

ING UK Pension Fund: Defined Benefit Section
Annual Implementation Statement for the year ended 31 March 2023

June 2023

1. Introduction

This document is the Annual Implementation Statement (“the Implementation Statement”) prepared by the Trustees of the ING UK Pension Fund (the “Fund”) covering the Fund year to 31 March 2023, for the Fund’s Defined Benefit (“DB”) Section. The purpose of this statement is to:

- Detail any reviews of the Fund’s Statement of Investment Principles (“SIP”) the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review
- Set out the extent to which, in the opinion of the Trustees, the Fund’s SIP required under section 35 of the Pensions Act 1995, as amended, has been adhered to during the year
- Describe the voting behaviour by, or on behalf of, the Trustees over the year

A copy of this Implementation Statement will be made available on the following website: www.myingpension.com alongside the Fund’s SIP.

The SIP was updated during the year to 31 March 2023, with the version dated December 2022 replacing the previous version dated February 2021. The document was updated to include additional commentary on including the Pre-Retirement Inflation Sensitive fund within the DC investment strategy as well as updates to the Trustees’ policy on responsible investment and stewardship and additional disclosures around key risks to the Fund and their mitigants.

The December 2022 SIP is the version referenced in the following sections of this document, where we set out how the principles have been implemented.

2. Adherence to the SIP

Overall, the Trustees believe the policies outlined in the SIP have been adhered to during the Fund year. The remaining parts of this Implementation Statement set out details of how this has been achieved for the DB Section.

The Trustees have delegated responsibility for investment decisions to the Investment Committee (“IC”). In certain instances, the IC has had responsibility for activity that ensures the Trustees adhere to the SIP and this group has been referenced throughout this document in such instances.

Fund objectives

The Trustees have a long-term objective of ensuring that the Fund is able to provide the benefits set out in the Trust Deed. The Trustees seek to achieve this through investing in a diversified portfolio of assets, having taken account of the Fund’s liabilities and their risk tolerance in the context of the Trustees’ evaluation of the Employer’s covenant.

In line with the guidelines set out in the SIP, the policy during the year was to target a level of return in excess of liabilities dependent on the funding level. Over the course of the year, the funding level remained above 105%, corresponding to a target excess return of 0.5% pa. In accordance with the SIP, the IC has chosen to target this excess return on a prudent (60% level of confidence) basis, which means the Fund targets a margin over the Excess Return Target. In practice, this has meant that the portfolio was expected to deliver an excess return of c. 0.9% p.a. with a c. 60% confidence over the course of the Fund year.

On a quarterly basis, the IC reviewed the Fund's asset allocation, funding position and measures of the expected return and risk of the Fund's portfolio to ensure that these remained broadly consistent with the Fund's objectives.

Investment Principles

The Fund's assets are invested in a diversified portfolio with five components: Multi-Asset Funds, Equities, Legacy illiquid Assets, Liability Driven Investment ("LDI") and Cash. Key DB investment activity over the year was as follows:

- In June and July 2022 the IC reviewed the appropriateness of the Fund's investment strategy and asset allocation in the context of the Trustees' objectives. This followed the Fund's expected return increasing ahead of the target level due to relative weightings between return-seeking assets (which increased as a percentage of overall Fund assets as markets recovered in the aftermath of the COVID-19 shock) and liability matching assets (which fell as a percentage due to interest rate rises). In doing so, the IC sought advice from the Fund's professional advisors, including the Investment Consultant, WTW. This interim review concluded that a series of redemptions should be instructed from the Multi-Asset Funds (£24m in total) and the Equities (£5m) portfolio.
- During late Q3, the IC agreed to move some of the Fund's cash holdings to a more liquid vehicle. This followed the events of the LDI crisis that caused the yields on UK government bonds to rise sharply around that time.
- At the Q4 IC meeting, the Committee agreed to transfer £150m of gilts from one LDI manager to the other, to increase the level of collateral headroom within the Fund's LDI portfolio.
- During Q4 2022, the IC agreed to implement a £100m buy and maintain credit portfolio, through a segregated mandated within the Fund's existing LDI vehicle
- At the same meeting, the IC also agreed to establish income distribution facilities across a number of the Fund's mandates in order to increase the income delivered from the Fund's existing portfolio.

Throughout the period covered in this report, in conjunction with their professional advisors, the IC periodically considered the mix between the assets within the Fund to ensure that the liquidity, expected return, cost and risk were in line with the Trustees' objectives. This is most evident at the quarterly Trustees and IC meetings.

The Trustees and the IC took the following steps over the year to help maintain the portfolio in line with the Investment Principles set out in the SIP:

- Updated its liability proxy (effective November 2022). The liability proxy is a set of fixed and real cashflows that seeks to broadly capture the sensitivity of the Fund's liabilities to changes in yields and inflation.

Investment Managers

Due to the Fund's strong funding position, commensurately low risk investment strategy and the IC's desire to maintain simplicity within the portfolio, the Fund makes use of a small number of investment managers. These managers invest in a range of instruments that provide the Fund with a diverse range of exposures to generate a return and hedge the interest rate and inflation risks arising from the Fund's liabilities. As at 31 March 2023, the Fund had material (greater than 0.5% of assets) exposure to four investment managers.

The Trustees consider their choice of investment managers as suitable having received appropriate advice from their professional advisors, including the Fund's Investment Consultant. In line with the policy of appointing managers with a medium to long term time horizon, the Fund's investment managers remained the same throughout the year. This in turn allows investment managers to take a longer-term approach to investing, including engagement with issuers of debt and equity, with a view to improving investment outcomes over the long term.

The following activity took place over the year to help ensure the Trustees implemented the policies related to investment managers in the SIP.

- The Trustees received advice letters confirming that the Fund's investments are satisfactory in accordance with the requirements of 1995 Pensions Act.
- The Trustees have delegated the responsibility for selection of specific investments to an appointed investment manager through the use of pooled investment vehicles for all the Fund's assets.
- The IC reviewed the long, medium and short-term performance of Investment Managers during quarterly IC meetings. Performance was monitored relative to an appropriate market benchmark where one was available or an appropriate return objective where a market benchmark was not available.
- The IC invited two investment managers to present at the Committee's quarterly meetings to help with ongoing monitoring and provide training to the IC members. Managers were selected where the Fund has a material allocation (Towers Watson Investment Management ("TWIM") and Insight Investment).
- The IC reviewed the Fund's Total Expense Ratio ("TER") and the fees payable to individual managers. The Committee considered both the absolute level of fees payable and the fees relative to comparable mandates in order to assess whether the Fund receives value for money from its investment arrangements.
- As part of this review, the Investment Consultant also reported to the IC on the costs associated with portfolio turnover, including a consideration of whether realised turnover within investment strategies was consistent with the individual manager's expectations and within the Investment Consultant's expectations given its knowledge and understanding of the asset class and peers.

Responsible Investment and Stewardship

The Trustees utilise advice from the Investment Consultant to help assess environmental, social and governance (“ESG”) issues with the Fund’s assets and to monitor the managers from an ESG perspective. Whilst this did not lead to any changes to the Fund’s investments, the policies and processes described in this section of the SIP have impacted the Fund’s investment in numerous ways:

- They were embedded in the advice and recommendations received from the Investment Consultant.
- The Fund did not appoint any new managers over the year; however, engagement and sustainability policies have been considered as part of previous appointments.
- The Fund’s standalone allocation to equities tracks an index which contains an ESG tilt (i.e. overweighting exposure to companies which have positive ESG metrics) and excludes sectors with poor ESG characteristics (such as controversial weapons).
- The IC met with representatives from TWIM in September 2022. As well as exploring the management and performance of the portfolio, part of the presentation was focused on how sustainable investment is embedded into the TWIM Partners Fund investment process:
 - For example, consideration of an underlying manager’s approach to sustainable investment and how it integrates consideration of ESG factors into the investment decisions forms part of TWIM’s assessment of the managers, which influences the manager selection process. Also, within the equity allocation of the Partners Fund, EOS at Federated Hermes is employed to provide voting advice to the equity managers as well as to engage directly with companies that represent key holdings within the portfolio (further information is provided in the Voting and Engagement section below).
 - The Fund has an Article 8 Sustainable Finance Disclosure Regulation designation. This covers a fund that promotes, among other characteristics, environmental or social characteristics, or a combination of these, provided the companies in which the investments are made follow good governance practices, amongst other requirements.
 - The investment manager intends for the Partners Fund to achieve at least a 50% reduction in greenhouse gases by 2030 in its portfolio and continue beyond that time to further reduce greenhouse gases from the portfolio with an aim of net zero emissions by 2050.
- Through the engagement undertaken by the Investment Consultant, the Trustees expect the Fund’s investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates.
- Over the year the IC undertook a significant level of activity in order to meet the Fund’s Taskforce for Climate-Related Financial Disclosure (“TCFD”) reporting obligations. This included:
 - Training to the Trustees and the IC on its new obligations under the requirements.
 - Scenario analysis to understand the possible impacts of climate change on the assets and liabilities of the Fund.
 - Selection of metrics and a target to measure the Fund’s exposure to climate risk over time and to seek to mitigate this.
 - A review of the Trustee’s governance around the management of climate risks and opportunities.

Risk

Given the strong funding position, the Fund targets a modest level of return in excess of its liabilities. This low level of return means that the Fund is running a commensurately low level of risk. The IC monitors and reviews the investment risks of the Fund in conjunction with the Investment Consultant at regular IC meetings.

3. Voting information

The Fund is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income holdings do not have voting rights attached. Therefore, voting information was only requested from the Fund's equity managers. The Fund invested in the following funds, that invest in equities, over the year to 31 March 2023:

- Towers Watson Investment Management ("TWIM") Partners Fund
- Legal & General Investment Management ("LGIM") Diversified Fund
- LGIM Adaptive Cap ESG Equity Fund (GBP hedged and unhedged)

The Trustees have not set any specific guidelines around manager voting. As set out in the SIP, the Trustees' policy is to delegate the exercising of rights (including voting and stewardship) and the integration of ESG considerations into day-to-day decisions to the Fund's investment managers. This section sets out the voting activities of the above investment managers of the Fund over the year, including details of the investment managers' use of proxy voting.

Climate change has been identified as an area of focus for the Trustees and, as such, examples of how the Fund's investment managers have been voting in line with this where possible have been included in the below tables.

The Fund's investment managers have their own voting policies, which determine their approach to voting, and the principles they follow when voting on investors' behalf. All investment managers also use voting proxy advisers, which aid in their decision-making when voting. Details are summarised in the table below:

Towers Watson Investment Management ("TWIM") Partners Fund

Voting activity	Number of votes eligible to cast: 25,560 Percentage of eligible votes cast: 92.8% Percentage of votes with management: 86.0% Percentage of votes against management: 13.5% Percentage of votes abstained from: 0.5%			
Most significant votes cast	Company	Anglo American Plc	Cigna Corporation	Midea Group
	Size of holdings	0.06%	0.32%	0.13%
	Resolution	Approve Climate Change Report	Report on gender pay gap	Key Management Team Stock Ownership Plan and the Midea Global Partners Plan 8th Phase Stock Ownership Plan (draft) and Its Summary

	Decision /Vote	Supported Management	For	Against
	Rationale for decision	The climate change report sets out clear pathways to carbon neutral operations by 2040 and the company's ambition to reduce Scope 3 emissions by 50%, also by 2040.	TWIM support disclosure of data to assess Cigna's gender pay gap on a raw and adjusted basis, which will positively support Cigna's global recruitment and human resources efforts.	ROE of Midea Group in 2021 was 24.09% but the threshold for ROE is set at 20% in 2022 and 2023 and 18% for 2024 and 2025. Don't think it is properly designed.
	Rationale for classifying as significant	In line with its Proxy Voting Policy, TWIM generally supports initiatives to mitigate environmental risks which will, in turn, enhance long-term company performance.	Diversity, equity and inclusion are important for the long-term success of a company for them to attract and retain talent which in turn is important for shareholders' interests.	Against management
	Outcome of vote	Pass	Fail	For
Use of proxy voting	<p>For the TW PF, the equity exposure comes from four main areas:</p> <ul style="list-style-type: none"> – Its global equity portfolio where EOS at Federated Hermes (“EOS”) provides voting recommendations to enhance engagement and help achieve responsible ownership. EOS’s voting recommendations are informed by its extensive research and experience in the area of stewardship as well as its long-term engagement activities with companies. The underlying managers must provide an explanation and note their rationale when they choose to vote differently to the recommendation. The underlying managers in this portfolio use ISS’s ‘ProxyExchange’ electronic voting platform to facilitate voting. – Its China equity manager uses Glass Lewis service where they have created a bespoke policy – Its emerging markets equity managers use ISS, Glass Lewis, SES and Broadridge Proxy Edge platforms for information and to facilitate voting – Its long-short equity managers use ISS to provide corporate research and to facilitate the voting process. 			

Legal & General Investment Management (“LGIM”) Diversified Fund

<p>Voting activity</p>	<p>Number of votes eligible to cast: 99,252 Percentage of eligible votes cast: 99.8% Percentage of votes with management: 77.4% Percentage of votes against management: 21.9% Percentage of votes abstained from: 0.7%</p>			
<p>Most significant votes cast</p>	<p>Company</p>	<p>Rio Tinto Plc</p>	<p>TotalEnergies SE</p>	<p>Alphabet Inc.</p>
	<p>Size of holdings</p>	<p>0.11%</p>	<p>0.10%</p>	<p>0.10%</p>
	<p>Resolution</p>	<p>Resolution 17 - Approve Climate Action Plan</p>	<p>Resolution 16 - Approve Company's Sustainability and Climate Transition Plan</p>	<p>Resolution 7 - Report on Physical Risks of Climate Chang</p>
	<p>Decision /Vote</p>	<p>Against</p>	<p>Against</p>	<p>For</p>
	<p>Rationale for decision</p>	<p>Climate change: LGIM recognises the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company’s decarbonisation efforts. However, while it acknowledges the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, LGIM remains concerned with the absence of quantifiable targets for such a material component of the company’s overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a</p>	<p>Climate change: A vote against is applied. LGIM recognizes the progress the company has made with respect to its net zero commitment, specifically around the level of investments in low carbon solutions and by strengthening its disclosure. However, LGIM remains concerned of the company’s planned upstream production growth in the short term, and the absence of further details on how such plans are consistent with the 1.5°C trajectory.</p>	<p>Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p>

		timely manner.		
	Rationale for classifying as significant	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.
	Outcome of vote	84.3% of shareholders supported the resolution.	88.9% of shareholders supported the resolution.	17.7% of shareholders supported the resolution.
Use of proxy voting	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. To ensure its proxy provider votes in accordance with its position on ESG, it has put in place a custom voting policy with specific voting instructions.			

MSCI ACWI Adaptive Capped ESG Index Fund (unhedged and GBP currency hedged)

<p>Voting activity</p>	<p>Number of votes eligible to cast: 38,231 Percentage of eligible votes cast: 99.8% Percentage of votes with management: 77.9% Percentage of votes against management: 20.7% Percentage of votes abstained from: 1.4%</p>			
<p>Most significant votes cast</p>	<p>Company</p>	<p>UBS Group AG</p>	<p>Barclays Plc</p>	<p>Exxon Mobil Corporation</p>
	<p>Size of holdings</p>	<p>0.18%</p>	<p>0.12%</p>	<p>0.12%</p>
	<p>Resolution</p>	<p>Resolution 3 - Approve Climate Action Plan</p>	<p>Resolution 26 - Approve Barclays' Climate Strategy, Targets and Progress 2022</p>	<p>Resolution 6 - Set GHG Emissions Reduction targets Consistent with Paris Agreement Goal</p>
	<p>Vote Cast</p>	<p>Against</p>	<p>Against</p>	<p>For</p>
	<p>Rationale for voting decision</p>	<p>Climate change: A vote AGAINST this proposal is applied following their internal discussion. While LGIM positively note the company's progress over the last year, as well as its recent commitment to net zero by 2050 across its portfolio, they have concerns with the strength and coverage of the Climate Action Plan's Scope 3 targets and would ask the company to seek external validation of its targets against credible 1.5°C scenarios. Gaining approval and verification by SBTi (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.</p>	<p>Climate change: While LGIM positively note the use of absolute emissions targets for its exposure in the Energy sector, as well as the inclusion of capital markets financed emissions within its methodology, they have concerns that the ranges used for interim emissions reduction targets and the exclusion of US clients from the 2030 thermal coal exit falls short of the actions needed for long-term 1.5°C temperature alignment. A vote Against is therefore applied as LGIM expects companies</p>	<p>A vote FOR is applied in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.</p>

			to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C.	
	Rationale for classifying as significant	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.
	Outcome of vote	78% of shareholders voted against the resolution.	81% of shareholders voted against the resolution.	21.7% of shareholders supported the resolution.
Use of proxy voting	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that LGIM receives from ISS for UK companies when making specific voting decisions.			

4. Conclusion

In line with the reasons mentioned above, the Trustees consider that all SIP policies and principles were adhered to during the year.