

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

**Implementation Statement  
For the year to 31<sup>st</sup> March 2022**



# ABBEEY LIFE ASSURANCE COMPANY LIMITED STAFF PENSION SCHEME

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## IMPLEMENTATION STATEMENT for the year to 31<sup>st</sup> March 2022

### Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual statement called an Implementation Statement ("IS"), which outlines the following:

- A description of any review and changes made to the Statement of Investment Principles ("SIP") over the Scheme year;
- Evidence on how the Trustee has fulfilled the objectives and policies included in the SIP over the Scheme year; and
- Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

The IS has been prepared by the Trustee and covers the Defined Benefit and Additional Voluntary Contributions ("AVCs") Sections of the Scheme covering the Scheme year from 1 April 2021 to 31 March 2022.

### Executive summary

Based on the activity carried out by the Trustee and its investment managers over the year, the Trustee is of the opinion that its policies have been implemented effectively in practice. The Trustee notes that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

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

The Trustee recognises that it has a responsibility, as an institutional investor, to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in.

The Trustee will therefore continue to use its influence to drive positive behaviour and change among the fund managers that it has employed to invest the assets of the Scheme, and with other third parties that the Trustee rely on, such as its Investment Adviser.

The Trustee will monitor, assess and ultimately hold them to account to make sure that the assets of the Scheme are appropriately invested.

### 1. Review and changes made to the SIP over the year

Aon Investments Ltd (AIL) conducted a review of the SIP and it was found to be compliant with regulation. There were no further updates to the investment strategy over the reporting period and hence no updates have been made to the SIP.

## 2. Meeting the objectives and policies outlined in the SIP

### 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 AIL, its Investment Adviser. The Trustee agreed to set its Investment Manager, abrdrn plc ("abrdrn"), 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 abrdrn.

The Trustee set abrdrn 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 AIL and abrdrn. The Trustee reviews the performance and risk of the asset allocation to ensure it is in line with the objectives set out.

Towards the end of 2021, the Scheme received and transferred the 2013 Charged Account to abrdrn. This was completed on 7 December 2021 as expected. The bonds are being held in a side pocket under a care and maintenance basis whilst the Trustee reviews the target return and long-term investment strategy. The cash from the charged account has been invested by abrdrn according to the guidelines.

The Investment Sub-Committee held a meeting in March 2022, in which the current investment strategy, the progression of the funding level against target, and the long-term objective, were discussed. The Trustee agreed that the long-term objective was buyout. Discussion on the path to buyout and associated matters continued after year-end.

### Choosing investments

The Trustee appointed abrdrn as its Investment Manager and has delegated investment management responsibility to abrdrn within the investment guidelines set out by the Trustee.

### Risk, monitoring and arrangements with the manager

The Trustee receives quarterly investment reports from AIL, 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 abrdrn'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 abrdn regarding the market background, performance, market outlook, positioning, and ESG integration in the investment philosophy. This includes monitoring the extent to which abrdn 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 abrdn, and regular monitoring of abrdn's performance and investment strategy, has been sufficient to incentivise abrdn to make decisions that align with the Trustee's policies. The Trustee has engaged regularly with abrdn on its portfolio.

## **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 the ESG regulatory backdrop from AIL in September 2021, covering anticipated ESG and climate change initiatives, such as the Task Force on Climate-related Financial Disclosures ("TCFD"). The Trustee also regularly receives updates from abrdn on how ESG is incorporated in the investment decision making process.

## **Stewardship**

The Trustee has a policy related to the regular review of its Investment Manager's stewardship activities. The Trustee has assessed, with the help of its Investment Adviser, and is comfortable with, the voting and engagement practises of abrdn. 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").

## **Cost monitoring**

The Trustee gathers cost information on their DB investments annually to provide a consolidated summary of all of 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.

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## **Governance**

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

## **AVC investments**

### **Meeting the objectives and policies outlined in the SIP**

The Trustee outlines in its SIP several key objectives and policies. These objectives and policies are referred to throughout, together with an explanation of how these objectives and policies have been implemented and adhered to over the year to 31 March 2022.

### **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:

- 1) As far as possible to preserve capital value; and
- 2) 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 Adviser, reviewed the default Fund during 2020 and concluded that it continued to meet the specific objectives as set and that it remains appropriate for the Scheme's membership. Over the course of the year, the Trustee has had no concern over the appropriateness of the default fund. The next default fund review is scheduled for 2023.

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 has attended training throughout the year on the importance of ESG and ESG developments.

## **Stewardship – Voting and Engagement**

The Trustee has assessed, with the help of its Investment Adviser, 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 Adviser, 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 investment managers. The Trustee has continued to monitor fund performance and charges over the scheme year with the support of its Investment Adviser and is comfortable that the funds remain appropriate.

## 3. Voting and engagement activity undertaken over the year

### Executive summary

The Defined Benefit and AVC sections of the Scheme invest in pooled funds across a range of asset classes as well as individual fixed income securities and derivatives, and the Trustee has delegated responsibility for the selection, retention and realisation of investments to the Scheme's investment managers in whose funds it invests.

As part of the production of this statement, the Trustee – supported by its Investment Adviser, AIL – has reviewed the voting and engagement activities carried out on its behalf by the Scheme's investment managers. Where the stewardship of managers is found to be falling short of the standards set out by the Trustee (exercising votes and engaging in order to create long-term financial value), the Trustee may take further action – for example by meeting with the manager in question or requesting that AIL engage on its behalf.

abrdn have provided commentary on their approach to voting, including the use of any proxy voting services provided (relevant for equity managers only), as well as its approach to engaging with underlying security issuers. The Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income and private credit, particularly for short-term money market instruments, liability driven investment ("LDI"), and gilt investments. As such, any such investments have not been covered in this statement.

abrdn has also provided examples of significant votes. There are a number of different criteria under which investment managers can determine whether a vote is significant. Each manager has their own criteria, with examples including:

- a vote where a significant proportion of the votes (e.g. more than 20%) went against the management's proposal;
- a vote where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting;
- a vote that is connected to a wider engagement initiative with the company involved;
- a vote that demonstrates clear and considered rationale;
- a vote that the client considers inappropriate or based on inappropriate rationale;
- a vote that has significant relevance to Members of the Scheme.

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Having reviewed the commentary provided by abrdrn, the Trustee believes the stewardship carried out on its behalf over the Scheme year has been adequate, noting how the examples provided show the willingness and ability of the Scheme's Investment Manager to take proactive votes against management where appropriate.

The Trustee recognises that it has a responsibility, as an institutional investor, to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time in line with the increasing expectations on investment managers and its significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

## Voting and Engagement activity – Equity and multi-asset funds

Over the year, the material equity and multi-asset investments held by the Scheme were:

Manager	Fund	Scheme
abrdrn	ASI Diversified Income Fund	Defined Benefit
abrdrn	Aberdeen Standard SICAV II - Global Equities Fund	Defined Benefit
abrdrn	ASI UK All Share Tracker Fund	Defined Benefit
abrdrn	Phoenix AL Pensions Managed Fund	AVC

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 abrdrn, and therefore the voting and engagement policy as set out below is deemed relevant.

## abrdrn

### Voting policy

abrdrn utilises the services of ISS for all its voting requirements. abrdrn views all votes as significant and votes all shares globally for which it has voting authority, unless there are significant voting obstacles such as shareblocking.

In line with PLSA requirements, abrdrn identifies and records what it deems to be the most significant votes across all its holdings. abrdrn has identified five categories of votes it considers as significant and has ordered these based its view of their importance.

The five categories are:

- 1) High Profile Votes: Votes which receive public and press interest, reflect significant governance concerns regarding the company or resolutions proposed by abrdrn.
- 2) Shareholder and Environmental & Social (E&S) Resolutions: Votes on shareholder E&S proposals where abrdrn has engaged with the proponent or company on the resolution, votes on management-presented E&S proposals or shareholder proposals where Abrdrn has voted contrary to management recommendations.
- 3) Engagement: Where abrdrn has engaged with the company on a resolution or where post-engagement abrdrn voted contrary to its custom policy.

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- 4) Corporate Transactions: Selected votes which have a financial impact on the investment with a focus on acquisitions.
- 5) Votes contrary to custom policy: Large active holdings where abrdn has voted contrary to custom policy following analysis.

The table below shows the voting statistics for Abrdn's funds for the period to 31 March 2022:

Fund	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
ASI Diversified Income Fund	9,362	97.50%	10.76%	1.10%
Aberdeen Standard SICAV II - Global Equities Fund	802	100.00%	15.59%	0.25%
ASI UK All Share Tracker Fund	10,617	97.26%	2.16%	0.09%
Phoenix AL Pensions Managed Fund	16,685	89.25%	15.73%	1.17%

### Voting example: Goldman Sachs

In April 2021, abrdn voted for a shareholder resolution at Goldman Sachs to report on labour issues through a racial equity audit.

Abrdn engaged with the company to discuss its current approach to diversity and inclusion and were impressed by the steps it was taking and plans it had in place to address areas that are challenging.

Abrdn believes that support of this resolution will help to bolster these efforts and demonstrate to shareholders the positive steps that the company is taking. Abrdn believes it is appropriate for the company to measure the success of these strategies and a racial audit will support that assessment.

Abrdn recognises that it is difficult for companies to measure diversity and inclusion in the services that they provide and that there are multiple factors driving these provisions, which could be misconstrued as being racially motivated.

However, abrdn believes that the resolution is not overly prescriptive and allows companies an acceptable margin of freedom to address this challenge.



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## Engagement policy

abrdn aims to maintain close contact with the companies and assets in which it invests. Abrdn holds regular engagement programme to discuss various relevant ESG issues, including areas like strategy and performance, risk management, board composition, remuneration, audit, climate change, labour issues, diversity and inclusion, human rights, and bribery and corruption.

There are four categories for abrdn's engagements, which are review, respond, enhance, and thematic:

- 'Review' engagements are part of its ongoing due diligence and frequent interactions led by the analyst responsible for oversight of the investment, and will usually be attended by other members of relevant investment teams.
- 'Respond' is a type of engagement that allows abrdn to react to an event that may impact a single investment or a selection of similar investments.
- 'Enhance' is an engagement designed to seek change that, in abrdn's view, would enhance the value of its investment.
- 'Thematic' engagements result from its focus on a particular ESG theme, such as climate change, diversity and inclusion, or modern slavery.

Abrdn records concerns and issues raised with its investments and set timeframes within which it expects its concerns to be addressed. To do this, abrdn has defined lifecycle steps for its concerns:

1. Identify
2. Acknowledge
3. Plan
4. Execute
5. Close

More information can be found on abrdn's voting and engagement policies here:

[https://www.abrdn.com/docs?editionId=50636955-103f-47cb-86e2-036aec4d30d4&\\_ga=2.3007792.1084981515.1625754520-1358126225.1625589512](https://www.abrdn.com/docs?editionId=50636955-103f-47cb-86e2-036aec4d30d4&_ga=2.3007792.1084981515.1625754520-1358126225.1625589512)

## Engagement example: Amazon

abrdn engaged with Amazon Inc. on matters concerning labour management, and diversity and inclusion. During 2021, abrdn had several engagements with the company after identifying it as a priority engagement due to ongoing labour concerns. Abrdn spoke to Amazon's Head of ESG Engagement to get additional detail around what is happening at its Bessemer, Alabama facility, following allegations of anti-union behaviour. Abrdn received reassurance that the company provides employees with accessible channels through which to express concerns, and also received plausible explanations for Amazon's effort to delay the vote and also push for an in-person (vs ballot) vote. The company's Connections Program and Voice of the Associate Channel appear to demonstrate its effort to engage with its employees and listen to feedback, and response rate of the former suggests some success here.

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The company continues to make efforts to strengthen employee relations and health and safety/working conditions. This includes making sizeable investments and use of technology to drive further improvements around health and safety and providing numerous engagement channels through which employees can raise concerns. The company also recently strengthened its commitment by adding 2 new Leadership Principles, one of which is to be “Earth’s best employer”.

Abrdn continues to monitor the company and welcomes how open it is to their engagements.

### **Engagement activity – fixed income and real estate funds**

Over the year, the fixed income investments held by the Scheme were:

<b>Manager</b>	<b>Fund</b>
abrdn	Absolute Return Global Bond Strategies Fund
abrdn	Corporate Bond Fund
abrdn	Real Estate Debt Segregated Mandate

The Trustee recognise that stewardship may be less applicable to, or have a less tangible financial benefit for, fixed income mandates compared to equity mandates, particularly gilts (fixed income securities issued by the UK government). Nonetheless, the Trustee still expects its non-equity managers to engage with external parties if they identify concerns that may be financially material.

Fixed income managers still have significant capacity for engagement with issuers of corporate debt. Debt financing is continuous, and so it is in debt issuers’ interests to make sure that investors are satisfied with the issuer’s strategic direction and policies. Whilst upside potential may be limited in comparison to equities, the downside risk mitigation and credit quality are critical parts of investment decision-making.

Abrdn’s approach to engagement and examples have been noted earlier in this document.

### **Summary**

Based on the activity over the year by the Trustee and abrdn, the Trustee is of the opinion that its policies have been implemented effectively in practice. The Trustee notes that abrdn was able to disclose adequate evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on the Investment Manager 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 21<sup>st</sup> September 2022**

**ORIGINAL SIGNED ON BEHALF OF THE TRUSTEE BY**

**Neil C H Tointon**

**Chairman of the Trustee Board**

**Abbey Life Trust Securities Limited**

**21<sup>st</sup> September 2022**