

**Abbey Life Assurance Company Limited
Staff Pension Scheme**

**Implementation Statement
for the year to 31st March 2021**

ABBEEY LIFE ASSURANCE COMPANY LIMITED STAFF PENSION SCHEME

IMPLEMENTATION STATEMENT

Introduction

This is the Implementation Statement prepared by Abbey Life Trust Securities Limited (the "Trustee") for the year to 31st March 2021, covering:

- A summary of the changes made to the Statement of Investment Principles ("SIP") during the year;
- How the Trustee has fulfilled the objectives and policies included in the SIP during the year; and
- Describing the voting behaviour by, or on behalf of, the Trustee during the year, and stating any use of the services of a proxy voter during that year.

Changes to the SIP over the period

The Trustee has a SIP that covers both the Defined Benefits ("DB") and Additional Voluntary Contributions ("AVCs") investments of the Scheme. The Trustee also has a separate appendix to the SIP for the DB investments, which sets out details of the asset allocation and a separate appendix to the SIP for the additional policies with respect to the AVC investments.

The Trustee undertakes a review of the SIP at least triennially or after any significant change in investment strategy. During this period the SIP was reviewed in September 2020. The updates included:

- Expanding the existing policies on stewardship, voting and engagement and introducing policies on arrangements with investment managers, costs and transparency.
- Updating the DB investments appendix to the SIP to reflect a more recent asset allocation.
- Policies with respect to the AVCs.

The Trustee consulted with the Principal Employer when making these changes and obtained written advice from its investment advisers. The latest version of the SIP is available here:

<https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/site-services/abbey-life-staff-pensions-scheme/2020/Abbey%20Life%20Staff%20Pension%20Scheme%20Statement%20of%20Investment%20Principles%20September%202020.pdf>

SIP policies and objectives

This section explains how the investment policies and objectives detailed in the SIP have been followed over the year. The policies have been grouped by theme; full details are outlined in the SIP.

IMPLEMENTATION STATEMENT (continued)

DB investments

Objectives, responsibility for the Scheme's investment strategy and asset allocation

The Trustee carried out a review of the investment strategy in 2019 with assistance from Aon, its investment consultant. The Trustee agreed to set its investment manager, Aberdeen Standard Investments ("ASI"), risk and return objectives and a reference asset allocation to achieve its primary objectives set out in the SIP. The day to day management of the Scheme's assets has been delegated to ASI.

The Trustee set ASI an objective to outperform a proxy of the Scheme's Technical Provision liabilities by 2.1% per annum with volatility (risk) similar to the reference asset allocation. The Trustee receives quarterly investment reports from Aon and ASI. The Trustee reviews the performance and risk of the asset allocation to ensure it is in line with the objectives set out.

The Investment Committee had a meeting in March 2021 to revisit the investment arrangements, including the progress of the funding level against target, the progression of the asset allocation and delegation granted to ASI. The Trustee agreed to maintain the delegation granted to ASI.

Choosing investments

The Trustee appointed ASI as its investment manager and has delegated investment management responsibility to ASI within the investment guidelines set out by the Trustee.

Risk, monitoring and arrangements with the manager

The Trustee receives quarterly investment reports from Aon, which include:

- Fund performance, both absolute and relative to their benchmarks over the quarter, one-year and three-year periods;
- Overall Scheme performance, both absolute and relative to the liability proxy over the quarter and one-year periods;
- Asset allocation relative to the reference portfolio;
- Monitoring of the funding level progression against target;
- Attribution of the changes in funding level;
- Monitoring of the expected return against the required return;
- Value at Risk analysis;
- Monitoring of ASI's forward looking implementation metrics against its risk and return objectives; and
- Monitoring of the LDI portfolio and liability proxy, including sensitivity to changes in interest rates and inflation expectations and scenario stress testing.

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The Trustee regularly receives presentations from ASI regarding the market background, performance, market outlook, positioning and ESG integration in the investment philosophy. This includes monitoring the extent to which ASI has made decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and how they have engaged with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee believes that having appropriate governing documentation, setting clear expectations to ASI and regular monitoring of ASI's performance and investment strategy, has been sufficient to incentivise ASI to make decisions that align with the Trustee's policies. The Trustee has engaged with the manager where the managers actions have not been in line with the Trustee expectations, for example, in the speed of the deployment of private loans.

Realisation of investments

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds), although a meaningful proportion of assets are to be invested in private loans which are illiquid in nature.

The Trustee reviews the liquidity of the Scheme's investments regularly.

Environmental, social and governance

The Trustee recognises that environmental, social and governance ("ESG") risk factors, including climate change may negatively impact the value of investments held if not fully understood and evaluated. The Trustee received a training session on ESG from Aon in June 2020 and receives regularly update from ASI on how ESG is incorporated in the investment decision making process.

The Trustee received a training session from its investment manager, ASI, in February 2020, which outlined ASI's approach to ESG and stewardship. The Trustee was comfortable with approach taken by ASI.

Stewardship

As part of the SIP changes over the year, the Trustee formalised a policy related to the regular review of its investment manager's stewardship activities. The Trustee has assessed, with the help of its investment consultant, and is comfortable with, the voting and engagement practises of ASI. More information can be found in the Voting and Engagement activity section of this document.

Members' views and non-financial factors

In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

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Cost monitoring

The Trustee gathers cost information on their DB investments annually to provide a consolidated summary of all the investment costs incurred. The cost report includes a breakdown of the costs into their various component parts, including the costs of buying and selling assets (transaction costs) incurred by the underlying managers.

Governance

During the year, the Trustee met quarterly to discuss the investments as outlined above.

AVC investments

Objectives in respect of the default arrangement

The Trustee's primary objectives for the default arrangement is to invest the assets held, in respect of members of the Scheme for and from whom there is no current investment instruction, in an investment vehicle which has as its aims:

- As far as possible to preserve capital value; and
- To provide a return on investment similar to that which might be achieved on cash deposits in a bank or building society or money market funds.

The default arrangement is the Standard Life Deposit and Treasury Fund, and the fund's primary aim is to 'maintain capital and provide returns before charges in line with short-term money market instruments.

The Trustee, with assistance from its investment consultant, reviewed the default Fund over the Scheme year and concluded that it continues to meet the specific objectives as set.

The Trustee's policy remains to remind members invested to consider whether the fund is appropriate for their personal circumstances, particularly given long-term expectations of cash returns relative to inflation. Over the Scheme year, no members were invested in the default fund, and so no action was taken by the Trustee in this regard.

ESG considerations

The Trustee is aware of the risks that ESG (including climate change) pose and have attended training throughout the year on the importance of ESG.

Given the asset class utilised in the default investment (money market/cash), the Trustee did not explicitly consider ESG factors in its assessment of the implementation vehicle as part of the review undertaken over the Scheme year.

Stewardship – Voting and Engagement

The Trustee has assessed, with the help of its investment consultant, and is comfortable with, the voting and engagement practises of the underlying investment managers responsible for the Scheme's AVC assets. More information can be found in the Voting and Engagement activity section of this document.

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Arrangements with investment managers

The Trustee, with support from its investment consultant, carried out a review on the Scheme's AVC arrangements in 2020. This review included the following:

- Background information on each provider, covering their financial strength, charges, quality of administration, quality of fund options and liquidity; and
- An assessment of each Fund option available to members including performance analysis and total expense ratios.

The 2020 review concluded that the range of funds remains appropriate for the Scheme's membership and the Trustee was broadly comfortable with the performance of each of its AVC managers.

Voting and Engagement activity

The Scheme's DB investments are with Aberdeen Standard Investments ("ASI"), with the asset allocation as at year-end as follows:

	Asset Allocation
UK Core Equity Fund	2.3%
Global Core Equity Fund	2.2%
Diversified Income Fund	39.2%
Absolute Return Bond Strategy Fund	2.8%
Corporate Bond Mandate	23.3%
Private Credit Fund Mandate	5.6%
Liability Driven Investment ("LDI") Mandate	23.3%
Cash holdings	1.3%

Source: ASI and Aon.

This statement does not disclose stewardship information on any investments in swaps, gilts, or cash (the LDI mandate and cash holdings) due to the limited materiality of stewardship to those asset classes.

Using the Scottish Widows platform, the Scheme holds AVCs assets on both the Scottish Widows and Standard Life platforms (<1% of Scheme assets). All underlying investments held in the AVC policies are managed by Aberdeen Standard Investments, and the voting policy as set out below is therefore deemed relevant.

Voting policy

ASI has a process in place by which the proxy voting team collects general meeting notifications and research. The team allocates the voting decision through a pre-defined framework to the analyst responsible for making the voting decision. The analysts selected will be a member of the ESG Investment or the equity desk analyst responsible for the sector in which the company sits.

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The selected ASI analyst will assess the resolutions at general meetings in their active investment portfolios. This analysis will be based on their knowledge of the company but will also make use of the custom policy recommendations and recommendations provided by the Institutional Shareholders Service ("ISS"). The product of this analysis will be a final voting decision instructed through ISS and applied to all funds for which ASI have been appointed to vote.

Voting and engagement examples

At the 7 September 2021 Trustee meeting, the Trustee received a presentation from ASI which discussed the voting and engagement policies as well as recent examples of significant votes and engagements.

Information on specific voting and engagement examples can be found at the following website:

<https://www.aberdeenstandard.com/en/uk/institutional/responsible-investing/governance-and-active-ownership>

In summary

Based on the activity during the year by the Trustee and their service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that ASI was able to disclose reasonable evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Approved by the Trustee Board, Abbey Life Trust Securities Limited, Trustee of the Abbey Life Assurance Company Limited Staff Pension Scheme, on 17th September 2021

ORIGINAL SIGNED ON BEHALF OF THE TRUSTEE BY NEIL C H TOINTON ON 17TH SEPTEMBER 2021

**Neil C H Tointon,
Chairman of the Trustee Board
Abbey Life Trust Securities Limited
17th September 2021**

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Appendix – Voting Statistics over the year to 31 March 2021

This below information relates to the specific funds that the Scheme invests in.

	Global Core Equity Fund	UK Core Equity Fund	Diversified Fund
Number of resolutions eligible to vote on over the year to 31 March 2021	1,073	10,918	5,719
% of resolutions voted on for which the fund was eligible	94.0%	99.1%	99.3%
Of the resolutions on which the fund voted, % that were voted against management	15.2%	2.9%	10.1%
Of the resolutions on which the fund voted, % that were abstained from	0.3%	0.6%	3.0%

Source; ASI. Please note that the voting statistics for the underlying AVC funds are not yet available at the time of writing.