

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

### DC Implementation Statement

Welcome to the Trustee's Statement of how it implemented the policies and practices in the Scheme's Statement of Investment Principles during the year ending 31 December 2022.

#### 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 latest review of the Scheme's SIP was completed on 20 June 2022 to reflect the changes to the investment strategy which were introduced in August 2022. The review of the SIP was outside of the statutory three-yearly review and it was carried out as a result of the investment strategy changes.

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

#### What is this Implementation Statement for?

Each year, the Trustee is required to prepare an Implementation Statement, which sets out how they have complied with the Scheme's SIP 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.

#### How the Scheme's investments are governed

The Trustee's responsibilities are set out on page 21 of the SIP.

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 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 Directors undertook training during the last year to ensure that their knowledge of investment matters remains up to date, which included:

- Training on the General Code of Practice with a focus on additional risk management requirements
- Training on the new transfer regulations
- Training on diversity and inclusion
- Training on the Taskforce for Climate Related Disclosures (TCFD) and the Scheme's requirements

The Trustee also monitors how well their investment advisers meet the objectives agreed with them. The last review was completed in November 2022.

The investment advisers' main responsibilities are set out on page 24 of the SIP. The objectives agreed with the investment consultants stipulate that they should:

- Assist the Trustee in the preparation and annual review of the SIP in consultation with the Principal Employer.

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

- Provide advice to the Trustee on default strategy, alternative lifestyle strategies and the self-select fund range.
- Undertake project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee.
- Provide general advice on the Scheme's investment activities in respect of the DC Section.
- Provide views on the investment managers used by the DC Section of the Scheme and assist the Trustee in the selection and appointment of appropriate investment managers where necessary.
- Provide training or education on any investment-related matter as and when the Trustee sees fit.

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

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

### **How the default arrangement and other investment options are managed**

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 review of the default arrangement and other investment options on 24 March 2020 to ensure they remain suitable for most members. As part of the review, the Trustee adhered to the monitoring practices outlined in the "Choice of platform providers and funds" section. For instance, the Trustee monitors the investment performance of each fund by assessing the funds' return both yearly and over the previous three years and compared them against suitable benchmarks / industry comparators. Previous presentations from the investment managers also fed through the Trustee's decision to keep all the existing funds and only add one more fund within the lifestyles and to the self-select fund offering.

The three-yearly review 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.

Following the investment review, whilst the Trustee was comfortable that the investment strategy met its objectives, the Trustee also agreed to make a few changes to further improve member outcomes.

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

**The Trustee finalised the plan 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 will be gradually reduced in the 7 years before retirement to c.60% at retirement; and
- A 25% allocation to cash at retirement will be gradually introduced in the final 3 years before retirement, in line with the current approach.

The changes outlined above were reflected in the SIP as part of the latest SIP review on 20 June 2022. The NFU Mutual Mixed Portfolio Max 100% Shares Fund was also added as a self-select fund and this was reflected in the SIP. The only other changes made to the SIP were style changes e.g. changing “lifecycle” to “lifestyle”.

**These changes were suggested because:**

- An increased allocation to equity within the growth phase is expected to improve member outcomes for those members who are far away from retirement;
- Reducing exposure to equity markets for members approaching retirement would help better preserve the value of savings built 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 revised default arrangement is expected to improve retirement outcomes for most members.

The Trustee undertook another review on 22 September 2021 on the implementation of the proposed changes and the proposed changes were implemented on 8 August 2022.

The investment transition was carried out in an effective and sustainable manner, aiming to reduce the risk of any errors occurring. The Trustee, the Pensions Team, the advisors, the NFU Mutual Investments Team and the Scheme administrator were all engaged in ongoing project planning to ensure the smooth running of the transition. The costs to members’ funds were ‘negligible’, because the large majority (c.90%) of underlying assets were re-assigned rather than subject to physical trading in markets. The Trustee was comfortable with how the transition was carried out.

It is intended that the next full review will take place in March 2023 or immediately following any significant change in investment policy or the Scheme’s member profile.

**The Trustee is satisfied that the default arrangement remains suitable for most members because it has met the principal objectives as outlined in the SIP:**

- **To manage the principal investment risks faced by an average member during their membership of the DC Section of the Scheme;**
- **To target the majority of members who are expected to use Flexible Access Income Drawdown (“FAD”) during their retirement and take advantage of their tax-free cash allowance; and**
- **To invest in funds which are expected over the long-term to deliver strong returns relative to inflation.**

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

### Investment beliefs

The Trustee has developed a set of investment beliefs which are set out in the SIP on page 7 and 8 which it uses as a guide when making investment decisions. The Trustee has also used these beliefs as a guide when reviewing the investment strategy. No deviation from the investment beliefs has occurred.

**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 12 and the expected returns from each type of investment used by the Scheme are set out in the SIP on page 13.

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

**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 lifestyle options (which gradually change the funds in which your savings are invested as you approach retirement). Offering the default arrangement, two alternative lifestyle strategies and a wide selection of self-select funds helps the Trustee, and hence the Scheme members, mitigate the investment risks set out in the SIP. For instance, the benefit conversion risk outlined on page 9 of the SIP is mitigated by de-risking within the three lifestyle strategies, as members approach retirement. The self-select fund range also helps mitigate this risk by offering a wide choice of funds of different risk profiles which members can invest in as they approach retirement. Counterparty risk is mitigated by investing in pooled funds. The security of the Scheme's assets was reviewed on 22 September 2021.

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

### Platform providers and fund managers

#### Choice of platform providers and funds

The investment managers' main responsibilities are set out on page 25 of the SIP and the details of the fund managers are set out on page 26. The Trustee monitors the service of the fund managers used by the DC section of the Scheme by:

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

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

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

There have been no changes to the fund managers but one additional fund was added during the last year. From 8 August 2022, the NFU Mutual Managed Plan Mixed Portfolio Max 100% Shares Fund was introduced into the earlier years of the lifestyle strategies, in order to improve member outcomes at retirement. This fund is also available to members as a self-select option.

**The Trustee is satisfied that the fund managers used by the Scheme remain appropriate.**

#### 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. This is set out on page 11 of the SIP.

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. There have been no changes to the Scheme Administrator during the year. This Scheme Administrator has been in place since 1 July 2021 and its performance is reviewed on a periodic basis.

**The Trustee is satisfied that money can be invested in and taken out of the Scheme's funds without delay as set out in the SIP, and that the measures set out in the SIP have been followed.**

#### Changes in where funds are invested

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.

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

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 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 reviews the level of transaction costs for each of the funds the Scheme invests in. As part of this process, no material issues have been identified that could indicate concerns about the level of portfolio turnover and associated costs for members.

**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 your savings in the Scheme

The security of Scheme assets is outlined on page 16 of the SIP. In addition to the normal investment risks faced investing in the funds used by the Scheme, the security of your savings in the Scheme depends upon:

- The financial strength of the fund managers used by the investment platform; 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 "ringfenced" 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 page 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 believes that the incentives and measures described in the SIP have been implemented. For instance, the Trustee undertook its annual value for members assessment over the reporting period and considered that the funds offered good value for members, meaning that the funds' charges and services remained competitive, and the fund performance was in line with expectations. Therefore, the Trustee believed that the managers were suitably incentivised to provide good value for members.

**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's members invests in. This is referenced on pages 10, 12 and 13 of the SIP.

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

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

### Sustainable Investment

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 have 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.

The Trustee reviewed possible ESG investment options as part of the investment review conducted in September 2021. The Trustee carried out a member survey at the beginning of 2022 to gather members' feedback on the Scheme and particularly their interest in ESG investment options; a few members expressed an interest in "ESG" / "green" funds. The Trustee will review the merits of adding ESG investment options at the investment review in March 2023.

**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.**

### Investment stewardship

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;
- Monitors how the fund managers exercise their voting rights.

### How do the Trustee monitor this?

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

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

The funds with voting rights attached that are available to members as part of the default arrangement or the self-select fund range are listed below along with summary voting statistics for each fund.

## NFU Mutual Retirement Benefit Scheme

### Annual Report for the year ended 31 December 2022

NFU Mutual are responsible for voting shares for equity funds (UK, International and Property Shares) held in the NFU Mutual Mixed Portfolio Max 100% Shares Fund which is used in the default arrangement. Voting statistics on their activity within these funds are shared below.

	UK Equity	International	Property Shares
Size of fund mandate (at year end)	£795.4m	£1.10bn	£50.8m
Number of equity holdings	62	4,268	30
Number of meetings voted	168 <sup>^</sup>	6,353	43 <sup>*</sup>
Number of resolutions voted	2494 <sup>^</sup>	62,625	567 <sup>*</sup>
Times voted against management	30 <sup>^</sup>	11,074	4 <sup>*</sup>
% resolutions voted	100%	96.23%	100%

\* 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.

Source: NFU Mutual Investments Team.

LGIM are responsible for voting shares for the UK Equity Index Fund and the Global Equity 50:50 Index Fund. Voting statistics on their activity within these funds is shared below.

	Legal & General UK Equity Index	Legal & General Global Equity 50:50 Index
No. of resolutions eligible to vote	10,854	40,837
% resolutions voted	99.93%	99.79%
% votes with management	94.52%	82.00%
% votes against management	5.48%	17.86%
% votes abstained	0.00%	0.14%

Source: LGIM.

The Trustee also considers how the fund managers voted on specific issues. The Trustee considers 'significant votes' to be either companies with relatively large weightings in the funds members invest in, where there were shareholder issues that members are expected to have an interest or where the impact of the resolution could be significant in terms of impacting shareholder value. The significant votes reported on in the implementation statement each year is guided by views from the investment managers, but ultimately agreed by the Trustee.

## NFU Mutual Retirement Benefit Scheme

Annual Report for the year ended 31 December 2022

The most significant shareholder votes and details of how LGIM and NFU Mutual voted during the last year were:

Company	Meeting date	Resolution	LGIM	NFU Mutual	Commentary
Activation Blizzard (US)	Not provided	Increased Disclosure due to Labour Issues	-	For	NFU Mutual supported a shareholder resolution calling for increased disclosure due to the ongoing scrutiny over the company's sexual harassment and discrimination issues involving protected classes of employees. Increased transparency would help to fully assess how the company is managing associated risks.
Alphabet (US)	1 June 2022	One Share, One Vote	-	For	NFU Mutual supported a number of shareholder proposals at the Alphabet (parent company for Google) AGM this year. Most significantly it supported calls for a recapitalisation plan calling for all stock to have one vote per share to help align voting power with economic ownership, strengthening the governance of the company. NFU Mutual also supported several shareholder proposals on environmental and social aspects calling for increased disclosure and reporting on areas such as climate change, water related risks, lobbying and racial equity.
Aveva	Not provided	Scheme Arrangement	-	Against	NFU Mutual decided not to support the cash acquisition of Aveva by Schneider Electric. It felt the bid was opportunistic at a time where the share price had been depressed, something which was fed back to the company's advisers. Whilst an improved bid was received, it was still felt that this did not represent the long-term value potential of the company.
Berkshire Hathaway (US)	30 April 2022	GHG Emissions and Climate Related Risks and Opportunities	Withheld	Withheld	NFU Mutual withheld support for the lead independent director as the company does not yet adequately report on climate change related risks and opportunities. NFU Mutual also withheld support for members of the compensation committee due to an absence of a management say on pay proposal. As part of its ongoing work calling for the separation of chair and CEO roles, NFU Mutual also supported a proposal for an independent board chair.

## NFU Mutual Retirement Benefit Scheme

### Annual Report for the year ended 31 December 2022

						LGIM withheld as they expected a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
Exxon Mobil Corporation	25 May 2022	Greenhouse Gas Targets	For	For		NFU Mutual and LGIM both supported a shareholder resolution calling for the company to set GHG emissions reduction targets consistent with Paris Agreement goals. Both supported further resolutions calling for reporting in line with the IEA's net zero scenario analysis, reducing plastic reduction and political contributions.
Glencore Plc	28 April 2022	Approve Climate Progress Report	Against	Against		<p>LGIM acknowledged the progress the company has made in strengthening its medium-term emissions reductions by 50% by 2035 but was still concerned by the company's activities around thermal coal and lobbying. LGIM felt this inconsistent with the required ambition required to stay within the 1.5C trajectory (the Paris goal of limiting the global average temperature increase to 1.5C).</p> <p>NFU Mutual also voted against the report stating concerns around thermal coal, which accounts for most of the Scope 3 emissions.</p>
Restaurant Group	Not provided	Approve remuneration report	-	Against		NFU Mutual voted against the remuneration report as it believed that bonus targets which had been adjusted during the pandemic were not stretching enough. The company used Government support during the year, including the Coronavirus Job Retention Scheme and did not pay a dividend for the year. Despite the downward discretion applied to the formulaic bonus outcomes, the pay-outs were considered excessive.

Source: NFU Mutual Investments Team and LGIM.

## NFU Mutual Retirement Benefit Scheme

### Annual Report for the year ended 31 December 2022

#### How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
NFU Mutual	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.
LGIM	LGIM uses ISS to place its electronic votes through ISS ProxyExchange. LGIM have a custom voting policy in place to ensure their provider votes in accordance with their position on ESG.

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

#### Ethical Investing

The Trustee recognises that some members will have strong views on where their pension savings should be invested. This is set out on page 8 of the SIP. 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 lifestyle strategies targeting cash at retirement and annuity purchase, respectively.

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

The Trustee also monitors developments in ethical investing funds which could be appropriate to the Scheme's members.

The Trustee intends to hold member focus groups in order to better understand members' views around ethical investing.

**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.**

#### Communication and member engagement

Communication is set out within the Governance section on page 21 of the SIP. The Trustee made the following changes to how the Scheme's investment options and investment governance are communicated to the members:

- Updated the SIP and the investment guide to reflect the changes to the investment strategy – these are both available on the Scheme website.
- Published the Implementation Statement as at 31 December 2021 on the Scheme website.

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

- Carried out a survey at the start of 2022 to understand members' views on investment options, responsible investment and retirement.
- Informed members of the changes to the investment strategy.
- Sent members a reassuring message on the cost of living crisis along with the annual benefit statements.

**The Trustee believes that they have appropriate avenues to receive member. During the last year the Trustee followed the policies and practices described in the SIP.**

#### 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).