

BIG THINKING FOR SMALL SCHEMES

Implementation Statement

Kwik-Fit Group Pension and Life Assurance Scheme

June 2021



1. Introduction

Under regulatory requirements, trustees are required to prepare and review an implementation statement outlining their approach and stewardship dealing with certain specific matters with regards to their Environmental, Social and Governance (ESG) principles outlined in their latest Statement of Investment Principles (SIP).

This Statement sets out the principles governing decisions about the ESG aspect of investment of the assets of Kwik-Fit Group Pension and Life Assurance Scheme. In preparing it, the Trustees obtained written reporting on these matters from Barker Tatham Investment Consultants Limited as its investment consultants.

2. ESG Principles

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where index tracking pooled vehicles are employed, ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect their fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees believe that the stewardship responsibilities attached to the ownership of shares are important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment managers to report in detail on how they have exercised voting rights attached to shares including across passive equity mandates. Managers are expected to be signatories to the FRC UK Stewardship Code.

Further information on the Trustees' policies can be found in the latest SIP dated September 2020.

In the Trustees' opinion, their policies, as recorded in the SIP, have been followed over the 12 -month period to 30 June 2021.

The following pages illustrate how the Trustees, through their fund managers, have followed their stewardship and engagement policies.

3. Investments Attitudes to ESG

Fund Manager/Fund	ESG Description
<p data-bbox="193 331 587 365">LGIM (DB Section Only)</p> <p data-bbox="193 405 587 506">Global Equity Index Fixed Weight 50:50 GBP Hedged Fund</p> <p data-bbox="193 546 587 613">Dynamic Diversified Fund</p> <p data-bbox="193 654 587 721">LDI Matching Core Real (Short) Fund</p> <p data-bbox="193 761 587 828">Self Sufficiency Credit Real Short Fund</p> <p data-bbox="193 869 587 902">Cash Fund</p>	<ul style="list-style-type: none"> <li data-bbox="603 371 1401 613"> <p>Fund Manager Overview</p> <p>LGIM’s ultimate goal is to protect and enhance the investment returns generated by their clients’ assets whilst aiming to have a long-standing commitment to raising corporate governance and sustainability standards to ultimately enhance the value of companies in which they invest.</p> <li data-bbox="603 654 1401 936"> <p>LGIM has publicly committed to the following three goals as part of their five-year strategic plan:</p> <ul style="list-style-type: none"> • Influencing the transition to a low-carbon economy • Making society more resilient with our financial solutions • Creating new investments for the future economy <p>Further information on how they can receive these goals is publicly available on the parent company Legal & General Group plc’s reporting on corporate responsibility.</p> <p>https://www.legalandgeneralgroup.com/csr/csr-reports/</p> <li data-bbox="603 1218 1401 1747"> <p>ESG Integration</p> <p>LGIM uses a bottom-up and a top-down approach to monitoring and analysis as well as using ESG information that comes out from engagement meetings with companies. LGIM’s ESG scoring tool assesses companies in 17 different sectors on their disclosure, policies and processes for managing ESG risks. LGIM has set up three long-term thematic working groups (demographics, energy and technology) that undertake top-down research and analysis of macroeconomic issues, related to responsible investment and ESG. The direct engagement with companies is a way LGIM seek to identify ESG risks and opportunities. LGIM have an escalation policy to tackle difficult and inter-connected ESG issues that materially impact the value of assets.</p> <p>LGIM have an Active ESG View tool which forms an essential component of the overall active research process. The tool brings together granular quantitative and qualitative inputs in order to reflect a full picture of the ESG risks and opportunities embedded within each company. ESG risks vary across sectors and therefore the proprietary tool LGIM have developed evaluates</p>

sector specific ESG factors, spanning 64 specific sectors and sub-sectors. LGIM incorporate a qualitative approach on top of this as data alone may not tell the full story.

- **Active Ownership (1 year to 30 June 2021)**

LGIM report annually on their active ownership to 31 March, however, they provide some limited reporting on their proxy voting over the 12 months to 30 June. LGIM's Corporate Governance team casts proxy votes in a manner consistent with the interests of all clients. They direct the vote of a significant proportion of a companies' shares by exercising the shareholder rights of almost all clients. LGIM acknowledges that the Scheme as one of their clients, in giving LGIM their mandate, require LGIM to vote with the shares on the behalf of the Scheme. LGIM therefore aim to minimise abstaining from voting, only doing so if it is technically not possible to cast a vote in any other way.

LGIM's voting decisions are made internally within the corporate governance team, and independently from the investment teams. LGIM have in place supplementary regional policies setting out their voting approaches publicly on their website however various other factors may also help them form a view on voting matters. These consist of; previous engagement, third party research (e.g. ESG reports, broker research), company performance, client feedback and LGIM's in-house views with respect to their investment teams.

The following paragraphs relate to the active ownership or approaches to ESG specific to the LGIM funds in which the Scheme is currently invested:

Dynamic Diversified Fund

Over the 12 months to end June 2021, LGIM were eligible to vote at 6,070 meetings and on 65,734 resolutions over the 12-month period. LGIM voted on 99.9% of resolutions. 83.0% of votes were votes for, 16.1% were votes against and 0.9% were votes abstained from.

Global Equity Index Fixed Weight 50:50 GBP Hedged Fund

Over the 12 months to end June 2021, LGIM were eligible to vote at 3,040 meetings and on 38,302 resolutions over the 12-month period. LGIM voted on 99.9% of resolutions. 83.4% of votes were votes for, 16.5% were votes against and 0.1% were votes abstained from.

Matching Core LDI Real Fund

LGIM aims to embed ESG where appropriate. Following a research meeting with LGIM on their LDI ranges, we could expect to a flexible incorporation of green gilt(s) in LDI mandates. These may be tailored to client-specific ESG objectives, such as targeting a minimum proportion in green gilts. LGIM also considers how ESG is incorporated in their choice of counterparties, which they use by reviewing quantitative and qualitative factors as well as overall governance.

Self Sufficiency Credit Real Short Fund

LGIM screens the companies in which they hold corporate bonds for ESG factors. They review quantitative and qualitative factors as well as overall governance. LGIM aims to embed ESG where appropriate. Following a research meeting with LGIM on their LDI funds, we could expect some incorporation of green gilt(s) in LDI mandates. LGIM also considers how ESG is incorporated in their choice of counterparties, which they use by reviewing quantitative and qualitative factors as well as overall governance.

A case study by LGIM looks at Walgreens Boots Alliance, which in March 2021, LGIM voted against a resolution to signal their concern over the overall increased compensation package during a year that the company recorded a \$6.6bn charge related to opioid lawsuits and a total operating loss of \$5.1 billion. LGIM considers it imperative that pay structures are aligned with company performance and that certain expenses over which directors have control and influence should not be allowed to be excluded in the calculation of their pay, in particular if these would be detrimental to the executive director(s) in question.

A similar case study concerning salary took place at the 3 February 2021 AGM. The company, Imperial Brands plc, appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. LGIM voted against this resolution with the rationale that an incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE 100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience.

A further case study by LGIM looks at the company Cardinal Health in which in November 2020, paid out an above target bonus to the CEO who was head of pharma globally during the worst years of the opioid

	<p>crisis. LGIM voted against the resolution to signal their concern over the bonus payment to the CEO in the same year that the company recorded a total pre-tax charge of \$5.63bn for expected opioid settlement.</p> <p>Another case study by LGIM looks at the company HSBC Holdings in which they aspire to work towards a net-zero future aligned with Paris Agreement goals. LGIM endorsed this proposal, which was voted on by shareholders at the 2021 AGM on 28th May alongside a shareholder resolution on the same topic.</p> <ul style="list-style-type: none"> • References LGIM aims to implement best practice reporting to stakeholders including an: <ul style="list-style-type: none"> ○ Annual Active Ownership report ○ Quarterly ESG Impact Report ○ Fund Voting Statistics
<p>Aviva (DC Section Only)</p>	
<p>Default Funds Aviva My Future Growth Fund</p> <p>Aviva My Future Consolidation Fund</p> <p>For completeness we note that self-select options are available – this report concentrates on the default as required by the regulations.</p>	<ul style="list-style-type: none"> • Fund Manager Overview Aviva Investors recognises and embraces their duty to act as responsible long-term stewards of their clients’ assets. They claim to hold a deep conviction that environmental, social and governance (ESG) factors can have a material impact on investment returns and client outcomes. They believe that being a responsible financial actor means their investment approach must support, and not undermine, the long-term sustainability of capital markets, economies and society. Aviva hold principles and governance publicly available in their document titled “Aviva Investors Responsible Investment Philosophy”. <p>Aviva are strong supporters of the UK stewardship code that embodies seven principles, which cover:</p> <ul style="list-style-type: none"> • Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities. • Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed. • Institutional investors should monitor their investee companies. • Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities. • Institutional investors should be willing to act collectively with other investors where appropriate. • Institutional investors should have a clear policy on voting and disclosure of voting activity. • Institutional investors should report periodically on their stewardship and voting activities.

Aviva explain how they ensure compliance with the Stewardship Code in their "Stewardship Statement".

- **ESG Integration**

Aviva Investments have several things in place to integrate ESG principles into practice. Firstly, they maintain a Responsible Investment Officer (RIO) Network with representatives from different asset classes and regions. The RIO Network act as ESG integration champions across the business. The Global Responsible Investment (GRI) Team facilitate internal and external training for investment teams on current and emerging ESG trends, risks and opportunities. Aviva operates a proprietary ESG data model synthesising internal and external data to provide investment teams an assessment of ESG risks basis. Bespoke ESG integration processes have been developed for their core asset classes and fund strategies including equities, credit, sovereign, multi-asset and real assets. Their investment risk team integrate ESG indicators into portfolio risk reports wherever practicable. Performance against ESG objectives is embedded into investment teams' annual evaluation and compensation framework.

There are three levels to integrating financially material ESG risks into the credit investment process

- The research team publishes their research, including an ESG rating score, focusing on how the company performs relative to industry peers, and an ESG momentum score, which focuses on the trend in company ESG metrics on a year-on-year basis.
- Each published credit research note highlights the current MSCI ESG score for the company and analyses a company through an ESG lens.
- The final part is the integration into the portfolio where the credit portfolio managers use the quantitative ESG scores houses in Aladdin to track a portfolio's ESG score through time.

Aviva publishes annual proxy voting guidelines and UK Stewardship Code compliance statements providing details of their responsible investment approach and outlining views on ESG best practice. Furthermore, they avoid or divest positions when unmanaged ESG factors fall outside of their risk tolerance and engagement is deemed unsuccessful. Aviva aims to push market reform by utilising their influence and insights as a large institutional investor to advocate for policy reforms that address market failures and help build more sustainable capital markets.

- **Active Ownership (1 year to 30 June 2021)**

Aviva vote globally at all shareholder meetings that they have the legal right to do so and where costs are not prohibitive. They will endeavour wherever practicable, to recall lent stock prior to contentious shareholder meetings when this is considered in clients' best interest. Extensive proactive and reactive engagement are undertaken with management and boards of issuers and borrowers to monitor ESG practices and encourage best practice. Aviva commit to transparency through timely publication of voting records and quarterly and annual reporting of our engagement activities.

The following details on active ownership apply to voting information within the Aviva My Future Growth Fund and Aviva My Future Consolidation Fund, which the Scheme is invested. Both funds have holdings allocated across the range of Aviva funds below:

- AI North American Equity Index Fund
- AI Developed European ex UK Equity Index Fund
- AI Japanese Equity Index Fund
- AI Developed Asia Pacific ex Japan Equity Index Fund
- AI UK Equity Index Fund

We have summarised the voting information in these funds below:

Over the 12 months to end June 2021:

AI North American Equity Index Fund

Aviva were eligible to vote at 661 meetings and on 8,096 resolutions over the 12-month period. Aviva voted on 99.3% of resolutions. 54.6% of votes were votes for, 45.2% were votes against management and 0.2% of resolutions were abstained from voting.

AI Developed European ex UK Equity Index Fund

Aviva were eligible to vote at 561 meetings and on 9,638 resolutions over the 12-month period. Aviva voted on 78.6% of resolutions. 66.4% of votes were votes for, 26.7% were votes against management and 6.9% of resolutions were abstained from voting.

AI Japanese Equity Index Fund

Aviva were eligible to vote at 506 meetings and on 6,028 resolutions over the 12-month period. Aviva voted on 100.0% of resolutions. 76.9% of votes were votes for, 22.8% were votes against management and 0.3% of resolutions were abstained from voting.

AI Developed Asia Pacific ex Japan Equity Index Fund

Aviva were eligible to vote at 442 meetings and on 3,094 resolutions over the 12-month period. Aviva voted on 98.0% of resolutions. 66.9% of votes were votes for, 32.0% were votes against management and 1.1% of resolutions were abstained from voting.

AI UK Equity Index Fund

Aviva were eligible to vote at 819 meetings and on 11,094 resolutions over the 12-month period. Aviva voted on 99.8% of resolutions. 93.0% of votes were votes for 5.9% were votes against management and 1.2% of resolutions were abstained from voting.

A case study by Aviva focuses on the appointment of three individuals by Toshiba to investigate the status of operations and property of the company. The legitimacy of Toshiba's earlier investigation over the 2020 AGM vote irregularities was disputed. Effisimo proposed an investigation in a way unlikely to divert managerial resources away from business operations and the cost burden on Toshiba should be minimal. Aviva engaged with both the requisitionists and Toshiba ahead of the vote and were pleased to see that the shareholder resolution obtained approval. Aviva believes there is room for Toshiba's Board to improve its relationships with its shareholders and regain trust. As a result, Aviva will be following up with the company after the AGM and monitoring progress with interest.

A further case study by Aviva looks at the company Visa which in January 2021, elected Alfred Kelly as a director who would serve as the combined CEO/Chairman. Aviva voted against the resolution to signal their concern regarding the possibility of conflict of interest. Aviva discussed with Visa the broader concerns over the board and committee composition as part of their ESG considerations and will be monitoring progress ahead of next year's AGM.

References

Further information can be found in the following documents with the corresponding topics:

- Aviva Investors Responsible Investment Philosophy
- Stewardship Statement Document
- "Kwik-Fit Implementation Statement" Spreadsheet Data