ICL Group Pension Plan

Annual Implementation Statement for the DC & AVC Sections

Introduction

This Statement sets out how the Statement of Investment Principles ('SIP') for the Plan's DC and AVC Sections have been followed during the year to 31 March 2021. This Statement has been produced in accordance with the new regulatory requirements and guidance published by the Pensions and Lifetime Savings Association (PLSA).

If you want to find out more, you can find a copy of the Plan's SIP at:

https://fujitsu.pensiondetails.co.uk/SIP_ICL_Apr_2021_1.pdf

Investment Objectives

The Trustee's objectives for the DC and AVC Sections are the acquisition of secure assets of appropriate liquidity, that will generate income and capital growth which will provide for each member's retirement benefits.

Review of the SIP

During the year, the Trustee reviewed the SIP for both the DC and AVC Sections of the Plan. Revisions were made to:

1. Reflect the new requirements under the Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2019, relating to the following:
    - How the arrangements with asset managers incentivise them to align their investment strategy and decisions with the Trustee's policies in the SIP.
    - How the arrangements incentivise the asset managers to make decisions based on medium to long-term financial and non-financial performance of an equity and/or debt issuer and to use engagement to improve their performance in the medium to-long-term.
    - How the method (and time horizon) of the asset manager's evaluation is in line with the Trustee's policies in the SIP.
    - How the Trustee monitors portfolio turnover costs incurred by the asset managers.
2. Updated existing sections including:
    - Updating the Trustee's DC investment monitoring framework
    - Adding more detail around the Trustee's asset class return expectation

In addition, the AVC section of the Investment Policy Implementation Document (IPID) was updated to reflect changes to the AVC fund range made in June 2020. This included:

- Closing the existing lifestyle to future member switches and introducing a new lifestyle option that better matched how members were expected to access their AVC savings on retirement. This change was implemented following analysis of the Plan AVC membership and advice from the Trustee's DC advisor which was considered by the Trustee at its March 2020 Trustee meeting.

- Introducing a number of new funds for AVC members:
    - Aviva Blended Global Equity Fund
    - Aviva BlackRock Corporate Bond All Stocks Index Tracker Fund
    - Aviva LGIM Diversified Fund
    - Aviva BlackRock UK Equity Index Tracker Fund
- Removing two Utmost Life & Pensions funds (Secure Cash and Money Markets) as no members remained invested in these.

Adherence to the SIP

The Trustee believes the SIP has been followed during the Plan year as shown below other than where stated.

Overall investment objective as set out in the SIP

<u>DC Section</u>

The Trustee meets its investment objectives by offering a lifestyle strategy option for the DC Section which was designed based on analysis of the likely needs of the members. The Trustee also makes available a range of alternative investment options for those members who wish to design their own investment strategy. The Trustee had intended to review the ongoing suitability of its DC Section fund range during the Plan Year but has agreed to delay this pending completion of a wider review of its overall DC offering which is currently in progress.

<u>AVCs</u>

As noted above, the Trustee reviewed its AVC investment options and introduced a revised fund range including a new lifestyle option in June 2020. The Trustee believes the new lifestyle and fund range are more suitable as:

- The new lifestyle's de-risking phase better matches how members are expected to take their Plan AVC savings on retirement (cash lump sum). In addition, the Aviva Blended Global Equity Fund used in the growth phase better reflected the makeup of the global equity market compared to the historic lifestyle's growth phase. The key change to the growth phase was to reduce the exposure to UK stocks, meaning members would be invested in a more diverse range of stocks including emerging markets.
- The changes to the wider fund range provided members with an increased range of choice by introducing a diversified growth fund, a corporate bond fund and a UK equity fund. In addition, the global equity fund was replaced (as highlighted in the point above).

The Trustee had intended to map members from a number of legacy funds to funds indentified as being more suitable, but has agreed to delay these changes due to the market volatility seen in response to the Covid-19 pandemic and the above mentioned review of the Trustee's DC arrangements. This was with the aim of avoiding switching member funds twice within a short timeframe.

Investment monitoring

As part of their oversight and effective running of the Plan, the Full Trustee Board met four times during the Plan Year where DC items were considered at each meeting. On an annual basis the Trustee receives a report from its DC advisor which considers the performance and ongoing suitability of the Plan's AVC and DC Section investment options and providers – this report was considered during the

Plan Year at the December 2020 Trustee meeting. The Investment Sub-Committee also met four times during the Plan Year and considered the performance of the DC Section investments at each meeting.

Consideration of risks within the DC and AVC Sections

The Trustee recognises a range of specific investment risks to which DC and AVC Section members are exposed. In particular the Trustee recognises 'Inflation risk', 'Pre-retirement downturn risk' and 'Liquidity risk'.

These risks have been mitigated where appropriate through the construction of the lifestyle investment strategies. Both the DC Section and AVC lifestyles were designed based on analysis of the membership, in particular in relation to ensuring the lifestyles take an appropriate amount of risk at the right time. For example:

- The two lifestyles have growth phases that invest in growth seeking assets when members can afford to do so with the aim of growing members assets and mitigating inflation risk.
- In the de-risking phase, both lifestyles gradually reduce the amount of investment risk taken as a member approaches their selected retirement age and align the investments held with how members are expected to take their savings (cash lump sum) helping to mitigate in particular the pre-retirement downturn risk.

The Trustee also offered a range of self-select funds to AVC and DC Section members with different characteristics, however it recognises that not all risks can be fully mitigated. Members are encouraged to review their investment decisions to ensure they are appropriate for their personal objectives.

Arrangements with investment managers

The Trustee receives regular input and monitoring from their investment consultant about the Plan's DC investment managers (including investment advice when appointing new investment managers) as described in this Statement, to be satisfied that there is alignment with the Trustee's policies.

The Plan's DC Section and AVC investment provider has been provided with a copy of the Plan's SIP dated September 2020, and were asked to confirm whether they believe that there is any misalignment of the assets they manage on behalf of the Plan with those policies in the SIP that are relevant to the fund in question. For the DC Section Fidelity stated it was not able to provide the confirmation requested. Noting this, as the Trustee's DC Section investments are predominately invested in passive assets, the Trustee key focus for these is that the managers undertake effective stewardship activities via the use of the voting rights they hold on behalf of the Trustee. Having reviewed the voting information provided by Legal & General and BlackRock, the Trustee's advisor is comfortable that both managers are undertaking suitable levels of stewardship which is in line with the Trustee expectation in this area. For the AVCs, Aviva did not explicitly provide this confirmation, as they stated that they are unable to provide this, Aviva however, provided supporting information on their own policies around sustainability and stewardship. This supporting information did not raise any clear concerns around misalignment with the Plan's SIP. The above point in relation to the voting activities of Legal & General and BlackRock under the DC Section also apply to the AVC assets held.

The Trustee appointed the Plan's investment manager with an expectation of a long-term partnership. Over the Plan year there were no new investment manager appointments or terminations by the Trustee under the DC Section. Under the AVCs the following new funds were introduced:

- Aviva Blended Global Equity – which is a blend of three BlackRock funds
- Aviva BlackRock Corporate Bond All Stocks Index Tracker
- Aviva LGIM Diversified Fund
- Aviva BlackRock UK Equity Index Tracker

Both BlackRock and LGIM were existing managers used under the Plan.

The Trustee reviewed the costs incurred in managing the Plan's assets regularly, which includes the transaction costs relating to portfolio turnover, as part of their annual assessment of the costs and charges incurred within the Plan (including the annual Value for Members assessment). The latest assessment covering the Plan Year was provided to the Trustee in June 2021. The assessment showed that the Plan's annual management charges for the growth phase of the DC Section lifestyle (where most DC Section members are invested) were lower than schemes of similar nature and for the majority of the AVC funds the charges paid by members were broadly in line with schemes of a similar nature. For the transaction costs incurred, the Plan's funds were on the whole in line with the average costs for a selected asset class benchmark. We would note that the majority of the Plan's DC funds are passively managed funds and therefore the portfolio turnover will be driven by the changes to the underlying index.

Day–to-Day Management of the Assets

The Trustee received an annual report from their DC advisor which reviews the Plan's DC providers and fund ranges. This report was presented at the December 2020 Trustee meeting and other than the funds previously identified for closure, confirmed the fund managers remained suitable. As noted previously, over the next Plan Year, the Trustee intends to consider as part of its wider DC offering review if members would benefit from a wider range of lifestyle options and individual funds.

Expected risk and return

This section covers the Trustee's views on the potential returns of different asset classes.

The December 2020 review of the DC investment options indicated that on the whole the fund managers had performed in line with their benchmarks and performance expectations as set out in the SIP over the longer term.

DC Sustainable Investment, ESG and Stewardship

The DC and AVC Section investment funds are predominantly passively managed in pooled funds in which the Trustee is a small participant. The Trustee has therefore chosen to adopt an approach to ESG that is consistent with the opportunities and constraints of this position.

The Trustee's policy is that day-to-day decisions relating to the investment of the Plan's DC assets (including 'ESG' considerations) are left to the discretion of the investment managers. The Trustee recognises that long-term sustainability issues, including climate change, may have a material impact on investment risk and outcomes.

The Trustee has agreed collective beliefs, policies and objectives in relation to Sustainable Investment. The Trustee received training and updates on ESG during the reporting period covering four areas; ESG regulation, peer practice, climate and ESG in relation to COVID-19.

The Trustee did intend to review the stewardship and sustainability activities of its DC investment managers during the Plan Year. However, due to the above-mentioned review of its DC offering the Trustee agreed that this was not appropriate and considerations around stewardship and sustainability are being factored into this wider DC review. The Trustee will consider this in more detail within the forthcoming Plan year.

Voting policy and behaviour

As all the DC and AVC investments are held within pooled funds, the Trustee aims to select investment managers who are clearly demonstrating that they are using their voting power to institute change on those issues the Trustee believes are important. BlackRock and LGIM are the main investment managers and their stewardship reports can be accessed at the below links:

BlackRock: https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf

LGIM: https://www.lgim.com/uk/en/capabilities/corporate-governance/

BlackRock joined Climate Action 100+ in 2020, a group which engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement.

Wider engagement

BlackRock's Investment Stewardship team is comprised of more than 45 professionals across the world (with team members in New York, San Francisco, London, Tokyo, Singapore, Hong Kong and Sydney), taking a local approach with companies while benefiting from global insights. This team engaged 3,030 times with 2,020 companies in the reporting period up to 30 September 2020.

BlackRock's Investment Stewardship 2020 priorities related to Board Quality, Environmental Risks and Opportunities, Corporate Strategy & Capital Allocation and Compensation that promotes long-termism.

AVCs

The table below sets out the voting activities of BlackRock, Aviva and LGIM as the AVC equity and multi-asset fund managers, including any votes cast on the Trustee's behalf and details on the Plan's investment manager use of proxy voting and examples of votes cast that they deem to be significant. The voting covers the pooled equity and multi-asset funds available under the Plan as at 31 March 2021.

Fund name	Voting activity	Example of one of the most significant votes cast during the period
BlackRock Emerging Markets Fund (which makes up part of the Blended global equity fund)	Number of eligible votes: 23,180 Percentage of eligible votes cast: 96.77% Percentage of votes with management: 90.79% Percentage of votes against management: 9.21% Percentage of votes abstained from: 2.77%	Company: PGE Polska Grupa Energetyczna SA Resolution: Approve Remuneration Policy Decision: Voted against the resolution Rationale for decision: BlackRock thought the remuneration policy contained insufficient details concerning incentives and performance-related elements such as performance conditions and targets, vesting and holding periods and participants.
Fund name	Voting activity	Example of one of the most significant votes cast during the period
BlackRock Currency Hedged MSCI World Index Fund (which makes up part of the Blended global equity fund)	Number of eligible votes: 15,762 Percentage of eligible votes cast: 90.67% Percentage of votes with management: 92.72% Percentage of votes against management: 7.28% Percentage of votes abstained from: 0.72%	Company: Royal Dutch Shell plc Resolution: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Decision: Voted against the resolution Rationale for decision: BlackRock considered that Shell already had some of the most ambitious climate targets in the industry and makes strong TCFD disclosures. Shell had also agreed to review its targets on an ongoing basis.

Fund name	Voting activity	Example of one of the most significant votes cast during the period
BlackRock UK Equity Index Fund	Number of eligible votes: 11,058 Percentage of eligible votes cast: 99.62% Percentage of votes with management: 93.20% Percentage of votes against management: 5.40% Percentage of votes abstained from: 1.40%	Company: Huntsworth plc Resolution: Approve Matters Relating to the Cash Acquisition of Huntsworth plc by CD&R Artemis UK Bidco Limited Decision: Voted for the resolution Rationale for decision: BlackRock viewed the offer for the Company at £1.08 per share (a premium of approximately 50% to the closing price on 2 March 2020) represented compelling value.
Fund name	**Voting activity**	**Example of one of the most significant votes cast during the period**
BlackRock 50:50 Global Equity Index Tracker Fund	Number of eligible votes: 36,058 Percentage of eligible votes cast: 95.23% Percentage of votes with management: 74.00% Percentage of votes against management: 24.00% Percentage of votes abstained from: 2.00%	Company: Barclays plc Resolution: Approve Barclays' Commitment in Tackling Climate Change Decision: Voted for the resolution Rationale for decision: BlackRock supported this resolution as it sets out an ambition or Barclays to become a net zero bank by 2050 and directs the Company to set a strategy, with targets, to transition its provision of financial services across all sectors to align with the goals and timelines of the Paris Agreement.
Fund name	**Voting activity**	**Example of one of the most significant votes cast during the period**
Aviva Stewardship Funds	Number of eligible votes: 895 Percentage of eligible votes cast: 99.55% Percentage of votes with management: 98.4% Percentage of votes aganst management: 1.60% Percentage of votes abstained from: 0.6%	Company: Prudential plc Resolution: Re-elect Paul Manduca as Director Decision: 'Exceptionally' supported the resolution Rationale for decision: Aviva confirmed that under normal circumstances they would have voted against the nomination committee chair to reflect their concerns over the lack of women on the Board (i.e. less than a third). However, they exceptionally supported this re-election in recognition that the Board has doubled the number of women on the board since its last AGM. Aviva were also mindful of the fact that Paul Manduca would step down from the Board on 31 December 2020 (if not before) and will be replaced by Shriti Vadera, one of the recent female appointments.

Fund name	Voting activity	Example of one of the most significant votes cast during the period
LGIM Diversified Fund	Number of eligible votes: 115,604 Percentage of eligible votes cast: 98.98% Percentage of votes with management: 81.72% Percentage of votes against management: 17.71% Percentage of votes abstained from: 0.56%	Company: The Procter & Gamble Company (P&G) Resolution: Resolution to report on effort to eliminate deforestation Decision: Voted for the resolution Rationale for decision: P&G uses both forest pulp and palm oil as raw materials within its household goods products, which are both considered leading drivers of deforestation and forest degradation. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM did not feel the Company was doing as much as it could in this area.
Fund name	Voting activity	Example of one of the most significant votes cast during the period
Aviva Managed Fund	Number of eligible votes: 487 Percentage of eligible votes cast: 100% Percentage of votes with management: 95.26% Percentage of votes against management: 4.74% Percentage of votes abstained from: 0.41%	Company: Skandinaviska Enskilda Banken AB Resolution: Resolution stating The Bank Immediately shall Work for the Exclusion of Fossil Companies as Borrowers in the Bank Decision: Voted against the resolution Rationale for decision: This resolution makes no distinction between different types of fossil fuels and activities, their respective transition pathways and level of financing compatible with a net zero or 1.5 degree World. It would also undermine the efforts of those fossil fuel companies that are taking concrete steps to transition to a more sustainable business model.

DC Section

The table below sets out the voting activities of BlackRock and LGIM as the DC Section equity and multi-asset fund managers, including any votes cast on the Trustee’s behalf and details on the Plan’s investment manager use of proxy voting and examples of votes cast that they deem to be significant. The voting covers the pooled equity and multi-asset funds available under the Plan as at 31 March 2021

Fund name	Voting activity	Example of one of the most significant votes cast during the period
LGIM Multi-Asset Fund	Number of eligible votes: 114,616 Percentage of eligible votes cast: 99.76% Percentage of votes with management: 81.73% Percentage of votes against management: 17.71% Percentage of votes abstained from: 0.56%	Company: Imperial Brands plc Resolution: Approve Remuneration Report and Approve Remuneration Policy Decision: Voted against both resolutions Rationale for decision: LGIM disagreed with the Company's decision to grant a new CEO with no previous experience a significantly higher salary than his predecessor and also not apply best practice in relation to post-exit shareholding as outlined by both LGIM and the Investment Association for the departing CEO.

Fund name	Voting activity	Example of one of the most significant votes cast during the period
Fidelity BlackRock 30/70 Currency Hedged Global Equity Fund	Number of eligible votes: 59,781 Percentage of eligible votes cast: 95.19% Percentage of votes with management: 92.68% Percentage of votes against management: 7.22% Percentage of votes abstained from: 1.51%	Company: Royal Dutch Shell plc Resolution: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions Decision: Voted against the resolution Rationale for decision: Since the submission of the proposal, Shell has updated its climate commitments to more aggressively reduce its carbon footprint and to become a "net-zero emissions energy business" by 2050 or sooner. BlackRock therefore considers the request made in the resolution to have been delivered.