Although at the time of the merger agreement in 2016 there were only about a hundred such lawsuits, by the end of 2019, the number grew to over 40,000. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%. Unrelated to the litigation, LGIM have previously discussed the importance of a lead independent director, particularly in times of crisis. LGIM spoke to the company ahead of its 2019 AGM to gain a better understanding of the decision-making process in relation to the Monsanto acquisition and the legal advice it received for litigation risk. LGIM recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise; appointing non-executive directors with specific expertise; and appointing new executives. In addition, LGIM suggested that these incidents should have a bearing on remuneration awarded for the year.
- **EssilorLuxottica, Europe, May 2019** - In 2018, French lenses producer Essilor merged with Italian frame manufacturer Luxottica. Upon conclusion of the merger, the executive chair of Luxottica's holding company (Delfin) owned 32.7% of the merged company's share capital. Under the terms of the merger agreement, the aforementioned executive chairman and Essilor's executive vice-chairman were both given equal powers. A board was also established, with membership split equally between Essilor and Delfin. In March 2019 an internal disagreement between the two heads of the merged entity occurred. Two of the company's shareholders – Comgest and Valoptec – put forward three board nominees in a bid to break the impasse. LGIM contacted EssilorLuxottica to discuss the issue, but received no reply. LGIM engaged extensively with Comgest, Valoptec and the board nominees. LGIM publicly announced our support for the board nominees ahead of the AGM to ensure the current board knew our intentions and to raise awareness to the other shareholders.
- **Korean Airlines, Asia Pac, March 2019** - LGIM opposed the re-election of the chair of Korean Air Lines Cho Yang-ho. LGIM had concerns about his ability to conduct the company given his indictment for embezzlement, breach of trust, tax evasion, financial scams, and irregular payments to family members who were not employed by Korean Airlines companies since 2013.
- **Hyundai Mobis and Hyundai Motor, Asia Pac, March 2019** - In March 2018, the Hyundai group announced a restructure involving Hyundai Mobis and Hyundai Motor. Activist investor Elliott Management, which owned a \$1 billion stake in the group, challenged these plans by putting forward its own proposals for the two businesses. This included increasing the dividend payout, establishing separate

compensation and governance committees, and appointing directors who were not already on the group's boards. LGIM have been actively engaging with Hyundai Motor for a number of years on the composition of the board, the risks associated with a chaebol structure, and excess of capital. Following Elliott Management's announcement, LGIM discussed the proposals with it and the chief financial officer of Hyundai Mobis. LGIM decided to support all the resolutions put forward by Elliott Management in relation to Hyundai Motor. With regards to Hyundai Mobis, LGIM noted the risk of a potential conflict of interest with one nominee and decided not to support their election. LGIM supported all other resolutions put forward.

## Process for Schroders

Schroders consider "most significant" votes as those against company management.

Schroders is not afraid to oppose management if Schroders believes that doing so is in the best interests of shareholders and our clients. For example, if Schroders believes a proposal diminishes shareholder rights or if remuneration incentives are not aligned with the company's long term performance and creation of shareholder value. Such votes against will typically follow an engagement and we will inform the company of our intention to vote against before the meeting, along with our rationale. Where there have been ongoing and significant areas of concern with a company's performance Schroders may choose to vote against individuals on the board.

However, as active fund managers Schroders usually look to support the management of the companies that Schroders invest in. Where Schroders do not do this Schroders classify the vote as significant and will disclose the reason behind this to the company and the public.

## Actual votes for Schroders

- **Schroder Private Equity Fund Of Funds Iii Plc, Ireland, July 2019** - Authorise Board to Fix Remuneration Auditors - Voter Rationale: As per conflicts policy
- **SPDR Thomson Reuters Global Convertible Bond UCITS ETF, Ireland, October 2019** - Transact Other Business – Voter Rationale: Other business not disclosed
- **William Lyon Homes, USA, January 2020** - Advisory Vote on Golden Parachutes - Voter Rationale: Schroders are not supportive of golden parachutes
- **Johnson Controls International plc, Ireland, March 2020** - Advisory Vote to Ratify Named Executive - Voter Rationale: Sizable CIC-related severance payments made in 2019
- **Toll Brothers, Inc, USA, March 2020** - Advisory Vote to Ratify Named Executive Officers' Compensation