

The Retirement Benefits Scheme  
of the National Farmers Union  
Mutual Insurance Society Limited  
(DB Section)

# Implementation Statement

For year ending 31  
December 2020

May 2021

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# Section 1: Introduction

This document is the Annual Implementation Statement ('the Statement') prepared by the Trustee ('the Trustee') of the Retirement Benefits Scheme of the National Farmers Union Mutual Insurance Society Limited ('the Scheme') covering the 'Scheme Year' from 1 January 2020 to 31 December 2020 in relation to the Statement of Investment Principles ('SIP').

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustee, the Scheme's SIP required under section 35 of the Pensions Act 1995 has been followed during the year
- detail any reviews of the SIP the Trustee has 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 Trustee over the year.

The SIP dated September 2020 is the referenced in the following Sections of this document, where we set out how the applicable principles have been implemented.

A copy of this implementation statement will be made available on the following website

<https://www.nfumstaffpensions.co.uk/>

## Section 2: SIP reviews/changes over the year

The SIP was reviewed and updated during the Scheme Year, with the relevant versions over the year:

1. September 2019 – This was the version in place as at the start of the Scheme Year.
2. September 2020 – This is the most recent version of the document which was formally adopted by the Trustee on 23 September 2020.

The Trustee's review of the SIP was undertaken to reflect updated regulations which required the Trustee to reflect policies on:

- how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies
- how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;
- how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee's policies;
- how the Trustee monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and
- the duration of the arrangement with the asset manager

The Trustee also updated the SIP to reflect the update to the Scheme's investment strategy whereby the allocation of the total equity return portfolio will move to an allocation of 1/3 UK and 2/3 overseas equities. The Trustee updated the strategy in this way as part of a review of their strategy to improve the diversification of the Scheme's equity assets and to more closely to reflect the market capitalisation of equities on a global basis.

## Section 3: Adherence to the SIP

The Trustee believes the policies outlined in the SIP have been followed during the Scheme year, more detail on the adherence to the SIP policies is set out in this section.

### Plan's Objectives and long-term policy

As outlined in section 3 of the SIP the Trustee has identified aims and objectives for the Scheme and aims to achieve these through investing in a suitable mixture of return seeking and liability matching assets. The Trustee regularly reviews the Scheme's funding position in relation to achieving the aims and objectives, including monitoring the balance of return seeking and liability matching assets. During the Scheme year the Trustee amended the Scheme's strategic equity allocation between UK and overseas assets and continued to monitor progression to the Scheme's aims and objectives.

As detailed in section 6 of the SIP the Trustee recognises that the Scheme is exposed to a number of risks. These risks are mitigated and considered by the Trustee when setting the Scheme's investment policies and are monitored periodically through a risk-dashboard which is produced on a quarterly basis. The Trustee recognises the need to review investment policy in future and will be considering the appropriate investment strategy in more detail as part of the actuarial valuation as at 31 December 2020.

### Investment managers

Area	Approach and actions taken over the Scheme Year
<b>Section 4.1</b>	
<b>Active management</b>	<p>The Trustee continues to monitor the Scheme's investment managers and the policy around active management.</p> <p>During the year the Trustee has discussed various presentations from the MISCO and NFU property team to aide with monitoring the effectiveness of the investment managers. The Trustee noted no concerns and made no changes to this policy.</p>
<b>Section 4.2</b>	
<b>Rights Attaching to Share</b>	<p>The Trustee looks to review the voting activities in respect of the investments held with NFU Mutual Investment Services Limited ("MISCO") and confirm the compliance with the UK Stewardship code of MISCO and the NFUM Property team, as "investment managers" of the Scheme.</p> <p>During the Scheme year the Trustee reviewed the annual 2020 voting report and noted no further actions resulting from the report.</p>
<b>Section 4.3</b>	
<b>Financially material considerations including ESG Factors</b>	<p>The Trustee looks to regularly review the investment managers integration of financial and non-financial factors within their investment process and also looks to receive training and advice</p>

from its advisors each year to discuss and consider these factors within the Scheme's overall risk management framework.

During the year the MISCO team presented an update on ESG and engagement where they outlined the actions being taken around ESG and engagement. The Trustee noted no concerns around the current ESG approach from the MISCO team.

#### **Section 4.5 to 4.9**

The Trustee reviewed these policies as part of the review of the Scheme's SIP. During the year the Trustee has continued to monitor the investment managers in respect of these policies and have noted no concerns.

#### **Section 5 and Appendix D**

##### **Investment restrictions**

The Trustee looks to review the restrictions placed on the investment managers and monitors compliance with these restrictions as part of regular meetings with MISCO and the NFU property team.

During the year no concerns were raised, and the Trustee made no changes to these policies.

#### **Section 7 and 7.1**

##### **Monitoring and Appointment of Investment Manager**

The Trustee's approach is to assess investment manager performance over an appropriate time frame and considers these in the context of the criteria as set out in the SIP as well as the Scheme's overall policies.

During the year the investment managers team provided regular written reports included within the Trustee meeting papers. These reports are augmented by presentations from the MISCO and NFU Property team on a periodic basis. The Trustee noted drivers of investment performance, engaged with the investment managers and asked for further details on trading activity but noted no concerns. The Trustee did not formally review the appointments of the Scheme's investment managers during the Scheme year.

#### **Section 8**

##### **Governance**

The Trustee reviews these policies as part of the review of the Scheme's SIP.

During the year the Trustee retained the governance arrangements outlined and no concerns were noted.

The Trustee undertakes periodic effectiveness reviews. The last review was undertaken in 2019.

## Section 4: Voting and engagement

The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to the investment managers of the Scheme. Due to the investments being held in pooled and internal funds the Trustee has limited scope to directly influence the voting approach taken by the investment managers but looks to regularly engage and understand their approach.

As part of reviewing the Scheme's Statement of Investment Principles during the Scheme Year, the Trustee worked closely with the Society to understand the approach taken on engagement and voting by the investment managers of the Scheme. The Society provides regular updates to the Trustee on this area.

MISCO uses Institutional Shareholder Services (ISS) to facilitate voting on internally managed equity holdings. The default instruction gives implied consent for ISS to vote on the investment managers' behalf in line with their recommendation, but the investment manager does retain the option of entering its own vote as it sees fit. Checks are made by the investment manager to ensure that they are comfortable with how ISS are voting on its behalf by monitoring their website.

Responsibility for voting activity on externally managed equities is delegated to the sub-investment managers held within the respective funds, who execute votes in line with each of their respective voting policies.

As part of monitoring the stewardship of the Scheme's investments, the tables below set out a brief analysis of the MISCO's voting for the DB scheme in 2020 and the 10 most significant voting activities.

1. The table below reflects the analysis of voting for the DB scheme (internally managed assets) in 2020 (2019 figures in brackets):

	UK Equities	Overseas Equities	Total Equities
<b>Size of fund mandate</b>	£190.9m	£147.9m	£338.8m
<b>Number of equity holdings</b>	149	348	497
<b>Number of meetings voted</b>	155 (142)	331 (346)	486 (488)
<b>Number of resolutions voted</b>	2649 (2440)	4774 (4118)	7423 (6558)
<b>Times voted against management</b>	63 (39)	410 (384)	473 (423)

2. The table below reflects the analysis of voting for the DB scheme (externally managed assets) in 2020:

	Overseas Equities
<b>Size of mandate</b>	£164.0m
<b>Number of equity holdings</b>	3637
<b>Number of meetings voted</b>	4831
<b>Number of resolutions voted</b>	53140
<b>Times voted against management</b>	8502

**Mercer Regional Core Fund** – Legal & General Investment Management (LGIM) manage this fund which provides passive index tracking exposure to Japan, Asia Pacific ex-Japan and Emerging Markets. They voted at 3,076 meetings with 31,138 resolutions and voted against management 4,767 times. The main topics of dissention were board related (2,132) and capital management (827).

**Mercer Strategic Fund** – LGIM also manage this fund which tracks a multi-factor index. They voted at 661 meetings with 8,233 resolutions and voted against management 1,002 times. The main topics of dissention were board related (374) and compensation (249).

**Mercer Global Alpha Fund** – this fund comprises 9 regional active mandates across all international regions. The different sub-investment managers voted at 1,094 meetings with 13,769 resolutions and voted against management 2,733 times. The main topics of dissention were board related (1,628) and compensation (504).

3. The table below reflects the voting data for 10 most significant votes as provided by MISCO.

<b>Company Name</b>	<b>Lloyds Banking Group</b>
Date of vote	21/05/2020
Percentage voteable Shares	0.07%
Summary of the resolution	Resolution 15: To approve the Directors' Remuneration Policy
How we voted	Against
Communication with the company ahead of the vote?	Spoke to management before the vote, informed we would need to review closer to the time once seen research from proxy
Rationale for the voting decision	It was not considered that the overall reduction in quantum of pay opportunity was sufficient to offset the certainty of the payout by introducing the restricted share plan.
Outcome of the vote	36.18% Against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	In the UK we are unlikely to support a bank moving to a restricted share plan incentive scheme due to higher proportion of fixed pay for executives
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register

<b>Company Name</b>	<b>NCC Group</b>
Date of vote	20/10/2020
Percentage voteable Shares	1.55%
Summary of the resolution	Resolution 2: To approve the Directors' Remuneration Report
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel need to pre-warn companies. However, will gladly share our intentions if they approach us.
Rationale for the voting decision	Company amended a financial underpin within the scheme to allow a payout, with a lack of rationale for doing so.
Outcome of the vote	48.87% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Any amendments to policy require strong rationale for doing so.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against, placed on IA public register, large shareholding for us.

<b>Company Name</b>	<b>MJ Gleeson</b>
Date of vote	03/12/2020
Percentage voteable Shares	0.06%
Summary of the resolution	Resolution 10: To approve the Directors' Remuneration Report
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel need to pre-warn companies.
Rationale for the voting decision	The Remuneration Committee exercised discretion to amend the performance targets applicable for the LTIP, resulting in maximum vesting. This didn't feel appropriate and lacked a compelling rationale. Furthermore, the CFO's bonus opportunity was being increased from 100% to 125% of salary without a compelling rationale.
Outcome of the vote	39.34% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Strong rationale required when Remuneration Committee wants to use discretion.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register

<b>Company Name</b>	<b>British American Tobacco</b>
Date of vote	30/04/2020
Percentage voteable Shares	0.04%
Summary of the resolution	Resolution 2: To approve the Directors' Remuneration Report
How we voted	Against
Communication with the company ahead of the vote?	No, but had warned the company when voting against previously. When voting in line with ISS we don't generally feel need to pre-warn companies.
Rationale for the voting decision	CEO salary increase of 9.5%, CFO LTIP increase to 400% of salary from 350%.
Outcome of the vote	38.06% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Large increases to executive salary require strong rationale.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register

<b>Company Name</b>	<b>Restaurant Group</b>
Date of vote	08/10/2020
Percentage voteable Shares	0.16%
Summary of the resolution	Resolution 1: To approve the Directors' Remuneration Policy
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel the need to pre-warn companies.
Rationale for the voting decision	The proposed policy replaces a performance-based long-term incentive structure with a non-performance based one, leading to higher certainty of reward outcomes. The change is not considered to be accompanied with a sufficient reduction in quantum opportunity.
Outcome of the vote	36.83% voted against

Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Careful consideration must always be made around the appropriateness of a restricted share plan.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register.

<b>Company Name</b>	<b>Pearson</b>
Date of vote	24/04/2020
Percentage voteable Shares	0.001%
Summary of the resolution	Resolution 10: To re-elect Michael Lynton as a Director
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel the need to pre-warn companies.
Rationale for the voting decision	The director had significant commitments at other companies, one of which was preparing for an IPO.
Outcome of the vote	32.5% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Time commitments at companies preparing for IPO should be considered significant.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register

<b>Company Name</b>	<b>Bodycote</b>
Date of vote	28/05/2020
Percentage voteable Shares	0.56%
Summary of the resolution	Resolution 11: To approve the Directors' Remuneration Report
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel need to pre-warn companies.
Rationale for the voting decision	Didn't agree with the company's reason for CEO's 7% salary increase, i.e. in line with employees in the country he resides.
Outcome of the vote	25.8% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Increases in director salary should reflect the wider workforce, not just the workforce in the country of residence.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register

<b>Company Name</b>	<b>Joules</b>
Date of vote	10/09/2020
Percentage voteable Shares	1.64%
Summary of the resolution	Advisory Vote to ratify named executive officers' compensation
How we voted	Against
Communication with the company ahead of the vote?	Yes, had meeting with chair of Remuneration Committee to discuss

Rationale for the voting decision	Company had granted share awards to compensate directors who had waived salary earlier in the year.
Outcome of the vote	27.82% votes against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Companies shouldn't look to immediately return pay to executives which has been foregone for social reasons. The executives subsequently did not take the awards.
On which criteria have you assessed this vote to be "most significant"?	Significant proportion of shareholders voted against the outcome, placed on IA Public Register

<b>Company Name</b>	<b>Sigma Capital Group Plc</b>
Date of vote	25/06/2020
Percentage voteable Shares	1.40%
Summary of the resolution	Advisory Vote to ratify named executive officers' compensation
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel need to pre-warn companies.
Rationale for the voting decision	Above inflationary salary increases were given to two Executive Directors which were not accompanied by adequate explanations from the Company.
Outcome of the vote	11.96% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Above inflation salary increases require strong reasoning
On which criteria have you assessed this vote to be "most significant"?	Voted against management, in a company we hold a large proportion of.

<b>Company Name</b>	<b>On the Beach</b>
Date of vote	06/02/2020
Percentage voteable Shares	1.24%
Summary of the resolution	Advisory Vote to ratify named executive officers' compensation
How we voted	Against
Communication with the company ahead of the vote?	No, when voting in line with ISS we don't generally feel the need to pre-warn companies.
Rationale for the voting decision	The non-financial measures within the bonus framework (introduced this year) have paid out in full, while no bonus dependent on financial element was payable. Bonus delivery is fully in cash.
Outcome of the vote	16.2% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Careful consideration required when only the non-financial elements of a bonus are being paid out and are being paid in full.
On which criteria have you assessed this vote to be "most significant"?	Voted against management, in a company we hold a large proportion of

<b>Company Name</b>	<b>Integratin Holdings</b>
Date of vote	20/02/2020

Percentage voteable Shares	0.82%
Summary of the resolution	Advisory Vote to ratify named executive officers' compensation
How we voted	Against
Communication with the company ahead of the vote?	Yes, raised concerns through the corporate broker to pass to the company
Rationale for the voting decision	Felt that the disclosures made in the report around bonus payments were insufficient
Outcome of the vote	3.53% voted against
Implications of the outcome, any lessons learned and what likely future steps will you take in response to the outcome?	Shared our concerns with the company around a couple of governance issues, hopeful we will see improvements in these areas
On which criteria have you assessed this vote to be "most significant"?	A large holdings for us, voted against management and ISS policy.