TAP UK Retirement Benefits Scheme

Annual Engagement Policy Implementation Statement

1 May 2021 to 30 April 2022

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustees has been followed during the year to 30 April 2022. This 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, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator.

The table later in the document sets out how, and the extent to which, the policies in the SIP have been followed.

This Statement should be read in conjunction with the Scheme's SIP (in place at the Scheme Year end and agreed by the Trustees in September 2020) which is available online.

Investment Objectives of the Scheme

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

Review of the SIP

The SIP was last reviewed and agreed in September 2020 in order to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies in SIP.
- How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.

- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangement with the asset manager.

Assessment of how the policies in the SIP have been followed for the year to 30 April 2022

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP. The policies referenced below are set out in the SIP. In the opinion of the Trustees, the SIP has been followed during the year to 30 April 2022.

	Requirement	Policy	In the year to 30 April 2022
1	Securing compliance with the legal requirements about choosing investments	*The Trustees obtain advice from their investment adviser, who can provide expert advice enabling the Trustees to choose investment vehicles that can fulfil the Scheme's investment objectives. In the Trustees' opinion this is consistent with the requirements of Section 35 of the Pensions Act 1995.*	No changes were made to the Scheme's investment strategy over the year. The Trustees received appropriate advice as needed in respect of the current investment strategy from their investment advisor.
2	Kinds of investments to be held and balance between different kinds of risks	*The Trustees agreed to an investment strategy comprised of growth and stabilising assets.* *The growth portfolio is comprised of equities. The stabilising portfolio is composed of fixed income assets.* *The strategic asset allocation is set to achieve the expected return required within an acceptable level of risk.*	The Trustees aim to review the Scheme's investment strategy following any significant changes in investment policy. The basis of the Trustees' strategy is to divide the Scheme's assets between a "growth" portfolio, comprising equities and a "stabilising" portfolio, comprising assets such as corporate and government bonds. The growth-stabilising allocation is set with regard to the overall required return objective of the Scheme's assets, which is determined by the funding objective and funding level. Thus, the Trustees regard the basic distribution of the assets to be appropriate for the Scheme's objectives and liability profile.
3	Risks, including the ways in which risks are to be measured and managed	*The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the Scheme.* *Should there be a material change in the Scheme's circumstances, the*	As detailed in Section 5 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.

		Trustees will review whether and to what extent the investment arrangements should be altered, in particular whether the current risk profile remains appropriate.	On an annual basis, the Trustees review the Scheme's asset allocation compared with target and the portfolio maybe rebalanced to ensure that the overall level of risk and return is maintained.
4	Expected return on investments	*The Scheme's assets are expected to provide an investment return commensurate with the level of risk being taken.*	The investment performance report is reviewed by the Trustees on an annual basis. The investment performance report includes how each fund is delivering against its performance objective. The manager appointment will be reviewed if there is a significant downgrade of the investment manager by Mercer's Manager Research Team. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term. Over the 3 years to 30 April 2022, the Scheme has returned 5.4% p.a. relative to a benchmark of 5.3% p.a.
5	Realisation of investments	*The Trustees' administrators will realise assets following member requests on retirement or earlier where required.* *The Trustees consider the liquidity of the investment in the context of the likely needs of members.*	The Scheme's assets are weekly dealt pooled investment vehicles. The disinvestment policy for meeting benefit payments consisted of disinvesting on a structured approach to rebalance the actual allocation with the strategic allocation as far as possible.
6	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken	*The Trustees consider financially material considerations in the selection, retention and realisation of investments. Within the funds consideration of such factors, including environmental, social and*	The investment performance report is reviewed by the Trustees on an annual basis. Section 4 of the Scheme's SIP includes the Trustees' policy on ESG factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in

	into account in the selection, retention and realisation of investments	*governance factors, is delegated to the investment manager.* *Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.*	relation to voting rights and stewardship. The Trustees keep their policies under regular review, with the SIP subject to review at least triennially. The Trustees acknowledge that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt. Where managers may not be highly rated from an ESG perspective the Trustees continue to monitor. When implementing a new manager they would consider the ESG rating of the manager and balance against the prospects of the fund achieving its objective. The investment performance report includes how each investment manager is delivering against their specific mandates.
7	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	*Member views and non-financially material issues are not currently explicitly taken into account in the selection, retention and realisation of investments.*	Whilst members' views and non-financial issues are not currently explicitly factored in, the Trustees will continue to review their position on this policy.
8	The exercise of the rights (including voting rights) attaching to the investments	*Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.*	The Trustees have delegated their voting rights to the investment managers. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustees to ensure that they align with the Trustees' policy. The Trustees do not use the direct services of a proxy voter.

			Over the year, the key voting activity on behalf of the Trustees is as follows: • LGIM – equity and bonds mandates The voting policy of the manager has been considered by the Trustees and the Trustees deem it to be consistent with their investment beliefs. LGIM uses organisations such as Institutional Shareholder Services (“ISS”) and Institutional Voting Information Service (“IVIS”) as well as their own Research to provide proxy voting research. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. LGIM’s use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. LGIM also uses the research reports of IVIS to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions. A custom voting policy with specific voting instructions is in place to ensure proxy provider votes are in accordance with their own ESG position. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which they believe all companies should observe irrespective of local regulation or practice. LGIM retain the ability to override any voting decisions. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have monitoring controls in place to ensure the votes are fully and effectively executed in accordance with their voting policies. This includes a regular manual check of the votes input into the platform, and an electronic

			alert service to inform LGIM of rejected votes which require further action. In determining 'significant votes', LGIM takes into account the criteria provided by the Pensions & Lifetime Savings Association guidance. This includes, but is not limited to: - High profile vote which has such a degree of controversy that there is high client and / or public scrutiny; - Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote; - Sanction vote as a result of a direct or collaborative engagement; - Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes. LGIM provide information on significant votes in the format of detailed case studies in their quarterly ESG impact report and annual active ownership publications. Examples of significant votes are set out below: - **Company:** Apple Inc. **Date:** 4 March 2022 **Summary of the resolution:** Report on Civil Rights Audit **How LGIM voted:** 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.

			- **Company:** Microsoft Corporation **Date:** 30 November 2021 **Summary of the resolution:** Elect Director Satya Nadella - **How LGIM voted:** Against **Rationale:** LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight - **Company:** Amazon.com, Inc. **Date:** 26 May 2021 **Summary of the resolution:** Elect Director Jeffrey P. Bezos **How LGIM voted:** Against **Rationale:** LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences. A summary of the voting undertaken over the year to 31 March 2022 is provided below: - LGIM voted in 99.88% of the total 39,493 resolutions available to vote. - Of the resolutions on which they voted on, 82.85% of the votes were with management, 16.95% were against and 0.20% were abstained from.

			Over the prior 12 months, the Trustees have not actively challenged the manager on its voting activity.
9	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustees would monitor and engage with relevant persons about relevant matters)	*Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.* *Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.*	Investment managers are expected to provide reporting on a regular basis, at least annually including stewardship monitoring results. These are reviewed by the Trustees. As the Scheme invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf. At present, the investment advisers ESG ratings help the Trustees to understand which managers are engaging and integrating ESG issues into their investment decision making and these are reviewed on at least an annual basis. The following reflects the work undertaken by managers during the year relating to the Trustees' policy on ESG factors, stewardship and climate change: • Legal and General Investment Management ("LGIM") LGIM confirmed that they are signatories of the current UK Stewardship Code. LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Their voting policies are reviewed annually and take into account feedback from their clients. LGIM annually holds a stakeholder roundtable event where the views expressed form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead.

			LGIM tackles inter-connected ESG issues that materially impact the value of clients' assets. Regular monitoring of companies assists them in identifying change. In the case of unsuccessful engagements the team will assess where problems arose and what new approach can be employed. All voting decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures that LGIM's stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.