

Annual Implementation Statement – for scheme year ending 30 June 2021 Sky Pension Plan

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Sky Pension Plan (the “Plan”) covering the year to 30 June 2021. The purpose of this statement is to:

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

A copy of this implementation statement, as well as the latest SIP will be/has been made available on the following website: www.skypensionplan.com.

2. Review of, and changes to the SIP

The SIP was reviewed and updated twice in the year. The first set of updates were made in August 2020 to reflect the requirement for the SIP to include details of the Trustees’ policy in relation to their relationship with investment managers. The second set of updates were made in June 2021 to take account of new investment options that had been made available to members, following the completion of the Trustees’ investment strategy review. Further details of that review are provided later in this statement.

3. Adherence to the SIP

Overall the Trustees believe the policies outlined in the SIP have been adhered to during the Plan year. The remaining parts of this implementation statement set out details of how this has been achieved for the Plan. These details relate to those parts of the SIP which set out the Trustees’ policies, and not those which are statements of fact.

4. Investment Principles

Defined Contribution assets

For the Defined Contribution assets the Trustees give members a choice of investments via pooled funds.

The Plan also offers a range of pre-determined lifestyle strategies. The aim of the lifestyle strategies is for members to achieve a reasonable level of long-term growth on the investments over the majority of their working life. The lifestyle strategies automatically

switch assets between investment funds as members approach their selected retirement age.

During the year the Trustees completed their triennial review of the investment strategy for the Plan. This resulted in three new lifestyles being made available, with the existing lifestyles being closed to new members. One of the new lifestyle strategies – the New Cash lifestyle – has been chosen as the default option for new members to the Plan who do not make any alternative choice. The new lifestyles are designed with the aim of improving the overall expected risk and return profile of the strategy. The aim is to enable members to invest in investments with higher expected levels of risk and return while they are further from their selected retirement date, and then to reduce the level of risk closer to retirement.

A new freestyle fund was also introduced during the year – the HSBC Global Islamic Equity Index Fund. This fund invests in a manner that meets Islamic investment principles as interpreted and laid down by the Shariah Supervisory Committee.

Full details of all the investment options are provided in the SIP and on the Plan website.

Unallocated assets

For the Unallocated assets the Trustees have invested in two pooled bond funds, details of which are provided in the SIP. These funds have been chosen to closely match the duration of the underlying liabilities, and the split between fixed and inflation linked liabilities, as well as to provide the appropriate degree of liquidity.

There were no changes made to these funds or to the strategic asset allocation of the Unallocated assets.

Suitability of investments

The Trustees received regular reports from its investment consultant during the Plan year to monitor the funds and managers, and to assess their overall suitability.

Financially material considerations

The Trustees recognise that environmental (including climate), social and governance (ESG) matters are financially material over the long-term. The Trustees have had engagement with their main investment managers during the year, and Schroders and BlackRock attended a meeting with the Trustee to discuss their approach.

The quarterly monitoring report provided by the investment consultant includes ratings of all managers. These are research reports that provide a rating on the investment manager, with a focus on culture and a sustainability assessment embedded. Sustainable investment is built into the investment consultant's research process which the Trustees have access to. In addition, the investment consultant provided a report for the Investment Sub-Committee covering its ratings and views on the Sustainable Investment policies of the main investment managers, and will extend this to cover all managers during the next year.

Managing risk

The Trustees consider risk from a number of perspectives:

- Inflation Risk
- Annuity Conversion Risk
- Opportunity Cost Risk
- Capital Risk

- Manager Risk
- Insolvency Risk
- Operational Risk

The New Cash Lifestyle is selected as the Plan's default investment strategy to manage the risks which members are exposed to.

During the Plan year the Trustees and Investment Sub-Committee have considered, monitored and managed these risks in a number of ways:

- Through the range of funds offered to members, which, taken together, enable members to manage risk appropriately through their Plan membership.
- Through the quarterly monitoring reports from its investment consultant, which include an assessment of the risks carried within the Schroders Diversified Growth fund. The reports received during the Plan year indicated that the level of risk in the fund was appropriate and consistent with its objectives. The reports also include ongoing monitoring of the fund managers.
- Through the triennial investment strategy review, which assessed the Plan's Lifestyle options against a number of risk metrics, to ensure these are being managed appropriately.

The Trustees provide the members with a member factsheet on a quarterly basis and information on all the investment funds, which includes an explanation of the risks associated with investing.

Relationships with Investment Managers

The Trustees take steps to ensure that all investment funds used within the Plan are suitable for their members and are managed in a way that is consistent with their policies. Each investment manager has been provided with a copy of the SIP and have been asked to confirm whether they believe that the management of the assets is consistent with those policies in the SIP that are relevant to the fund in question. All managers responded and the Trustees are satisfied that there are no inconsistencies between the management of the assets and the policies in the SIP.

Monitoring

The Trustees and Investment Sub-Committee monitor the performance of all the investment funds via the quarterly monitoring report provided by their investment consultant.

Through these reports the Trustees monitor the markets, asset movements and their managers' performance over the year via the following reports in the quarterly report from the investment consultant:

- ManagerWatch
- MarketWatch
- Multi-AssetWatch.

Fees are monitored throughout the year, and the Trustees also received details on costs and charges from their fund managers, to assist in their governance responsibilities. The Trustees have also assessed the level of portfolio turnover within the funds during the Plan year and these have all been deemed to be within expectations.

5. Voting and engagement

The Trustee has delegated the day to day voting and engagement activity to its investment managers. Trustees expect their fund managers to have effective stewardship, both through voting and engagement.

The remainder of this document provides additional detail on the key voting activities for the Investment Managers during the year, in respect of those funds where the manager is eligible to vote as a shareholder (i.e. funds which invest in equities). These are BlackRock, Schroders, M&G, MFS, Veritas and HSBC. The managers have provided examples of “significant” votes undertaken through the year – typically these votes are where the investment manager has voted against company management, or where the issue being voted on is high profile.

BlackRock

BlackRock's process for deciding on how to vote

The team and its voting and engagement work continuously evolves in response to changing governance related developments and expectations. BlackRock's voting guidelines are market-specific to ensure they take into account a company's unique circumstances by market, where relevant. They inform their vote decisions through research and engage as necessary.

BlackRock's engagement priorities are global in nature and are informed by their observations of governance related matters and market developments, as well as through dialogue with multiple stakeholders, including clients. They may also update their regional engagement priorities based on issues that they believe could impact the long-term sustainable financial performance of companies in those markets. They also welcome discussions with clients on engagement and voting topics and priorities to get their perspective and better understand which issues are important to them.

BlackRock's voting guidelines are intended to help clients and companies understand their thinking on key governance matters. They apply these guidelines pragmatically, taking into account of a company's unique circumstances where relevant.

BlackRock's use of proxy voting services

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

While BlackRock subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into their vote analysis process, and they do not blindly follow their recommendations on how to vote. Rather they primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship analysts can readily identify and prioritise those companies where their own additional research and engagement would be beneficial. Other sources of information used include the company's own reporting (such as the proxy statement and the website), BlackRock's engagement and voting history with the company, and the views of their active investors, public information and ESG research.

Voting activity - BlackRock 30:70 Global Index Fund (GPB Hedged)
BlackRock Passive Global Equity Fund

Voting Activities - BlackRock 30:70 Global Index Fund (GPB Hedged)

- There were 58,266 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 99% of its votes over the year
- 8% of votes were against management and 1% were abstained

Voting Activities - BlackRock 30:70 Global Index Fund (GPB Hedged)

- There were 37,521 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 99% of its votes over the year
- 7% of votes were against management and 1% were abstained

Example of significant vote: Daimler AG

Resolution:

Amend Articles regarding the requirement for a majority for passing resolutions at company meetings

Company management recommendation: For

Investment Manager vote: Against

Rationale for the voting decision: Potential to significantly weaken shareholder rights

Outcome:

Pass

Example of significant vote: Procter & Gamble

Resolution:

Publication of report on efforts to eliminate deforestation

Company management recommendation: Against

Investment Manager vote: For

Rationale for the voting decision: BlackRock decided to support shareholder proposal on this issue, after engaging with the proposer

Outcome:

Pass

Voting activity - BlackRock Passive UK Equity

Voting Activities

- There were 15,505 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 99% of its votes over the year
- 6% of votes were against management and 2% were abstained

Example of significant vote: Chr. Hansen

Resolution:

Starting from Financial Year 2020/21, the Company must apply the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) as the framework for climate-related disclosure in the Company's Annual Report

Company management recommendation: Against

Investment Manager vote: For

Rationale for the voting decision: BlackRock considers this to be in the best interests of shareholders

Outcome:

Fail

Example of significant vote: General Electric Company

Resolution:

Publication of a report on meeting the criteria of the net zero indicator

Company management recommendation: For

Investment Manager vote: For

Rationale for the voting decision: BlackRock recognises the company's efforts to date and believes that supporting the proposal may accelerate the company's progress on climate risk management and/or oversight

Outcome:

Pass

M&G

M&G's process for deciding how to vote

An active and informed voting policy is an integral part of M&G's investment philosophy. In their view, voting should never be divorced from the underlying investment management activity. By exercising their votes, M&G seek both to add value to their clients and to protect their own interests as shareholders. M&G consider the issues, meet the management if necessary, and vote accordingly.

Ultimately, voting decisions are taken in the best interests of clients and decision-making takes into account a wide range of factors. Whilst M&G do not solicit clients' views they would take them into account should they be known to them.

M&G's use of proxy voting services

M&G use the research services of ISS and IVIS (Investment Association). Proxy voting activity is instructed through the ISS voting platform, ProxyExchange. They use the ISS custom service to flag resolutions that may not meet their policy guidelines. Voting decisions are taken by the Sustainability and Stewardship team at M&G, often in consultation with fund managers. Some routine resolutions are voted by ISS on M&G's behalf when clear criteria have not been met.

Voting Activity - M&G UK Equity Recovery Fund

Voting Activities

- There were 1,261 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 97% of its votes over the year
- 4% of votes were against management and 1% were abstained

Example of significant vote: Pearson plc

Resolution:

Approve remuneration policy

Company management recommendation: For

Investment manager vote: Against

Rationale for the voting decision: Concerns over the amount and structure of remuneration, and the absence of targets

Outcome:

Not available at the time of writing

Example of significant vote: BP

Resolution:

Approve shareholder resolution on climate change targets

Company management recommendation: Against

Investment manager vote: Against

Rationale for the voting decision: M&G believe the resolution is unnecessary in the light of the Company's disclosed targets and time should be allowed for the Company to make progress

Outcome:

Not available at the time of writing

Schroders

Schroders' process for deciding how to vote

Schroders evaluate voting issues arising at their investee companies and, where they have the authority to do so, vote on them in line with their fiduciary responsibilities in what they deem to be the interests of their clients. They utilise company engagement, internal research, investor views and governance expertise to confirm their intention.

Further information can be found in Schroders' Environmental, Social and Governance Policy for Listed Assets policy: <https://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf>

Schroders' use of proxy voting services

Schroders receive research from both ISS and the Investment Association's Institutional Voting Information Services (IVIS) for upcoming general meetings, however this is only one component that feeds into their voting decisions. In addition to relying on their policies they will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts.

Voting activity – Schroders Diversified Growth Fund and Schroders Global Climate Change Fund

Schroders publish firm-wide voting information on their website, although do not currently provide detailed, fund-level voting data. Schroders have confirmed that they are reviewing this and considering the best way of communicating relevant information to clients.

MFS

MFS's process for deciding on how to vote

MFS maintains their own publicly available voting policies and procedures (the MFS Proxy Policies), which guide all of their voting decisions and provide a framework for voting decisions at approximately 2,000 meetings in over 50 markets each year. The exercise of voting rights is overseen by the MFS Proxy Voting Committee, which consists of senior members of MFS' Investment, Legal and Global Investment Support departments. The MFS proxy voting committee encompasses a diverse range of perspectives, which they believe leads to a thoughtful and collaborative process that guides MFS' voting decisions and policy development. This committee does not include individuals whose primary duties relate to client relationship management, marketing or sales.

The day-to-day management of their voting and engagement activity is performed by MFS's proxy voting team. As an active manager, they are able to combine the collective expertise of the proxy voting team with the unique perspectives and experience of their global team of investment professionals. This process enables them to formulate viewpoints with multiple inputs, which they believe leads to well-informed voting decisions.

The proxy voting team will engage in a dialogue or written communication with a company or other stakeholders when they believe that the discussion will enhance their understanding of certain matters on the company's proxy statement that are of concern to shareholders, or regarding certain thematic topics of focus for the proxy voting committee.

All voting decisions are made in what MFS believe to be the best long-term economic interests of their clients.

MFS's use of proxy voting services

MFS have entered into an agreement with Institutional Shareholder Services, Inc. (ISS) to perform various proxy voting-related administrative services, such as vote processing and recordkeeping functions. While MFS also receive research reports and vote recommendations from ISS and Glass, Lewis & Co., Inc., MFS analyses all proxy voting issues within the context of the MFS Proxy Policies, which are developed internally and independent of third-party proxy advisory firms. MFS's voting decisions are not defined by any proxy advisory firm benchmark policy recommendations. MFS has due diligence procedures in place to help ensure that the research they receive from our proxy advisory firms is accurate and to reasonably address any potentially material conflicts of interest of such proxy advisory firms.

Voting activity - MFS Global Equity Fund

Voting Activities

- There were 1,511 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 100% of its votes over the year
- 6.8% of votes were against management and 0.1% were abstained

Example of significant vote: Omnicom

Resolution:

Shareholder resolution to publish a report on political contributions and expenditures

Company management recommendation: Against

Investment manager vote: For

Rationale for the voting decision: MFS believe shareholders would benefit from additional disclosures regarding the company's political contributions and lobbying activity.

Outcome:

Narrow majority in favour. MFS have commented: "This level of support demonstrates clear shareholder concern. We expect to see the issuer work to resolve the issue brought forth in this majority-supported proposal."

Example of significant vote: Oracle

Resolution:

Shareholder resolution to publish a report on gender pay gap

Company management recommendation: Against

Investment manager vote: For

Rationale for the voting decision: MFS believe additional disclosure would enable shareholders to further assess diversity and equity throughout the organisation.

Outcome:

Minority in favour. MFS have commented: "We will continue to closely review and consider our votes on any future gender pay gap proposals if we feel that such disclosures would contribute in further bridging the overall gender pay gap disparity."

Veritas

Veritas's process for deciding on how to vote

Veritas's investment analysts will receive all relevant proxies and determine if he or she believes that they should vote in favour or against management. After discussing with the Portfolio Manager and making a final decision, the analyst will instruct the custodian or prime broker via the Operations Team how to vote. This is done via ISS, and the role of the Operations Team is to ensure that the voting of proxies is done in a timely manner. The Role of the Chief Operating Officer ("COO") is to monitor the effectiveness of these policies.

Veritas's use of proxy voting services

Veritas use Institutional Shareholder Services ("ISS") to execute voting on behalf of clients. They have also mandated ISS to construct a customized screen for various ESG issues as described below.

Veritas have constructed a customised ESG Voting policy based on the AMNT Red Lines. The Red Lines contain 37 guidelines covering topics associated with ESG. For example, the 5 red lines that relate to climate related factors include a red line to vote against senior management if the business has no climate change committee with board oversight. Should any of the 37 red lines be breached, the instruction is to either vote against management or explain why not. Given this Red Line Voting Policy was developed principally for pooled fund investors (who have been unable to direct votes) and for UK stocks only, they have instructed ISS to apply the guidelines globally where applicable and apply the policy across all clients.

Voting activity - Veritas Global Focus Fund

Voting Activities

- There were 470 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 100% of its votes over the year
- 9.6% of votes were against management and 0% were abstained

Example of significant vote: Fiserve

Resolution:

Advisory vote to ratify named executive officers' compensation

Company management recommendation: For

Investment manager vote: Against

Rationale for the voting decision:

Veritas engaged with Fiserv about the doubts surrounding the transition package negotiated with the outgoing CEO. This related to a proposed incentive package for him to continue in the role of Chairman for the remainder of the year. Veritas found this approach disappointing and voted against the remuneration package, which they believe to be too generous and supported by weak rationale.

Outcome:

Pass

Example of significant vote: Facebook

Resolution:

Proposal to amend non-employee Director remuneration policy

Company management recommendation: For

Investment manager vote: Against

Rationale for the voting decision:

Veritas believe a vote against this proposal was warranted. The company's rationale falls short of the level of specificity necessary for shareholders to assess the reasonableness of the amendment. Further, the company does not provide sufficient details on the potential scope of the associated costs; there is no disclosure of an annual limit or even an estimation on the potential costs of the personal security fees and related tax gross-ups. Further, the proxy does not disclose whether an independent party assessed the need for the unusual director benefit.

Outcome:

Pass

HSBC

HSBC's process for deciding on how to vote

HSBC exercise their voting rights as an expression of stewardship for client assets. They have global voting guidelines which protect investor interests and foster good practice, highlighting independent directors, remuneration linked to performance, limits on dilution of existing shareholders and opposition to poison pills.

HSBC's use of proxy voting services

HSBC use the leading voting research and platform provider Institutional Shareholder Services (ISS) to assist with the global application of our voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene HSBC's guidelines. They review voting policy recommendations according to the scale of their overall holdings. The bulk of holdings are voted in line with the recommendation based on HSBC's guidelines

Voting activity – HSBC Islamic Global Equity Index Fund

Voting Activities

- There were 1,720 eligible votes for the fund over the 12 months to 30 June 2021
- The manager exercised 93.4% of its votes over the year
- 10.9% of votes were against management and 0% were abstained

Example of significant vote: Chevron

Resolution:

Proposal to reduce Scope 3 carbon emissions

Company management recommendation: Against

Investment manager vote: For

Rationale for the voting decision:

HSBC support the principle of adopting quantitative GHG emission reduction targets. The company had fallen short of investors' expectations and was lagging its peers in commitments to action on climate transition.

Outcome:

Pass

Example of significant vote: Facebook

Resolution:

Proposal to approve recapitalisation plan for all stock to have one-vote per share

Company management recommendation: Against

Investment manager vote: For

Rationale for the voting decision:

HSBC support the principle of one share-one vote as they believe that this is the best means of ensuring accountability to all shareholders, in the long term interest of the company.

Outcome:

Fail