

Appendix 3: Annual Implementation Statement for the Year Ended 30 April 2022

Franklin Templeton UK Retirement Benefits Plan Annual Implementation Statement for year to 30th April 2022

Introduction

This statement sets out both how and the extent to which the Statement of Investment Principles ('SIP') produced by the Trustee has been followed during the year to 30th April 2022. The statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator. Having implemented extensive changes to the Plan's default strategy and freestyle fund choice in January 2020, there were no changes to the Plan's investments over the year. The Trustee's investment governance during the year to 30th April 2022 therefore focused primarily on the following:

- Monitoring the new investment arrangements to ensure that their performance and risk characteristics are such that they remain appropriate to the Trustee's objectives.
- Monitoring the extent to which the investment managers' activities in relation to Environmental, Social and Governance ('ESG') considerations aligns with the Trustee's policies in this area.
- Monitoring whether any material change occurred (e.g. in the membership profile) that might warrant a change in the investment principles, policies and objectives set by the Trustee.

In conducting these tasks, the Trustee obtained and considered professional advice from its investment advisors.

A revised SIP was signed in September 2021 to reflect the updated disclosures relating to the Trustee's investment management arrangements. A copy of the SIP is available at <https://v3.merceroneview.co.uk/FRANKLIN/education-centre/4641>

The Trustee is satisfied that its governance of the Plan's investments during the year reflects the policies in its SIP.

Review of the SIP

The Trustee reviewed the SIP in February 2022 as part of its preparation for a more wide-ranging review of investment arrangements, intended to commence later in 2022.

Performance monitoring

Default investment strategy

The default strategy in place during the year to 30th April 2022 was determined on 14th November 2019 following an investment strategy review that had been conducted by the Trustee over a number of months. It was implemented in January 2020 following consultation with the Plan's Principal Employer. The strategy is a pre-set investment route that transitions members from a blended growth-oriented fund to a moderate growth fund and cash fund over the eight years prior to retirement age. This final phase is designed to target the withdrawal of tax-free cash and the flexible withdrawal of benefits through retirement (although the Plan itself does not provide flexible drawdown facilities).

The Trustee's primary focus in relation to the default strategy during the year to 30th April 2022 was to monitor its performance having regard to the strategy's underlying performance and risk objectives that are specified in the SIP. The Trustee concluded from its performance reviews that the default strategy did indeed perform in line with expectations. In particular, the additional investment diversification incorporated into the default strategy in 2020 via the use of blended funds provided valuable downside protection for members following the significant volatility in investment markets during recent past years.

The Trustee believes from its discussions during the year that the default arrangement remains appropriate to the objectives that have been set and which are shown in the SIP. In summary, these objectives are:

- To generate returns in excess of inflation during the "growth" phase of the strategy whilst managing downside risk.
- To provide a strategy that reduces investment risk for members as they approach retirement. As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate.
- To offer to members a mix of assets at retirement that are broadly appropriate for an individual planning to withdraw their benefits flexibly.

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Finally, the Trustee's policy is to review their wider investment principles and the default strategy every three years or more immediately, should there be a significant change in the Trustee's investment policies or the Plan's demographic profile. The Trustee did not consider that any change occurred during the year to 30th April 2022 that merited an immediate review.

Freestyle fund range

The investment review in 2019 referred to above also resulted in significant changes to the Plan's freestyle fund range in January 2020, each of which was reported in last year's Implementation Statement. For this reason, the Trustee's investment governance during the year to 30th April 2022 in relation to the fund range focused mainly on whether each fund is performing in line with the performance and risk objectives that are specified in the SIP.

The Trustee concluded that performance is in line with expectations and that the freestyle fund range continues to meet the objectives stated in the SIP, namely:

- To offer a range of suitable investments for members; having regard to both the typical investment requirements that exist among members of occupational schemes. These differing requirements are based often on risk appetite and on the members' ages which determines their investment time horizons.
- To enable members to tailor their investment choices to suit their personal circumstances, attitudes and approach to long term investment and to change their investment choices as their circumstances, attitudes and investment time horizons change.
- To ensure that the number of funds available to members is not so extensive as to complicate their decision-making, impose unwarranted management costs or make it impractical for the Trustee to monitor the effectiveness of each one. The Trustee therefore accepts that it is not possible to reflect all of the needs expressed by each member in the investment choices that they make available.

Policies on stewardship, ESG and investment management arrangements

The Trustee invests solely in pooled funds where voting is delegated to the investment managers. The management of ESG risks is similarly delegated to the investment managers.

The funds managed by LGIM collectively account for almost 75% of the Plan's assets.

- LGIM is ranked as one of the top investment managers in the world for Responsible Investment.
- It engages annually with hundreds of investee companies and votes annually on tens of thousands of board resolutions.
- The Trustee's investment advisor assigned high ESG ratings to each of the funds in which the Trustee invests.

The Trustee was satisfied that the investment manager has a coherent programme for engaging with investee companies and integrating ESG considerations into investment portfolios.

In relation to incentivizing managers to follow the Trustee's policies, the Trustee noted in the SIP during 2021 that investing in pooled funds provides it with little leeway to incentivise the investment managers to adopt particular policies and it therefore checks that it is in broad agreement with how the manager is exercising its discretion.

The Trustee also obtained and considered a report from its investment advisors on the extent to which the Plan's investments embeds principles of sustainable investing. This covered areas such as beliefs, policies, portfolio structure and investment processes. It also arranged for LGIM to join its September 2021 meeting to cover, among other things, how it embeds ESG considerations into its investment process.

Non-member assets

Because the Plan provides certain categories of member with Defined Benefit underpins, a proportion of the assets are earmarked to provide top ups to these members' DC funds where required.

As part of the discussion on the actuarial valuation at 30th April 2019, the Trustee noted during 2022 that non-member funds (both existing and future deficit repair contributions) are invested to broadly match the movements in individual annuity premiums. This strategy anticipates benefits potentially requiring to be secured via annuities when each member with defined benefit underpins retires. The Trustee decided that there was no need to change that strategy.

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Other policies

- The Trustee monitored portfolio turnover costs as part of its annual value for members' assessment. This did not reveal any costs that appeared out of the ordinary.
- In relation to non-financial matters, the Trustee's policy is not to take account of non-financial considerations such as members' ethical views when setting its investment strategy or in selecting investment managers. The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in the future. However, the Trustee will reflect on any such views that are communicated to it by members. During the year to 30th April 2022, no such views were communicated to the Trustee by members.

Voting activity and significant votes

Set out below is a summary of voting activity for this reporting period relating to the relevant strategies in the Plan's funds. LGIM provided the information as at 30 June 2022, and not 30 April 2022.

LGIM Retirement Income Multi-Asset Fund	
How many meetings were you eligible to vote at over the year to 30/06/2022?	10119
How many resolutions were you eligible to vote on over the year to 30/06/2022?	102511
What % of resolutions did you vote on for which you were eligible?	99.79%
Of the resolutions on which you voted, what % did you vote with management?	78.00%
Of the resolutions on which you voted, what % did you vote against management?	21.28%
Of the resolutions on which you voted, what % did you abstain from?	0.72%

LGIM Global Equity Market Weights (30:70) Index Fund	
How many meetings were you eligible to vote at over the year to 30/06/2022?	7274
How many resolutions were you eligible to vote on over the year to 30/06/2022?	74895
What % of resolutions did you vote on for which you were eligible?	74895
Of the resolutions on which you voted, what % did you vote with management?	80.46%
Of the resolutions on which you voted, what % did you vote against management?	18.39%
Of the resolutions on which you voted, what % did you abstain from?	1.15%

The following tables provide examples from certain of the Plan's funds used by the Plan of a voting issue that arose that the Trustee and the investment manager deems significant.

Blended Growth Fund/Global Equity Index Fund/Retirement Income Drawdown Fund	
Company	Apple Inc.
Item	Resolution 9 - Report on Civil Rights Audit
Date	2022-03-04
Criteria for assessing as significant	LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.
Vote	For
Rationale	Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies.
Outcome	Passed

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Blended Growth Fund/Global Equity Index Fund/Income Drawdown Fund	
Company	Microsoft Corporation
Item	Elect Director Satya Nadella
Date	2021-11-30
Criteria for assessing as significant	A vote linked to an LGIM engagement campaign, in line with the Investment Stewardship team's five-year ESG priority engagement themes
Vote	Against
Rationale	LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight
Outcome	Passed

Blended Growth Fund/Global Equity Index Fund/Income Drawdown Fund	
Company	Rio Tinto Plc
Item	Resolution 17 - Approve Climate Action Plan
Date	2022-04-08
Criteria for assessing as significant	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.
Vote	Against
Rationale	Climate change: We recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while we acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, we remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.
Outcome	Passed