

Colas (UK) Pension Plan

Implementation Statement for the year ended 31st March 2023

Dated: May 2023

1. Purpose of the Implementation Statement (or Introduction)

This document is the Annual Implementation Statement (**Statement**) prepared by the Trustees of the Colas (UK) Pension Plan (**the Plan**) covering the Plan year (**the Reporting Year**) to 31st March 2023. The purpose of the Statement is to:

- a) Detail any review of the Statement of Investment Principles (**SIP**) that the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review.
- b) Set out the extent to which, in the opinion of the Trustees, the Plan's SIP has been followed during the Reporting year.
- c) Describe the engagement and voting behavior on behalf of the Trustees over the year, including the most significant votes cast on behalf of the Trustees during the Reporting year.

The Plan makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

A copy of this implementation statement has been made available on the following website:

<https://www.colas.co.uk/pension-plan-sip/>

2. Review and changes to the SIP

There have been no updates to the SIP in the past reporting year. The SIP was last updated in September 2020 and is available on the following website:

<https://www.colas.co.uk/pension-plan-sip/>

3. Adherence to the SIP

The Trustees believe that the policies outlined in the SIP have been followed during the Reporting year and the justification for this is set out in the remainder of this section.

a) Objective and Investment Strategy

The overall objective of the DB Section of the Plan is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

- The acquisition of suitable assets, having due regard to the risks set out in Section 7 of the Plan's SIP, which will generate income and capital growth to pay, together with contributions from members and the Principal Employer, the benefits which the Plan provides as they fall due.
- To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any Statutory Funding Requirement.
- To achieve a return on investments which is expected to at least meet the Plan Actuary's assumptions over the long term.

In quantitative terms, long-term objective for the Plan's assets is to target an investment return objective of approximately 1.0% p.a. (net of fees) in excess of the returns on the Client's liabilities. The Trustees invest in a blend of Growth assets, a portfolio of Matching Credit, and a liability hedge which aims to mitigate the change in the liabilities for interest rates and inflation. The Trustees decide the blend of these funds to target the appropriate return for the Plan, this is shown in the Quarterly Monitoring Report.

b) Changes in policy in Reporting Year

The governance of the Plan is well documented in the SIP and includes the division of responsibilities between the Trustees, investment adviser and investment managers. During the Reporting Year the Plan moved from a traditional advisory model to a fiduciary management structure and the Plan's investment strategy was materially updated across Q1 2023. The Plan's policies regarding responsible investment and stewardship (Corporate Governance) remained materially unchanged except in the following ways:

- Prior to the appointment of Columbia Threadneedle Investments as the Plan's fiduciary manager, the Plan invested entirely in pooled funds and, as such, delegated responsibility for carrying out voting and engagement activities to the Plan's fund managers. The Trustees reviewed the stewardship and engagement activities of the underlying managers at appointment with the support of their investment consultant and on an ongoing basis.
- Following the appointment of the fiduciary manager, the Plan continues to invest entirely in pooled funds and, as such, delegates responsibility for carrying out voting and engagement activities to the Plan's fund managers. However, the fiduciary manager selects underlying fund managers and reviews the stewardship and engagement activities of the underlying managers at appointment and on an ongoing basis. The Plan reviewed the fiduciary manager's capabilities in manager selection and Responsible Investment and Stewardship upon appointment in the Reporting Year. Each year the Trustees will also receive and review voting and engagement information from the sub-investment managers (via the fiduciary manager), which they will review to ensure alignment with their own policies and use to prepare the Plan's Implementation Statement.

c) Policy on Responsible Investment and Stewardship

The Plan's Statement of Investment Principles ("**SIP**") includes the policy of the Trustees in respect of responsible investment and stewardship (section 8.3). The Trustees developed this policy in conjunction with their investment advisers.

Current Policy as presented in the SIP at the end of the Reporting Year.

Section 8.3 – Financially material investment considerations

These considerations which include the "Risks" in section 7 can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as ESG factors) where relevant.

The Trustees delegate consideration of financially material factors to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. As part of their ongoing

monitoring, the Trustee reviews some key metrics on a regular basis that are provided by the Investment Manager covering ESG which enable them to engage with the Investment Manager and understand the impact of ESG on the portfolio.

ESG factors and stewardship are considered, in the context of long-term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

4. Voting Data

a) Structure of Equity Holdings and other voting rights

The Plan invested entirely in pooled funds and, as such, delegates responsibility for carrying out voting and engagement activities to the Plan's fund managers. The pooled fund structure means that there is limited scope for the Trustee to influence managers' voting and engagement behavior.

b) How voting and engagement policies have been followed in the Reporting Year

Overall, the Trustees reviewed the stewardship of the managers held during the Reporting Year alongside preparation of the Statement and were satisfied that their policies were reasonable and in line with the Plan's policies. Therefore, no remedial action was required during the Reporting Year.

- Prior to the fiduciary manager:
 - The Trustee reviewed the stewardship and engagement policy and activities of underlying managers at appointment with support from their investment advisor. However, no new managers were added in the Reporting Year prior to appointment of the fiduciary manager
 - The Plan reviewed the voting and engagement activities of the outgoing underlying managers (held prior to the appointment of the fiduciary manager) in the Reporting Year alongside preparation of the Implementation Statement and were satisfied that their activities were reasonable and in alignment with the Plan's stewardship policies in the Reporting Year.
- Following the appointment of the fiduciary manager:
 - The Trustee reviewed the voting and engagement activities of the underlying managers appointed by the fiduciary manager in the Reporting Year, following the year end, alongside preparation of the Implementation Statement. The fiduciary manager has responsibility to review the stewardship and engagement policies of a manager upon appointment and on an ongoing basis. Having reviewed the manager information provided by the fiduciary manager in accordance with their policies, the Trustee is comfortable the actions of the fund managers are in alignment with the Plan's stewardship policies in the Reporting Year.

In light of the material change in managers in the Reporting Year associated with the move to a fiduciary manager (across Q1 2023), and that some managers only report voting and engagement activity annually, some managers reporting periods did not precisely match the

Reporting Year. Voting activity is typically reported by managers in quarterly periods and the Trustees have considered data from the period invested in the new Fiduciary Management arrangement with Columbia Threadneedle Investments as representative of the Reporting Year. Engagement data is produced quarterly or for bespoke periods by some managers, but for others is only produced annually.

c) Relevant Investments in Reporting Year

Investment funds within which voting activities were undertaken are listed below.

Prior to fiduciary manager appointment, funds containing voting rights are shown below:

- River and Mercantile Stable Growth Fund

Please note that no data has been provided for the River and Mercantile Stable Growth Fund by the previous investment advisor.

Post fiduciary manager appointment and transition of the investment strategy, funds containing voting rights shown below:

- Acadian Global Managed Volatility Fund
- State Street Global ESG Screen Defensive Equity Fund
- State Street Global Equity Index Fund

There are no voting rights attached to other assets held by the Scheme in the Reporting Year.

Voting Undertaken

Manager	Acadian	SSGA	SSGA
Fund Name	Global Managed Volatility Fund	Global ESG Screened Defensive Equity	Global Equity Index
Structure	Pooled Fund	Pooled Fund	Pooled Fund
Ability to influence votes	Limited scope to influence	Limited scope to influence	Limited scope to influence
No. of meetings eligible to vote at	70	107	1541
No. of resolutions eligible to vote on	823	1,587	21622
% of resolutions voted on	76.00%	100.00%	99.44%
% voted with management	90.00%	93.13%	90.74%
% voted against management	10.00%	6.87%	9.26%
% abstain	0.00%	0.50%	0.52%
Were proxy advisory services used	Yes	Yes	Yes
Period Data Covers	Q1 2023 only	12 months to Q1 2023	12 months to Q1 2023

Nature and extent of proxy advisory services, where used:

SSGA use a variety of third-party service providers (Examples include ISS and Glass Lewis) to support their stewardship activities. Data and analysis from service providers are used as inputs to help inform their position and assist with prioritization. However, all voting decisions and engagement activities are undertaken in accordance with SSGA's in-house policies and views.

Acadian use an external service provider (Glass Lewis) as their proxy administrator. They are responsible for applying custom Guidelines when executing proxy votes. In cases where the Guidelines specify case-by-case review by committee, or for any proposal not specifically addressed in the guidelines, internal Proxy Analysts will review available information (including certain research provided by their proxy administrator and provide a recommendation to the Proxy Voting committee. The committee will then vote on the proposal(s) in question and communicate a decision for their proxy administrator to execute.

Significant Votes

Underlying managers provide us with details on their most significant votes. Managers define their own significant votes. The tables below show how, in a single instance per manager, the managers voted:

	Global Managed Volatility Fund	Global ESG Screened Defensive Equity	Global Equity Index
Company name	Costco Wholesale Corp	Canon, Inc.	Metro Inc
Date of vote	19-Jan-23	30-Mar-23	24-Jan-23
Approx. size of fund holding as % of fund	0.57%	1.23%	0.02%
Summary of resolution	Director Election	Director Election	GHG Emissions
How manager voted	Against, Against Management	Against	Against
Where voted against, was this communicated to management ahead of vote?	No	No	No
Rationale for vote	Section C.5.I. Serves as chair of nominating committee of the board of a blue chip developed market company outside Asia that is not at least 30 percent gender diverse.	We are voting against the nominee due to the lack of gender diversity on the board and the company has not engaged in successful dialogue on SSGA's board gender diversity program for three consecutive years.	This proposal does not merit support as the company's disclosure and/or practices related to GHG emissions are reasonable.
Outcome of vote	Passed	Not provided	Not provided
Implications of vote	Despite being in the minority, our guidelines functioned as intended, and the rationale was sound. ~19% of shareholders did not support this candidate.	Where appropriate we will contact the company to explain our voting rationale and conduct further engagement.	Where appropriate we will contact the company to explain our voting rationale and conduct further engagement.
Why is this a 'Significant Vote'	Top Holding, Controversial Outcome, Vote Against Management	Director Election	Environmental Proposal

Engagement Undertaken

Manager	PGIM
Fund(s)	Global High Yield
Does the manager perform engagement with companies they have invested in and/or relevant counterparties?	Yes
Number of engagements undertaken on holdings in the fund during reporting period?	2 (October 2022 to March 23)
Categorisation of engagements undertaken on the fund holdings during the reporting period.	To categorise the engagements: 1 environmental & governance, 1 environmental & social
Number of engagements undertaken at a firm level during reporting period	81 engagements from October 22 to March 23
Categorisation of engagements undertaken at a firm level during the reporting period.	Environmental: 26 Environmental & Governance: 8 Environmental & Governance & Social: 9 Environment & Social: 13 Governance: 11 Governance & Social: 6 Social: 8
Example of an engagement undertaken during the reporting period.	Introductory call with Ascent. After reviewing our ESG processes, we asked about the three areas we felt were most material for Ascent: 1) GHG emissions, 2) water use and 3) health and safety. Ascent discussed their goals of increasing the share of responsibly sourced gas (RSG) in their total production, noting that there is currently a slight pricing premium at the moment. As demand for RSG grows, this could be positive from both the ESG Impact and credit side.
Where no fund or firm level data provided (please populate below entries)	N/A
Proportion of client assets	N/A
Period in reporting year (months)	N/A

Manager	Acadian
Fund(s)	Global Managed Volatility
Does the manager perform engagement with companies they have invested in and/or relevant counterparties?	Yes
Number of engagements undertaken on holdings in the fund during reporting period?	13
Categorisation of engagements undertaken on the fund holdings during the reporting period.	Climate Action related engagements were mostly associated with Carbon Emissions, whilst Corporate Culture engagements were associated with Diversity
Number of engagements undertaken at a firm level during reporting period	111
Categorisation of engagements undertaken at a firm level during the reporting period.	Climate = 80, Corporate Culture = 28, Controversies = 2, Corporate Behaviour = 1
Example of an engagement undertaken during the reporting period.	Engagement related to our Corporate Culture theme (Diversity). We noticed this company may be falling behind on their efforts. We commended the company on setting diversity targets and pushed them to report on their targets so that progress could be measured and tracked. We also engaged on efforts they are undertaking to meet these targets and if they have also set interim targets to help them meet their longer-term goals. The company reported that they currently have 38% women in leadership and 50% underrepresented employees. Currently they are only setting targets and reporting on their US workforce. They pushed back that they would be unable to do it for non-US regions due to local legal considerations. Internally the company monitors progress towards their 10-year goal bi-annually, and sets these targets based upon industry research. They have launched several programs to help them meet their goals, including training and development programs and mentorship.
Where no fund or firm level data provided (please populate below entries)	N/A
Proportion of client assets	N/A
Period in reporting year (months)	N/A (note data is for FY 2022)

Manager	Wellington
Fund(s)	Global High Yield Bond Fund
Does the manager perform engagement with companies they have invested in and/or relevant counterparties?	Yes
Number of engagements undertaken on holdings in the fund during reporting period?	96
Categorisation of engagements undertaken on the fund holdings during the reporting period.	23.5% Long Term Corp Strategy, 23.5% General Update, 16.5% capital resource allocation, 36.5% other governance and environmental issues
Number of engagements undertaken at a firm level during reporting period	Not provided for Q1 2023
Categorisation of engagements undertaken at a firm level during the reporting period.	Not provided for Q1 2023
Example of an engagement undertaken during the reporting period.	Not provided for Q1 2023
Where no fund or firm level data provided (please populate below entries)	N/A
Proportion of client assets	N/A
Period in reporting year (months)	N/A

Manager	Columbia Threadneedle Investments
Fund(s)	LDI Fund Range, Global Low Duration Credit, Absolute Return Bond, Sterling Corporate Credit
Does the manager perform engagement with companies they have invested in and/or relevant counterparties?	Yes
Number of engagements undertaken on holdings in the fund during reporting period?	163
Categorisation of engagements undertaken on the fund holdings during the reporting period.	The vast majority of the engagement done on the LDI and Credit products covers Climate Change (~75%) Environmental Stewardship makes up a large proportion of other engagements
Number of engagements undertaken at a firm level during reporting period	1920
Categorisation of engagements undertaken at a firm level during the reporting period.	Climate = 43%, Environ Stewardship = 19%, Business conduct = 1%, Human Rights = 5%, Labour Standards 9%, Public Health = 6%, Corporate Governance 19%.
Example of an engagement undertaken during the reporting period.	Example of engagement milestone: Publication of new Energy Policy. HSBC's new Energy Policy includes reference to a stronger coal exit policy, a dedicated client engagement program as well as limitations of financing for new large dams, new nuclear power projects, new greenfield oil sands projects, or new offshore oil and gas in the Artic. We have been engaging on clear limitations for its energy financing for a while and give its energy portfolio these commitments are sizeable.
Where no fund or firm level data provided (please populate below entries)	N/A
Proportion of client assets	N/A
Period in reporting year (months)	Please note data on engagement covers FY 2022