

## **Annual Implementation Statement – for scheme year ending 31 March 2021**

### **Rockwell Collins (UK) Limited Pension Scheme**

#### **Introduction and purpose to this statement**

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Rockwell-Collins (UK) Limited Pension Scheme (the “Scheme”) covering the scheme year to 31 March 2021.

The purpose of this statement is to:

- detail any reviews of the Statement of Investment Principles (‘SIP’), required under section 35 of the Pensions Act 1995, that the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review
- set out details of how and the extent to which, in the opinion of the Trustees of the Scheme (the “Trustees”), the Trustees’ policies on engagement and voting (as set out in the Statement of Investment Principles (the “SIP”)) have been adhered to during the year;
- describe the voting behaviour (including the most significant votes made on behalf of the Trustees) and any use of a proxy voter during the year

A copy of this implementation statement along with the SIP will be made available on the following website [<https://www.collinsaerospace.com/who-we-are/Global/Europe/UK/Local-Presence>] and included in the Trustees’ annual report and scheme accounts for the year to 31 March 2021.

This is the first year of the Scheme providing an Implementation Statement and the format of the statement is expected to evolve over time as practices are established.

#### **Review of the SIP and changes made during the Scheme year**

The SIP is a document which outlines the Trustees’ policies with respect to various aspects related to investing and managing the Scheme’s assets including but not limited to investment managers, portfolio construction and risks

The SIP was reviewed and subsequently updated during the Scheme year to reflect updated requirements on the Trustees’ arrangements with investment managers, including alignment of interests with the Trustees’ policies, investment manager remuneration, portfolio turnover and associated costs, and the duration of the arrangements with investment managers.

The SIP was also updated to reflect disinvestment from the Over 15 year Fixed Interest Gilt and Over 5 year Index Linked Gilt Funds provided by Legal and General Investment Management (“LGIM”) and investment in the Alternative Credit Fund offered by Towers Watson Investment Management (“TWIM”).

The revised SIP was dated July 2020 and formally adopted by the Trustees after consultation with the Company.

#### **Trustee’s voting and engagement policy**

The Trustee’s policies on voting and engagement, as stated in the SIP, are as follows:

- The Trustees are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Trustees

will, however, monitor the performance of each manager relative to its benchmark (or other appropriate comparator).

- The Trustees recognise that a company's long-term financial success is influenced by a range of factors including appropriate management of environmental, social, ethical and corporate governance (ESG) issues. Consequently, the Trustees seek to be an engaged long-term shareholder and via its selection and oversight of its investment managers, seek to encourage the companies in which the Plan invests to adopt sustainable business practices and high standards of corporate governance with the aim of protecting and enhancing long-term shareholder value. Whilst it is the Trustees' preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interest of the members of the Plan. Therefore, the Trustees' policy is that the extent to which environmental, social and corporate governance considerations may have a financial impact on the portfolio will be taken into account by their investment managers in the exercise of their delegated duties.
- The Trustees expect their managers to sign up to their local stewardship code with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings, in-keeping with good practice. The Trustees will monitor the activities of all of their managers on a regular basis but appreciate that the code's applicability may be limited for certain asset classes. These matters are kept under review by the Trustees, in consultation with their investment consultant and investment managers.
- The Scheme uses different managers and mandates to implement its investment policies. The Trustees ensure that, in aggregate, the Scheme's portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question.
- To maintain alignment, managers are provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.
- Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment and ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.
- For most of the Scheme's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

The return-seeking assets of the Scheme are held in a Diversified Growth Fund (DF), namely the LGIM Diversified Fund. Therefore, the Trustees' focus in this implementation statement is on this fund. Voting information on the Scheme's investment in BlackRock's LDI fund and the TWIM's ACF fund is not provided since the vast majority of debt securities do not come with voting rights.

The Scheme's investment managers are signed up to the UK FRC Stewardship Code and the Trustee monitor the Scheme's investment managers' adherence to the Code. The latest statements of compliance for TWIM and LGIM can be found via the links below:

BlackRock: <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-and-voting-history>

LGIM: <https://www.lgim.com/uk/en/capabilities/investment-stewardship/>

TWIM: <https://www.willistowerswatson.com/en-GB/Insights/2020/03/sustainable-investment-policy>

### Summary of voting over the year to 31 March 2021

A summary of the votes made by LGIM on behalf of the Trustee over the year to 31 March 2021 is provided in the table below:

<b>Manager and strategy</b>	<b>Portfolio structure</b>	<b>Voting activity</b>
<b>Legal and General Investment Management – Diversified Fund</b>	Fund of funds	<ul style="list-style-type: none"><li>• Number of meetings at which the manager was eligible to vote: 11,362</li><li>• Number of resolutions on which manager was eligible to vote: 115,604</li><li>• Percentage of eligible votes cast: 98.98%</li><li>• Percentage of votes with management: 81.72%</li><li>• Percentage of votes against management: 17.71%</li><li>• Percentage of votes abstained from: 0.56%</li><li>• Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 6.35%</li><li>• Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy advisor: 0.20%</li></ul>

## Significant votes

The table below demonstrates significant votes cast on behalf of the Scheme over the year to 31 March 2021:

Fund	Most significant votes cast
LGIM Diversified Fund	<p><b><u>Company: Whitehaven Coal</u></b></p> <p><b><u>Meeting date: 22 October 2020</u></b></p> <p><b>Shareholder resolution:</b> Report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.</p> <p><b>How the manager voted:</b> For</p> <p><b>Rationale:</b> The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and China - have announced targets for carbon neutrality around 2050. LGIM has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.</p> <p><b>Outcome:</b> Fail</p> <p><b>Implications:</b> The environmental profile of the company continues to remain in the spotlight. The vote received media scrutiny. LGIM will continue to monitor this company.</p>
LGIM Diversified Fund	<p><b><u>Company: Procter &amp; Gamble Company (P&amp;G)</u></b></p> <p><b><u>Meeting date: 13 October 2020</u></b></p> <p><b>Management resolution:</b> Report on effort to eliminate deforestation</p> <p><b>How the manager voted:</b> For</p> <p><b>Rationale:</b> P&amp;G uses both forest pulp and palm oil as raw materials within its household goods products. Despite setting a goal for 100% certification by 2020, they have only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its supply. Two of their Tier 1 supplied of palm oil were linked to illegal deforestation. Palm oil and Forest pulp are considered leading drivers of deforestation and forest degradation.</p> <p>LGIM engaged with P&amp;G to hear its response on the concerns raised and the requests raised in the resolution. LGIM also engaged with the proponent of the resolution, Green Century and the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution.</p> <p>Although P&amp;G has introduced a number of objectives and targets to ensure their business does not impact deforestation, we felt it was not doing as much as it could. A key priority issue for LGIM is to ensure that companies we invest our clients' assets in are not contributing to deforestation.</p> <p>LGIM has asked P&amp;G to respond to the CDP Forests Disclosure and continue to engage on the topics and push other companies to ensure more of their pulp and wood is from FSC certified sources.</p> <p><b>Outcome:</b> Pass</p> <p><b>Implications:</b> We will continue to engage with P&amp;G on the issues and will monitor its CDP disclosure for improvement. This is linked to LGIM's five-year strategy to tackle climate change</p>
LGIM Diversified Fund	<p><b><u>Company: Barclays</u></b></p> <p><b><u>Meeting date: 7 May 2020</u></b></p> <p><b>1. Management resolution:</b> Approve Barclays' commitment in tackling climate change</p> <p><b>How the manager voted:</b> For</p>

	<p><b>Outcome:</b> Pass</p> <p><b>2. Shareholder resolution:</b> Approve ShareAction requisitioned resolution</p> <p><b>How the manager voted:</b> Against</p> <p><b>Outcome:</b> Fail</p> <p><b>Rationale:</b> The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. Since the beginning of the year there has been significant client interest in LGIM's voting intentions and engagement activities in relation to the 2020 Barclays AGM. LGIM consider the outcome to be extremely positive for all parties: Barclays, ShareAction and long-term asset owners such as our clients.</p> <p><b>Implications:</b> LGIM's focus will now be to help Barclays on the detail of their plans and targets, more detail of which is to be published this year. They plan to continue to work closely with the Barclays board and management team in the development of their plans and will continue to liaise with ShareAction, Investor Forum, and other large investors, to ensure a consistency of messaging and to continue to drive positive change.</p>
<p>LGIM Diversified Fund</p>	<p><b><u>Company: International Consolidated Airlines Group</u></b></p> <p><b><u>Meeting date: 7 September 2020</u></b></p> <p><b>1. Shareholder resolution:</b> Approve remuneration report</p> <p><b>How the manager voted:</b> Against</p> <p><b>Rationale:</b> The COVID-19 crisis and its consequences on international transport have negatively impacted this airline company's financial performance and business model.</p> <p>At the end of March 2020, LGIM addressed a private letter to the company to state their support during the pandemic. LGIM also encouraged the board to demonstrate restraint and discretion with its executive remuneration. As a result of the crisis, the company took up support under various government schemes. The company also announced a 30% cut to its workforce. On the capital allocation front, the company decided to withdraw its dividend for 2020 and sought shareholder approval for a rights issue of €2.75 billion at its 2020 AGM in order to strengthen its balance sheet. The remuneration report for the financial year to 31 December 2019 was also submitted to a shareholder vote.</p> <p>LGIM were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO noting that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year end to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders). Over the past few years, LGIM have been closely engaging with the company, including on the topic of the succession of the CEO and the board chair, who were long-tenured. This engagement took place privately in meetings with the board chair and the senior independent director. This eventually led to a success, as the appointment of a new CEO to replace the long-standing CEO was announced in January 2020. A new board chair: an independent non-executive director, was also recently appointed by the board. He will be starting his new role in January 2021.</p> <p>LGIM considers this vote significant as it illustrates the importance for investors of monitoring our investee companies' responses to the COVID crisis.</p> <p><b>Outcome:</b> Pass</p> <p><b>Implications:</b> LGIM will continue to engage closely with the renewed board.</p>

### Meetings with managers

In the preceding Scheme year, the Trustees had no meetings with the investment managers.

### Trustees' opinion

Based on the voting summaries set out above, the Trustees' opinion is that the Statement of Investment Principles has been followed during the year to 31 March 2021 in relation to voting and engagement.

The Trustees of the Rockwell-Collins (UK) Limited Pension Scheme

June 2021