

Implementation Statement

Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the Pilots’ National Pension Fund (“the Fund”) covering the scheme year (“the year”) to 31 December 2020.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Fund’s policy on engagement and voting (as set out in the Statement of Investment Principles (the “SIP”)) has been followed during the year; and
- A description of voting behaviour (including the “most significant” votes made on behalf of the Trustee) and any use of a proxy voter during the year.

The Fund makes use of a wide range of investments, therefore the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

In order to ensure that investment policies set out in the SIP are undertaken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee has delegated some responsibilities. In particular, the Trustee has appointed a Fiduciary Manager, Towers Watson Limited, to manage the Fund’s assets on a discretionary basis. The Fiduciary Manager’s discretion is subject to guidelines and restrictions set by the Trustee. So far as is practicable, the Fiduciary Manager considers and seeks to give effect to the policies and principles set out in the Trustee’s SIP.

A copy of this implementation statement has been made available on the following websites:

- <https://www.britishports.org.uk/about-us>
- <https://ukmpa.org/wp-content/uploads/2020/10/PNPF-SIP-22-September-2020.pdf>.

Review of and changes to the SIP

The SIP in place as at the end of the year was dated as at September 2020 and incorporated comprehensive updates to reflect new regulatory requirements coming into force from 1 October 2020. The Trustee considers that all SIP policies and principles relevant to this statement were adhered to.

Implementation Statement (continued)

Voting and engagement

Industry wide/public policy engagement

Regarding engagement, the Trustee's SIP states that:

- “The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement and the provision of voting” and
- “The Trustee expects the Fiduciary Manager to undertake the following:
 - assess the alignment of each investment managers' approach to sustainable investment (including engagement) with its own before making an investment on the Fund's behalf.
 - engage with the Fund's appointed investment managers where the Fiduciary Manager considers this appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings.
 - review the investment managers' approach to sustainable investment (including engagement) on a periodic basis and engage with the investment managers to encourage further alignment as appropriate.

As noted above, the Fiduciary Manager has partnered with EOS at Federated Hermes (EOS) to undertake public policy engagement on behalf of its clients (including the Trustee). The Fiduciary Manager communicates client policies/sentiment to EOS via the Client Advisory Council (chaired by Willis Towers Watson) and EOS subsequently engages with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. Engagement activities by Hermes EOS on public policy over the year included:

- Participation in a series of meetings with the UK Government's Department for Business, Energy and Industrial Strategy in order to help set out the UK's decarbonization roadmap and steps to achieve agreed climate targets,
- Feedback/assistance on the production of a new anti-microbial resistance benchmark with the aim of reducing the use of anti-biotics in agriculture.
- Co-signing of an investor letter to the Brazilian government in support of the Amazon Soy Moratorium, an agreement which aims to limit damage and deforestation caused by soy production, supporting expansion only on existing agricultural land.

Implementation Statement (continued)

Voting and engagement (continued)

Industry wide/public policy engagement (continued)

- Climate Action 100+, an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. EOS is among over 370 investors with over \$35tn under management who have signed up to the initiative. Further, they are leading or co-leading the engagement on 27 companies and collaborating with other investors on another 14 companies as part of this initiative.

The Fiduciary Manager is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Tier 1 signatory of the UK Stewardship Code
- A signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee
- A member of the Institutional Investors Group on Climate Change (IIGCC)
- A founder of the Coalition for Climate Resilient Investment (with the World Economic Forum)

As set out above, the Fiduciary Manager engages with the Fund's investment managers on behalf of the Trustee. The Trustee has considered and reviewed its stewardship and engagement policies as part of the recent reviews of their Statement of Investment Principles.

Company level engagement and rights attached to investments (including voting)

As set out in the SIP, the Trustee's policy is to delegate the exercising of rights (including voting and stewardship) and the day to day ESG integration to the Fund's investment managers.

The Fiduciary Manager delegates voting rights and the execution of those rights to the underlying managers for the securities they hold. The Fiduciary Manager has also appointed EOS to provide voting advice to the asset managers (in respect of the majority of the developed market equity allocations within the Fund's portfolio) and to engage with the companies on their behalf, or in collaboration with them.

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) **(continued)**

At the year end, the Fund was invested in two in-house multi-asset growth funds managed by the Fiduciary Manager, each of which have an allocation to equity holdings in underlying pooled funds:

- Towers Watson Partners Fund
- Towers Watson Core Diversified Fund

The below data is from the 12 month period ending 31 December 2020.

Manager and fund	Portfolio structure	Voting activity
Towers Watson Partners Fund	Fund of funds	Number of meetings at which the manager was eligible to vote: 446 Number of resolutions on which manager was eligible to vote: 5,891 Percentage of eligible votes cast: 98.0% Percentage of votes with management: 87.0% Percentage of votes against management: 6.7% Percentage of votes abstained from: 6.3% Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 25.4% Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 7.9%
Towers Watson Core Diversified Fund	Fund of funds	Number of meetings at which the manager was eligible to vote: 5,103 Number of resolutions on which manager was eligible to vote: 59,987 Percentage of eligible votes cast: 99.0% Percentage of votes with management: 81.1% Percentage of votes against management: 18.5% Percentage of votes abstained from: 0.4% Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 67.3% Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 11.7%

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

In addition, each Towers Watson Investment Management (“TWIM”) fund has reported on the most significant votes cast within the underlying funds managed on behalf of the Fund, including reasons from the underlying managers why the votes identified were considered significant, the rationale for the voting decision and the outcome of the vote:

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Partners Fund	0.8%	<p>Company: Amazon</p> <p>Resolution: Shareholder proposal for report on lobbying payments and policy</p> <p>Decision/Vote: For</p> <p>Rationale for decision: Promotes transparency</p> <p>Rationale for classifying as significant: We consider ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.</p>
Towers Watson Partners Fund	0.8%	<p>Company: Amazon</p> <p>Resolution: Shareholders proposal requesting an additional reduction in threshold for calling a special meeting. Shareholders are requesting 20%. Current threshold is 30%.</p> <p>Decision/Vote: For</p> <p>Rationale for decision: We support managements recommendation in decreasing the current threshold from 30% to 25% was in the best interests of the Company and its shareholders. Lowering the threshold to 20% as suggested increases the risk of special meetings being called by a few shareholders focused on narrow or short-term interests.</p> <p>Rationale for classifying as significant: We selected this vote as “significant” because the company was a large position in the strategy and the proposal was more important to the long term value of the business compared to other proposals for that company.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Partners Fund	0.3%	<p>Company: Pegasystems Inc.</p> <p>Resolution: Elect Director Peter Gyenes</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: 1.02. "Against" Peter Gyenes -- While Mr. Gyenes is a technology industry veteran and is well-acquainted with PEGA's business (having held a board seat since 2009), his most recent executive experience dates back to fifteen years ago. As such, the company may be better served by appointing a director with more recent experience and positive diversity attributes.</p> <p>Rationale for classifying as significant: Voted against management and against long-time director.</p>
Towers Watson Partners Fund	0.2%	<p>Company: Wuliangye Yibin Co Ltd</p> <p>Resolution: Related Party transactions: 2020 estimated continuing connected transactions</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: The proposed related-party transactions include a financial service agreement with the group finance company which may expose the company to unnecessary risks. There are inherent risks associated with the financial services to be provided under this proposal.</p> <p>Rationale for classifying as significant: Against policy guidelines to vote in favour of Related party Transactions.</p>
Towers Watson Partners Fund	0.6%	<p>Company: Facebook, Inc.</p> <p>Resolution: Require Independent Board Chair</p> <p>Decision/Vote: For</p> <p>Rationale for decision: We believe the company would benefit from independent oversight to help manage potential conflicts of interest between management and shareholders.</p> <p>Rationale for classifying as significant: Shareholder proposals to require an independent chair are common in the US. We selected this vote as representative of this class of proposals with regard to our engagement and vote on such matters. The outcome of the vote was also representative of our experience on similar proposals over the year in question.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Partners Fund	0.1%	<p>Company: Naspers Ltd</p> <p>Resolution: Reappoint PricewaterhouseCoopers Inc as Auditors of the Company with V Myburgh as the Individual Registered Auditor</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: As part of our efforts to safeguard against fraud and corruption, we apply a hard rule requiring audit firms to rotate after a maximum 10-year term. The audit process must be objective, rigorous and independent to maintain investor confidence. We have experienced too many instances over the past few years where auditors have not applied sufficient rigour in their audit processes or objectivity in their oversight of financial reports. We accordingly communicated to our investee companies that, after 10 years, companies may no longer have the same auditor. We believe this is crucial to re-establish a link between the accountability of auditors and shareholders.</p> <p>Rationale for classifying as significant: Mandatory Audit Rotation Policy.</p>
Towers Watson Partners Fund	0.3%	<p>Company: Alphabet Inc.</p> <p>Resolution: Establish Human Rights Risk Oversight Committee</p> <p>Decision/Vote: For</p> <p>Rationale for decision: A vote FOR this proposal was warranted because continued controversies call into question the extent to which the existing board structure provides adequate oversight on risks the company's technologies present to human rights, which, in turn, creates risks for the company in terms of retaining high-level employees and retaining a good reputation in the eyes of users and advertisers. Also, given the pervasive role of Google in society this should be undertaken.</p> <p>Rationale for classifying as significant: Corporate Governance.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Partners Fund	0.5%	<p>Company: MasterCard</p> <p>Resolution: Advisory vote on executive compensation</p> <p>Decision/Vote: For</p> <p>Rationale for decision: We support the NEO compensation as described in the proxy statement.</p> <p>Rationale for classifying as significant: We selected this vote as “significant” because the company was a large position in the strategy and the proposal was more important to the long term value of the business compared to other proposals for that company.</p>
Towers Watson Partners Fund	0.1%	<p>Company: General Electric Company</p> <p>Resolution: Advisory Vote to Ratify Named Executive Officers' Compensation</p> <p>Decision/Vote: For</p> <p>Rationale for decision: ISS recommends voting against Culp's incentive package. The stock grants are potentially large, but the task at hand is monumental, requiring real ownership from the CEO. Hence a vote for is justified in our view. Base salary of \$2.5m not at all excessive in a US large cap industrial context (less than 50% of peers).</p> <p>Rationale for classifying as significant: Voted against provider recommendation</p>
Towers Watson Partners Fund and Core Diversified Fund	0.1%	<p>Company: Great Wall Motor</p> <p>Resolution: Amendments to Articles of Association</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: Shortened notice period as shareholders should be given enough time to consider items before general meetings.</p> <p>Rationale for classifying as significant: Against management.</p>
Towers Watson Core Diversified Fund	0.1%	<p>Company: Lenovo Group</p> <p>Resolution: Authority to issue shares without Pre-emptive Rights; Authority to issue Re-purchased Shares</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: Potentially large dilution – rights issue for all shareholders would be preferred if large fund-raising is required.</p> <p>Rationale for classifying as significant: Against management.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Core Diversified Fund	0.1%	<p>Company: Luthai Textile</p> <p>Resolution: To consider and approve the proposal to reappoint the financial audit and internal control auditor of the company for 2020.</p> <p>Decision/Vote: For</p> <p>Rationale for decision: Overall fees paid to auditor were not significant, leading to less concern about independence of audit opinion.</p> <p>Rationale for classifying as significant: Against provider recommendations.</p>
Towers Watson Core Diversified Fund	No information was provided by the investment manager	<p>Company: Amazon</p> <p>Resolution: Shareholder resolutions 5 to 16</p> <p>Decision/Vote: Of 12 shareholder proposals, we voted to support 10. We looked into the individual merits of each individual proposal, and there are two main areas which drove our decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14).</p> <p>Rationale for decision: In addition to facing a full slate of proxy proposals, in the two months leading up to the annual meeting, Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal article in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the proxy vote. Our team has had multiple engagements with Amazon over the past 12 months. The topics of our engagements touched most aspects of ESG, with an emphasis on social topics:</p> <ul style="list-style-type: none"> • Governance: Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings • Environment: Details about the data transparency committed to in their 'Climate Pledge' • Social: Establishment of workplace culture, employee health and safety

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
		<p>Company: Amazon (continued)</p> <p>Rationale for decision (continued): The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of \$2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear. We discussed with Amazon the lengths the company is going to in adapting their working environment, with claims of industry leading safety protocols, increased pay, and adjusted absentee policies. However, some of their responses seemed to have backfired. For example, a policy to inform all workers in a facility if COVID-19 is detected has definitely caused increased media attention.</p> <p>Rationale for classifying as significant: The market attention was significant leading up to the AGM, with:</p> <ul style="list-style-type: none"> • 12 shareholder proposals on the table – the largest number of any major US company this proxy season • Diverse investor coalitions submitting and rallying behind the proposals, including global, different types of investors and first time co-filers/engagers • Substantial press coverage – with largely negative sentiment related to the company’s governance profile and its initial management of COVID-19 • Multiple state treasurers speaking out and even holding an online targeted pre-annual meeting investor forum entitled ‘Workplace & Investor Risks in Amazon.com, Inc.’s COVID-19 Response’ <p>Anecdotally, the Stewardship team received more inquiries related to Amazon than any other company this season.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Core Diversified Fund	No information was provided by the investment manager	<p>Company: EXXONMOBIL</p> <p>Resolution: Resolution 1.10 - Elect Director Darren W. Woods</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: In June 2019, under our annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, we announced that we will be removing ExxonMobil from our Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, we also announced we will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, our voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.</p> <p>Rationale for classifying as significant: We voted against the chair of the board as part of LGIM's 'Climate Impact Pledge' escalation sanction.</p>
Towers Watson Core Diversified Fund	No information was provided by the investment manager	<p>Company: Pearson</p> <p>Resolution: 'Resolution 1: Amend remuneration policy' was proposed at the company's special shareholder meeting, held on 18 September 2020.</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: Pearson issued a series of profit warnings under its previous CEO. Yet shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role. This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
		<p>Company: Pearson (continued)</p> <p>Rationale for decision (continued): LGIM spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. We also discussed the shortcomings of the company's current remuneration policy. We also spoke with the chair directly before the EGM, and relayed our concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO's award. We also asked that the post-exit shareholding requirements were reviewed to be brought into line with our expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy.</p> <p>Rationale for classifying as significant: Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and our outstanding concerns, we deem this vote to be significant.</p>
Towers Watson Core Diversified Fund	No information was provided by the investment manager	<p>Company: Plus500 Ltd.</p> <p>Resolution: 'Resolution 17: Approve Special Bonus Payment to CFO Elad Even-Chen' at the company's special shareholder meeting held on 16 September 2020.</p> <p>Decision/Vote: We voted against the special bonus based on the belief that such transaction bonuses do not align with the achievement of pre-set targets. Separately, LGIM also voted against an amendment to the company's remuneration policy, which continues to allow for the flexibility to make one-off awards and offers long-term incentives that remain outside best market practice in terms of long-term performance alignment.</p> <p>Rationale for decision: At its AGM on 16 September 2020, Plus500 proposed a number of pay-related proposals for shareholder approval. Amongst these, the board recommended the approval of a substantial discretionary bonus offered to the CFO of around £4.2 million (around \$1.2 million), for his successful work with Israeli tax authorities over a number of years, resulting in a significant tax-saving for shareholders. The bonus is in addition to his annual variable pay and outside the normal bonus structure. LGIM does not support one-off discretionary bonuses (or transaction bonuses) as these are not within the approved policy to reward the achievement of pre-set targets.</p>

Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) (continued)

Manager and fund	Size of holdings	Most significant votes cast
		<p>Company: Plus500 Ltd. (continued)</p> <p>Rationale for decision (continued): Moreover, discussions with tax authorities and the obtaining of preferential tax structures for the company are seen as part of a CFO's day-to-day job and should not be remunerated separately. Instead, a preferential tax treatment will benefit future performance and will therefore be rewarded within annual bonus and long-term incentives in future performance years.</p> <p>Rationale for classifying as significant: There was a level of media interest regarding the withdrawal of the resolution. This, combined with the other shortcomings of this company in relation to the expectations of a company listed in London, make this a significant vote. Shareholder dissent to the resolution was sufficiently high that the proposal was withdrawn ahead of the AGM; this will result in the company being included in the UK Investment Association's Public Register.</p>

Towers Watson Core Diversified Fund	No information was provided by the investment manager	<p>Company: Olympus Corporation</p> <p>Resolution: 'Resolution 3.1: Elect Director Takeuchi, Yasuo' at the company's annual shareholder meeting held on 30 July 2020.</p> <p>Decision/Vote: Against</p> <p>Rationale for decision: Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level.</p> <p>LGIM have for many years promoted and supported an increase of women on boards, at the executive level and below. On a global level we consider that every board should have at least one female director. We deem this a de minimis standard. Globally, we aspire to all boards comprising 30% women. Last year in February we sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that we expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation.</p> <p>In the beginning of 2020, we announced that we would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for those companies included in the TOPIX100.</p> <p>Rationale for classifying as significant: This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity.</p>
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Implementation Statement (continued)

Voting and engagement (continued)

Company level engagement and rights attached to investments (including voting) **(continued)**

Manager and fund	Size of holdings	Most significant votes cast
Towers Watson Core Diversified Fund	0.8%	<p>Company: China Telecom Resolution: Authority to Issue Shares w/o Preemptive Rights Decision/Vote: Against Rationale for decision: Concerns about potentially excessive dilution. Company also does not need to issue new shares given a healthy balance sheet. Rationale for classifying as significant: Against management.</p>
Towers Watson Core Diversified Fund	0.1%	<p>Company: 51Job Resolution: Elect Cheng Li-Lan Decision/Vote: Against Rationale for decision: Overboarded Rationale for classifying as significant: Against management.</p>

Summary and conclusions

We consider that all SIP policies and principles were adhered to.

Signed: _____

Date: 8 June 2021

On behalf of the Trustee of the Pilots' National Pension Fund