

Appendix 2: Implementation Statement

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) 2019 Regulations. In particular, it confirms how the investment principles, objectives and policies of the Trustees' Statement of Investment Principles (SIP) dated September 2020 have been implemented. The SIP provides further background details on investment arrangements.

This Statement covers the period 1 October 2019 to 30 September 2020.

Investment managers and funds in use

The investment arrangements used for both the DB Section and DC Section are set out in the tables below:

DB Section

The DB section uses a fiduciary management arrangement and has appointed Charles Stanley as the fiduciary manager. Charles Stanley have discretionary responsibility for managing the Scheme's overall portfolio according to the Scheme's investment objective. As part of the Scheme's mandate, Charles Stanley invest primarily in exchange-traded funds and mutual funds with external investment managers, as well as some holdings in infrastructure investment trusts.

DC Section

The DC section offers members the following range of funds managed by Legal & General Investment Management ('LGIM').

Asset Class	Manager	Fund
Global equities	LGIM	LGIM UK Equity Index Fund
		LGIM Global Equity Fixed Weights (50:50) Index Fund
Multi-asset	LGIM	LGIM Multi Asset (formerly Consensus) Fund
Fixed income	LGIM	LGIM Pre-Retirement Fund
Cash	LGIM	LGIM Cash Fund

There is a default investment strategy which includes lifestyling as members near their target retirement date and is used primarily for members who wish to take 25% of their fund value as a tax free lump sum and purchase a lifetime annuity with the remainder. The strategy is set out below:

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DC Section – Default Annuity Lifestyle Strategy

Period prior to member's normal retirement age	Investment Default Approach
Up to 10 years prior to normal retirement age	<p>The approach invests wholly in a growth fund, members can choose from the following funds:</p> <ul style="list-style-type: none"> LGIM Global Equity Fixed Weights (50:50) LGIM UK Equity Index Fund LGIM Multi-Asset Fund <p>The Global Equity Fixed Weights (50:50) fund will be the default option where no choice is made.</p>
From 10 years before normal retirement age	Phased switches are made between the funds to achieve an allocation of 75% in the Pre-Retirement Fund and 25% in the Cash Fund by normal retirement age.

An alternative cash lifestyle strategy is available for members who wish to target a cash sum at retirement.

Strategy Review

There have been no changes to either the investment managers, target asset allocation for the DB Section, the default investment strategy for members in the DC Section, or self-select options available to members in the DC Section over the year.

The Trustees periodically review the investment arrangements of the DC Section, and a review is currently underway, including whether the arrangements provide value for members. Further details are set out in the Chair's Statement.

Scheme Governance

Governance arrangements, in terms of the constitution of the trustee board, service level agreements with providers, processing of core financial transactions, costs and charges and investment arrangements, are detailed in the Trustees' Chair's Statement.

The Trustee board is responsible for making investment decisions and seeks advice from Broadstone Corporate Benefits Limited as the Trustees' investment consultant.

The Trustees do not actively obtain views of the membership of the Scheme to help form their policies set out in the SIP. The Trustees do however consider membership views when making decisions on the DC fund range and lifestyling approach.

There were also no changes to the investment management agreements with Charles Stanley and LGIM during the year.

Trustee Knowledge and Understanding

The Trustee board has the appropriate knowledge and understanding to ensure its policies, including those on financially and non-financially material considerations, as well as engagement and voting activities, are and remain appropriate for the Scheme. The Trustees have developed their knowledge and understanding over the year, and further details are set out in the Chair's Statement.

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Statement of Investment Principles

The Trustees last reviewed the Statement of Investment Principles (SIP) in September 2020. The Statement of Investment Principles was also updated in September 2019, for new investment regulations in relation to Environmental, Social & Governance (ESG) considerations.

The Trustees have a policy on financially material considerations relating to Environmental, Social and Governance (ESG) issues, including the risk associated with the impact of climate change. In addition, the Trustees have a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out below and are detailed in the Trustees' SIP.

There were no departures from the policies set out in the SIP, including the Trustees' policies on financially and non-financially material considerations, during the year.

Policy on financially material considerations

Trustees' Policy: *The Trustees believe that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. Environmental concerns include climate change, energy efficiency, waste and pollution and scarcity of water and other resources. Social concerns include human rights, health & safety at work, welfare and other working conditions, and responsibility for the wider community in which a business operates. Corporate Governance concerns include audit quality, board structure, remuneration policy, shareholder and other stakeholder rights.*

The Trustees expect their investment and fiduciary managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustees assess the ESG integration capability of their investment and fiduciary managers.

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

The Trustees note that the manner by which financially material ESG factors will be taken into account in an investment strategy or pooled fund offering will depend on the underlying asset classes within the pooled fund offering and the management style (e.g. active or passive).

The Trustees are satisfied that the funds currently invested in by the Scheme are managed in accordance with their views on financially material considerations, as set out in the table below, and in particular with regards to the selection, retention, and realisation of the underlying investments held.

This position is monitored periodically. As part of the monitoring process, the Trustees have access to updates on governance and engagement activities by the investment managers and input from their investment advisors on ESG matters. These views are also taken into account when appointing and reviewing investment managers.

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The Trustees acknowledge that they are delegating the consideration of financially material factors in relation to determining the underlying holdings to their investment managers given they are investing in pooled funds.

A summary of the Trustees' views for each asset class in which the Scheme invests is outlined below. Asset Class	Actively or Passively Managed?	Comments
Global equities	Passive	The Trustees acknowledge that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if they have concerns relating to ESG. The Trustees do expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies.
Multi-asset	Active	The Trustee expects the investment manager to take financially material ESG factors into account given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustee also expects its investment manager, to engage with the underlying investee companies, where possible, although it appreciates that fixed income assets within the portfolio do not typically attract voting rights.
Fixed income	Active	The Trustees expect the investment manager to take financially material ESG factors into account given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustees also expect its investment manager, to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights.
Cash	Passive	The Trustees believe there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities.

Policy for taking into account non-financially material considerations

Trustees' Policy: *Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustees believe these should not drive investment decisions. The Trustees expects their investment and fiduciary managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a reduction in investment efficiency.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year.

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Policy on the exercise of voting rights and engagement activities

Trustees' Policy: *The Trustees believe that in order to protect and enhance the value of the investments, over the time horizon over which the benefits are paid, they must act as a responsible asset owner. The Trustees expect their investment and fiduciary managers to exercise their ownership rights, including voting and engagement rights, in order to safeguard sustainable returns over this time frame.*

There have been no changes to the Trustees' policy, nor any departures from their policy, during the year. In particular, all voting activities have been delegated to the investment managers, as the Trustees do not have any legal right to vote on the underlying holdings, given the pooled nature of the Scheme's investments.

The Trustees invests in pooled investment funds with the investment managers, and they acknowledge that this limits their ability to directly influence each investment manager.

The Trustees have employed Broadstone to assist them in monitoring the voting and engagement activity of their investment managers, and a summary of this activity is provided to the Trustees periodically. The Trustees, with the assistance of Broadstone, concluded that the voting and engagement activity of their investment managers is in line with their policy on voting and engagement.

Within the current investment arrangements, the mandate with Charles Stanley and both the equity and multi-asset funds with LGIM contain equity holdings, and therefore have voting rights attached to these underlying equities.

Both of the investment managers use the services of a third party proxy voter when exercising voting rights and will often engage with investee companies directly. The third proxy voters used are confirmed in the table below.

The Trustees have delegated engagement activities to their investment managers, and each investment manager reports to the Trustees on how they have voted on behalf of the Trustees for the underlying holdings.

A summary of the votes made by the investment managers on behalf of the Trustees (where the investment owns equities) is provided in the table below, based on the latest information available from each investment manager.

Manager	Pooled or Segregated?	Third Party Proxy Voter	Manager uses own voting policy?	Resolutions Voted On	Resolutions Voted:		
					For	Against	Abstained
Charles Stanley	Segregated	ISS	No	N/A			
LGIM	Pooled	ISS	Yes	64,020	82%	17%	1%

The votes above are at the company level, rather than being scheme or fund specific. The Trustees will work with their investment managers to obtain this information in future years. Charles Stanley confirmed that there was no significant voting activity on the Scheme's mandate over the year, and that there is only a small number of direct holdings with voting rights retained by Charles Stanley.

The notable engagement activities of the investment managers are provided below:

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- **LGIM** put forward a proposal calling on BP to explain how its strategy is consistent with the Paris Agreement on climate change. LGIM worked with the board of BP to secure its support for the motion. BP has announced new targets including net zero emissions from its operations, net zero carbon emissions from the oil and gas it digs out of the ground, and a 50% reduction in the carbon intensity of all the products it sells.

The Trustees are comfortable with the investment managers' approach for exercising rights and conducting engagement activities, and specifically that they attempt to maximise shareholder value as a long-term investor.

The Trustees also consider the investment managers' policies on stewardship and engagement when selecting and reviewing investment managers.

Monitoring of Investment Arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustees receive performance reports for the DB section from Charles Stanley on a monthly basis to ensure the investment objectives set out in their SIP are being met.

Signed: S D Marshall

Date: 29 April 2021

On behalf of the Trustees of the Standard Motor Products Europe Limited Retirement and Death Benefit Scheme