

# Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited

## Implementation Statement for the year ending 31 December 2020

Welcome to the Trustee's Statement of how they implemented the policies and practices in the Scheme's Defined Contribution Statement of Investment Principles during the year ending 31 December 2020.

### Why do the Scheme's investments matter to me?

The DC Section of the Scheme provides you with benefits on a defined contribution ("DC") basis (sometimes called money purchase benefits). This means that the size of the benefits paid to you when you retire will depend on how much the funds where your savings are invested grow over the years.

### What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme's investments. It describes the rationale for the investment options which you can choose (including the default arrangement if you don't make a choice), explains the risks and expected returns of the funds used and the Trustee's approach to responsible investing (including climate change).

The last review of the Scheme's SIP was completed on 23 September 2020 and the next review will take place no later than September 2023.

The following changes were made to the SIP during the last year:

- The SIP was updated to reflect the up-to-date regulations as well as the Trustee's beliefs on Responsible Investment. The Trustee strengthened its views on the impact of financially material factors, recognising the long-term nature of the investment of members' assets;
- More clarity was added to ensure that the SIP refers to the DC Section of the Scheme rather than the DB Section (which the DB SIP covers); and
- A provision was added on temporary default arrangements, following suspension in trading for property funds in 2020.

If you want to find out more, you can find a copy of the Scheme's SIP (and the Scheme's Chair's Statement) at <https://www.nfumstaffpensions.co.uk/>.

### What is this Implementation Statement for?

Each year from 2020 the Trustee is required to prepare an Implementation Statement, which sets out how it has complied with the Scheme's SIP relating to DC benefits during the last year.

**Overall, the Trustee is satisfied that:**

- The Scheme's DC investments have been managed in accordance with the SIP; and
- The provisions in the SIP remain suitable for the Scheme's DC members.

## Governance and monitoring

The Trustee has overall responsibility for how the Scheme's investments are governed and managed in accordance with the Scheme's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

There have been no changes to the Trustee or the investment governance processes during the last year.

The Trustee has delegated day-to-day investment decisions, such as which investments to buy and sell, to the fund managers.

The Trustee undertook the following during the last year to ensure that their knowledge of investment matters remains up to date:

- The Trustee reviewed the effectiveness of the DC governance arrangements by undertaking a Trustee effectiveness review as well as a review of the effectiveness of its advisers in January 2020;
- A review of training needs was carried out in January 2020 via a survey following which a flexible training plan was created to address specific training needs;
- The Trustee received training on:
  - A review of the default arrangement on 21 January 2020 – covering how to assess whether the current approach reflects the Trustee's Investment Beliefs, how to improve member outcomes for members and market developments;
  - Embedding climate change risk on 11 March 2020 – covering the impacts that climate change will have on members' returns within pension funds; and
  - Updates to the SIP and Implementation Statement on 22 July 2020 – updating the Trustee on the new requirements for changes within the SIP, as well as the production of the first Implementation Statement.
- Some of the Trustee Directors took the opportunity to attend seminars over last year; and
- The Trustee receives quarterly "hot topics" from their investment adviser covering technical and legislative / regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.

The Trustee monitors how well their investment advisers (Hymans Robertson) meet the objectives agreed with them. The investment advisers agreed the following objectives with the Trustee:

- Deliver an investment approach for the default option that maximises risk-adjusted real returns for members and reflects members' likely benefit choices at retirement, reflecting the Trustee's beliefs. Note that the concept of risk can change throughout a member's career.
- Provide advice in relation to self-select range that incorporates sufficient choice for members to meet their own needs in terms of investment return, investment risk and retirement choices, reflecting member feedback where relevant.
- Advice of cost efficient implementation of new strategies as required.
- Provide relevant and timely advice that supports the Trustee's investment beliefs.
- Develop Trustee knowledge and understanding of investment matters.
- Provide relevant and timely advice that supports the Trustee's investment beliefs.
- Develop Trustee knowledge and understanding of investment matters.

- Hymans Robertson's services to support the Trustee's ongoing governance shall be proportionate and competitive in terms of costs relative to Hymans Robertson's peer group.
- Develop the Trustee's policies and beliefs, including those in relation to Responsible Investment. Ensure Hymans Robertson's advice reflects the Trustee's own policies and beliefs, including those in relation to Responsible Investment.
- Ensure Hymans Robertson's advice complies with relevant pensions regulations, legislation and supporting guidance.

**The Trustee is satisfied that during the last year:**

- **The Scheme's DC governance structure was appropriate;**
- **The Trustee Directors have maintained their understanding of investment matters; and**
- **Their investment advisers met the agreed objectives.**

**Aims and objectives for the default arrangement and investment options outside the default**

The objectives and rationale are set out in the SIP on pages 3 to 4 for the default arrangement and for the other investment options on pages 5 to 6.

The Trustee carried out an in-depth three-yearly strategic review of the default arrangement and other investment options on 24 March 2020 to ensure they remain suitable for most members. This involved:

- Looking at the demographic profile of the Scheme's membership;
- Looking at the members' investment choices and what choices of benefits they make when they retire;
- Considering market conditions and developments in investment thinking;
- Considering the time over which members will be invested in the investment options;
- Deciding whether any changes to the default arrangement's and other investment options' objectives are necessary;
- Monitoring the investment performance of each fund;
- Monitoring the turnover of the assets in which each fund is invested;
- Considering whether the design of the default arrangement and other investment options, as well as the funds they use, still meet their investment objectives;
- Considering whether the default arrangement and other investment options still represent good value for members; and
- Obtaining investment advice on any changes to the default arrangement and other investment options.

**The Trustee is satisfied that the default arrangement remains suitable for most members because:**

- It is believed that a proportion of the membership are either unengaged in or unable to decide where their DC pot should be invested;
- A significant portion of the membership are expected to have broadly similar investment needs;
- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by regulations to have a default arrangement; and
- The Trustee believes that the presence of an effective default arrangement will help deliver good outcomes for members at and into retirement.

**The Trustee is satisfied that the other investment options remain suitable for members.**

**The Trustee agreed in principle to make the following changes to ensure that the default arrangement meets the needs of most members:**

- The allocation of equity within the growth phase to be increased from c.80% to up to 100%;
- Exposure to equities for members approaching retirement to be reduced to c.50%; and
- Adopting a 7 year phasing period, meaning that at 7 years before retirement the default arrangement would reduce the equity exposure gradually until the point of retirement. This is different to the current default arrangement where the phasing period begins at 3 years before retirement.

**These changes were suggested because:**

- An increased allocation to equity within the growth phase would improve member outcomes for those members who are far away from retirement. The extent of improvement would depend on the equity fund chosen and will be considered as part of the implementation process;
- A reduced allocation exposure to equities for members approaching retirement would help better preserve the value of savings build up by members over their lifetime by protecting against material losses due to adverse market movements in equities;
- A 7 year phasing period would help preserve the value of savings even further, by protecting against extreme market movements earlier in a member's journey to retirement; and
- The proposed default arrangement should meet the objectives set by the Trustee more effectively than the current one.

The changes are due to be implemented during 2021 following a revisit of the proposed changes to ensure the Trustee remains in agreement with its decision in March 2020. The reason the changes were not implemented earlier was due to the change in Scheme Administrator. The Trustee carefully manages any changes to the Scheme to ensure they are carried out in an effective and sustainable manner and aiming to reduce the risk of any errors occurring.

**Investment beliefs**

The Trustee has developed a set of investment beliefs which are set out in the SIP on pages 7 and 8 which it uses as a guide when making investment decisions.

During the last year the Trustee, with the help of its investment adviser, reviewed its investment beliefs alongside a review of the investment strategy and considered they remained appropriate.

**There have been no changes to these beliefs in the last year.**

### Investment risks

The investment risks relating to members' DC benefits are described in the SIP on pages 9 to 11 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 13.

During the last year the Trustee, with the help of its investment adviser, reviewed the appropriateness of investment risks.

**The Trustee believes that the main investment risks members face described in the SIP have not changed materially over the last year.**

**The Trustee is satisfied that the current expected rates of investment return for the types of funds described in the SIP are still reasonable relative to the risks that members face.**

The Trustee's views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) for the Scheme's lifecycle option(s) (which gradually change the funds in which your savings are invested as you approach retirement).

**The Trustee's views on the long-term mix of investments for the Scheme's lifecycle options including the default arrangement did not change during the last year.**

### Investments held

#### Choice of fund managers

The Trustee monitors the service of the fund managers used by the DC section of the Scheme by:

- Receiving quarterly reports on fund performance
- Considering reports on the voting and engagement activities of their fund managers
- Receiving presentations from the fund managers during meetings, providing an opportunity for questions and challenge

The Trustee monitors the performance of the funds used by the DC section of the Scheme by:

- Receiving quarterly reports on fund performance from their fund managers;
- Annually assessing the value for members provided by the funds by considering the performance of the funds compared to other peer group funds;
- Considering performance as part of triennial reviews of the investment strategy.

There have been no changes to the fund manager and funds during the last year.

### Ability to invest / disinvest promptly

It's important that your contributions can be invested promptly in the default arrangement or the investment options you have chosen and that your investments can be sold promptly when you want to change where they are invested, transfer your pension pot to another scheme or your benefits are due to be paid out when you retire.

The Trustee ensure this happens by monitoring service level agreements with the Scheme Administrator, as well as how promptly and accurately key transactions have been processed. As a result of multiple administration issues, including delays and errors on key transactions, the Trustee has reviewed the Scheme Administrator and decided that Trafalgar House will take over from Mercer, effective from 1 July 2021.

**The Trustee is satisfied that money will be invested in and taken out of the Scheme's funds without delay as set out in the SIP. However, the Trustee has taken steps to change the Scheme Administrator from Mercer to Trafalgar House, with a view to minimising the risk of any administration errors occurring.**

### Portfolio turnover

The Trustee monitors the volume of buying and selling of the assets and the nature of those assets in which each fund is invested that is carried out by the funds' managers.

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover or the time the fund invests in an asset might indicate a shift in the amount of risk the fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

**The Trustee is satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives.**

### Security of assets

In addition to the normal investment risks faced investing in the funds used by the Scheme, the security of your savings in the Scheme depend upon:

- The financial strength of the fund managers used by the Scheme; and
- The legal structure of the funds the Scheme invests in.

The financial strength of the fund managers has a bearing on the risk of losses to the Scheme's DC members caused by the remote chance of one of these institutions getting into financial difficulties. The legal structure of the funds used has a bearing on the degree to which the funds' assets are "ring-fenced" from the rest of the fund managers' business in the unlikely event that the managers become insolvent.

**There have been no changes to the structure of the funds used by the Scheme during the last year. The Trustee is not aware of any material changes in the financial strength of the investment platform provider or the fund managers used by the platform in the last year.**

### Conflicts of interest

As described on page 21 of the SIP, the Trustee considers potential conflicts of interest:

- When choosing fund managers;

- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

The Trustee expects the fund managers to invest the Scheme's assets in the members' best interests. The Trustee expects the fund managers to report on their own investment governance of the funds including potential conflicts of interest. The Trustee invites fund managers to present at Trustee meetings regularly.

**The Trustee is satisfied that there have been no material conflicts of interest during the year which might affect members' benefit expectations.**

### Manager incentives

As described on pages 14 and 15 of the SIP, the Trustee seeks to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

**The Trustee is satisfied that the fund managers are suitably incentivised to deliver good outcomes for the Scheme's members.**

### Responsible Investment

The Trustee believes that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

**The Trustee's approach to responsible investing has not changed during the last year.**

### Financially material considerations

The Trustee believes that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (called "ESG" factors) can have on the value of the Scheme's investments and in turn the size of your retirement benefits.

The Trustee has considered the length of time members' contributions are invested in the Scheme when choosing and reviewing the funds used in the investment options. The Scheme potentially has members joining from age 16 (the minimum legal age for individuals to take up employment and hence entitlement to join the Scheme) who could therefore have savings invested for 44 years during which their assets will be subjected to transitional and physical risks associated with climate change, as well as a range of other financially material factors.

The Trustee periodically reviews the fund managers' approaches to sustainable investing. The Trustee receives quarterly reports from the fund managers on how they have handled these risks.

As part of future reviews of the investment strategy, the Trustee will consider the approach taken by the fund managers in relation to non-equity assets, and consider how the implementation of the default arrangement compares with peers.

**The Trustee is satisfied that during the last year the Scheme's investments were invested in accordance with the policies on sustainable investing set out in the SIP.**

### Stewardship policies

As described on page 18 of the SIP, the Trustee believes it is important that the fund managers as shareholders or bond holders take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on major issues which affect a company's financial performance (and in turn the value of the Scheme's investments). The Trustee:

- Chooses fund managers whose voting policy are consistent with the Scheme's objectives;
- Expects fund managers to vote in a way which enhances the value of the funds in which the Scheme invests; and
- Monitors how the fund managers exercise their voting rights.

### How does the Trustee monitor this?

The Trustee periodically reviews the fund managers' approaches to stewardship including voting and engagement policies.

The Trustee receives regular reports from the fund managers on how the fund managers have voted at shareholder meetings and what topics fund managers have discussed with the companies in which they invest.

NFU Mutual uses the service provided by the Institutional Shareholder Services (ISS) to facilitate voting on internally managed equity holdings. The NFU Mutual Investment team votes on all eligible stock at every meeting, with a few exceptions if there are blocking policies or legal approvals required. ISS provide recommendations on how to vote on each resolution and NFU Mutual ensure they are happy with how ISS vote or can enter their own votes if desired.

NFU Mutual voted against management on 24 out of 65 proposals on ESG and climate change grounds. They take a responsible and integrated approach to ESG investment principles, incorporating ESG considerations directly into their investment process. NFU Mutual may decide to avoid companies and sectors which they deem to be the most harmful to society. This is done where individual fund mandates allow and has included gambling, predatory lenders and certain munitions as well as looking to focus their oil and gas investments on those companies that are actively aiming to support decarbonisation. All of their external managers are signatories of the UN backed Principles for Responsible Investment (PRI) and they are also in the process of signing up for 2021. These principles are well aligned to their own long-term approach to Responsible Investment and will help them report more transparently on our ESG activities.

The most significant shareholder votes and how the fund managers voted during the last year were as follows in the tables below. The Trustee has determined that significant votes are generally those where the manager has voted against management and where the allocation to that company within respective funds is relatively high.

The Trustee's approach focusses mainly on investments held in the default arrangement, since this impacts on the vast majority of members.

NFU Mutual are responsible for voting shares for equity funds (UK, International and Property Shares) held in the NFU Mixed (40-85%) Shares fund which is used in the default arrangement.

	UK Equity	International	Property Shares
Size of mandate	£987m	£985m	£60m
Number of equity holdings	61	3985	33
Number of meetings voted	160^	5163	39*
Number of resolutions voted	2515^	58359	547*
Times voted against management	67^	8899	11*

^ For voting purposes the different UK equity unitised pension funds are combined.

\* These numbers are based on the Property Shares OEIC which runs a very similar strategy.

**Details of the manager's more significant votes in relation to these funds is provided below:**

Date	Company	Subject	Manager's vote
21 May 2020	Lloyds Banking Group	To approve the Directors' Remuneration Policy	Against. Too high proportion of fixed pay for executives.
20 October 2020	NCC Group	To approve Directors' Remuneration Report	Against. Insufficient reasoning to allow a payment.
3 December 2020	MJ Gleeson	To approve the Directors' Remuneration Report	Against. Insufficient reasoning to allow pay increases.
30 April 2020	British American Tobacco	To approve the Directors' Remuneration Report	Against. Insufficient reasoning for a large executive salary increase.
8 October 2020	Restaurant Group	To approve the Directors' Remuneration Policy	Against. Insufficient reasoning for non-performance incentivised pay.
24 April 2020	Pearson	To re-elect Michael Lynton as a Director	Against. Due to the Director having other commitments.
28 May 2020	Bodycote	To approve the Directors' Remuneration Report	Against. CEO's salary increase not in line with the wider workforce.
10 September 2020	Joules	To ratify named executive officers' compensation	Against. Share rewards were granted for directors' pay which had been forgone for social reasons.
25 June 2020	Sigma Capital Group Plc	To ratify named executive officers' compensation	Against. Insufficient reasoning for above inflationary salary increases for two executive directors.
6 February 2020	On the Beach	To ratify named executive officers' compensation	Against. The bonus was not depending on financial measures.
20 February 2020	Integratin Holdings	To ratify named executive officers' compensation	Against. Insufficient disclosures about bonus payments.

Legal & General Investment Management (“LGIM”) are responsible for voting shares for the LGIM UK Equity Index and LGIM Global (50:50) Equity Index funds in which members can choose to actively invest in from the wider fund range.

Details of the manager’s more significant votes in relation to these funds is provided below:

#### LGIM UK Equity Index Fund

Date	Company	Subject	Manager’s vote
9 July 2020	SIG plc.	To approve a one-off payment to the CEO	Against. Concerns over the size of payment, and timing with liquidity challenges in the business. Outside of scope of existing remuneration policy. Preference for reward to be defined in policy rather than on a one-off basis.
7 September 2020	International Consolidated Airlines Group	To approve the Remuneration Report	Against. Executive bonuses deemed too high for a year including significant financial challenges due to COVID-19, the provision of government support and a 30% cut to the workforce.
18 September 2020	Pearson	To approve an amendment to the Directors' Remuneration Policy	Against. There were concerns around the proposal and all-or-nothing nature linked to the appointment of a new CEO.

#### LGIM Global (50:50) Equity Index Fund

Date	Company	Subject	Manager’s vote
27 May 2020	ExxonMobil	To re-elect the CEO	Against. The company is regarded as a climate laggard by the manager, leading to exclusion from the Future World fund and voting against the chair of the board. The manager supports shareholder proposals for an independent chair and a report on political lobbying.
23 October 2020	Qantas Airways Limited	To approve participation of the CEO in the long-term incentive plan	Against. Concerns over the quantum of the long-term incentive plan given significant challenges due to COVID-19 and resulting cancellation of dividends, and cuts to the workforce.
11 December 2020	Medtronic plc	Advisory vote to ratify named executive officers' compensation	Against. Compensation included a one-off reward which was to compensate for the performance threshold for bonus not being met. The manager is generally against one-off rewards, particularly where the performance threshold is not met.

**The Trustee is satisfied that the fund managers’ voting records on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.**

### Non-financial factors

The Trustee recognises that some members will have strong views on where their pension savings should be invested.

The Scheme offers members a choice of funds which:

- Includes self-select funds that members can utilise to build their own strategy; and
- Two alternative lifecycle strategies targeting cash at retirement and annuity purchase, respectively.

However, the Trustee recognises that it is not possible to cater for everyone's views on non-financial/ethical matters.

The Trustee monitors the investments held by the Scheme and their use, as well as feedback received from members. The Trustee also considers developments in ethical investing funds which could be appropriate to the Scheme's members.

**The Trustee's approach to ethical investing has not changed during the year.**

**The Trustee is satisfied that the Scheme offers suitable investment options for members in accordance with the SIP, and will continually revisit the appropriateness of the wider fund range to reflect feedback from members.**

The Trustee reviewed the options for introducing an investment option whose investment objectives aim to have a positive impact on members who wish to utilise ethical funds. The Trustee decided to consider adding ethical funds during the implementation process of the proposed default arrangement in 2021.

### Communication

The Trustee made the following changes to how the Scheme's investment options and investment governance are communicated to members:

- The updated SIP which allows for the latest regulations on Responsible Investment is available for members to view at <https://www.nfumstaffpensions.co.uk/>; and
- This Implementation Statement will also be available for members to view at the same link as above.

During the last year the Trustee undertook the following to support member engagement and obtain member feedback:

- The Scheme Administrator Mercer were available for members to contact with any queries; and
- The Pensions Team at NFU Mutual are also another port of call to support member engagement.

During the previous year the Trustee undertook a member survey to get members' views on various aspects of the Scheme. A key point to emerge from this survey was members' desire to have more ethical / ESG funds to choose from in the self-select fund offering. As a result of this feedback the Trustee decided to consider adding ethical funds during the implementation process of the proposed default arrangement in 2021.

**The Trustee believes that it has sought effective member feedback on the self-select offering, which has enabled the Trustee to schedule a review of the ethical self-select funds on offer in 2021.**

### Looking forward

In the next Scheme year, which will be covered by next year's Implementation Statement, the Trustee intends to undertake actions, as outlined in the Chair's Statement which can be found at <https://www.nfumstaffpensions.co.uk/>.

### More information

We hope this Statement helps you understand how the Scheme's investment of your savings for retirement has been managed in the last year. If you have any questions or feedback, please contact the Pensions Team at NFU Mutual at [RBS@nfumutual.co.uk](mailto:RBS@nfumutual.co.uk).