Implementation Statement

NSK Pension Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 ("the Regulations"). The Regulations amongst other things require that pension scheme trustees produce an annual implementation statement which outlines the following (as appropriate):

- A summary of the changes made to the Statement of Investment Principles ("SIP") over the Scheme year;
- Evidence on how the Trustee has fulfilled the objectives and policies included in the SIP over the Scheme year;
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by Trustee or on its behalf) during the Scheme year and state any use of the services of a proxy voter during that year, if applicable.

This document sets out the details outlined above. This Implementation Statement for the NSK Pension Scheme (the "Scheme") has been prepared by the Trustee of the Scheme (the "Trustee") and covers the Scheme year 1 August 2020 to 31 July 2021.

Summary of changes to the SIP

The SIP was reviewed and revised in September 2020 to take account of further regulatory changes which required the Trustee to outline policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies on cost transparency, their policies on voting and stewardship, and how their policies align with that of the sponsoring employer in relation to sustainability.

The Trustee consulted with the Sponsor when making these changes and obtained written advice from Aon, the Trustee's investment adviser.

Meeting objectives and policies outlined in the SIP

The SIP outlines several of the Trustee's key objectives and policies. The objectives and policies applicable to the year ended 31 July 2021 are noted below together with an explanation of how these objectives have been met and policies adhered to over the course of the year.

The Trustee's primary objectives for the investment strategy for the DB assets as set out in the SIP are as follows:

- ***"funding objective" – to ensure that the Scheme is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Employer;***

The Scheme's 31 July 2017 actuarial valuation revealed a deficit at that date, on the agreed Technical Provisions basis, and the Trustee and Employer have agreed and put in place a recovery plan. Over the year to 31 July 2021, the Scheme's funding level, on the 31 July 2017 Technical Provisions basis, had increased from broadly 85% to 91%, while the deficit decreased by c. £40M following a material fall in the value of the Scheme's liabilities. The material fall in liabilities was due to long term interest rates rising over the period.

The Scheme's 31 July 2020 actuarial valuation is currently underway.

This objective is not relevant to the DC assets.

- ***"stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy;***

There are currently employer contributions being paid to the DB Scheme. These contributions have been set in such a way that when combined with the returns expected from the investment strategy, the funding deficit is expected to be eliminated by the end of the recovery plan. By adopting a low risk investment strategy, the probability of achieving the required returns and meeting the funding target on time is increased. The level of Employer contributions will be reviewed as part of the 31 July 2020 actuarial valuation.

The Trustee has also agreed a formal cashflow management policy which outlines the cashflow management process and the Scheme's liquidity requirements, taking into account the expected level of employer contributions and investment income among a number of factors affecting the Scheme's cashflow position.

This objective is not relevant to the DC assets as no contributions are payable to the DC section.

Therefore, the Trustee is happy that this requirement has been met.

- ***"security objective" – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) improves. The Trustee will take into account the strength of the Employer's covenant when determining the required improvement in the solvency position of the Scheme.***

The solvency position of the Scheme, as measured by the solvency funding ratio, is expected to have substantially decreased over the year to 31 July 2021. This decrease was driven by investment outperformance as well as deficit reduction contributions from the Employer. Therefore, the Trustee is happy that this policy has been met over the Scheme year.

This objective is not relevant to the DC assets as members' DC assets are invested in pooled funds and are allocated to specific members and so are not impacted by the Employer's financial position

The Trustee's objectives for the Trustee Transfer Plan members (defined contribution (DC) members) is to make available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerance of the Scheme's members. The Trustee aims to provide investment options that allow members:

- To maximise the value of their DC assets at retirement
- To maintain the purchasing power of their DC savings in real (i.e. post-inflation) terms; and
- To provide protection for accumulated assets in the years approaching retirement against sudden (downward) volatility in the capital value and fluctuations in the cost of securing an income and /or cash in retirement.

The Trustee has provided members, over the course of the year, with a range of investment choices. For members who do not wish to manage their funds lifestyle strategies are available which gradually moves members from higher risk, growth seeking assets to lower risk assets as they approach retirement. The Trustee reviews the performance of the Clerical Medical funds annually which includes both short and long-term fund performance. This review did not raise concern over the adequacy of the investment strategy to meet the Trustee's objectives stated above.

The Trustee is comfortable that it has met this objective over the year.

Other policies set out in the SIP

In addition to the above investment objectives, the Trustee has a number of policies set out in the SIP. Below, the Trustee has explained how these have been met or have highlighted where these have not been met.

- The day to day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority.

All the investment managers appointed by the Trustee are authorised and regulated by the Financial Conduct Authority. Therefore, this policy has been met.

- ***The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustee takes advice on the continued appropriateness of the existing investment strategy. 'As a minimum the asset allocation is reviewed once every three years.'***

In December 2020, following a review of the Scheme's asset allocation, the Trustee took professional advice regarding the appointment of Aegon and Schroders to manage the Scheme's Asset Backed Security mandate. Investment monitoring takes place on a quarterly basis with a monitoring report being provided to the Trustee by its investment advisers, Aon Solutions UK Limited. The reports monitor performance of the Scheme against benchmark and target and highlight any areas for action or concern.

The Trustee expects to formally review the Scheme's investment strategy once the 31 July 2020 actuarial valuation has been finalised. This policy is not applicable to the DC assets.

The Trustees who were in place over the year to 31 July 2021 undertook training on various topics and completed units of the Pensions Regulator's toolkit, an online resource which trains trustees on various topics, including investment. Given this and the advice provided by their advisers, the Trustee considers itself well placed to effectively make appropriate decisions regarding the investments of the Scheme.

For the DC assets there are a number of risks considered by the Trustee;

- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in the retirement outcomes compared with the members' expectations. As explained above the Trustee offers a number of lifestyling approaches that aim to reduce volatility in the approach to retirement that members can select from.
- The risk that the chosen investment manager underperforms the benchmark against which the manager is assessed. The Trustee recognises that the use of an active manager involves such a risk and for this reason offers both active and passive investment options for members.
- The risk that the absolute return on investments, and hence the value of the retirement income, may be diminished by inflation. To help mitigate this risk, a range of funds is offered, including growth funds which aim to provide real growth (in excess of inflation) over the long term.
- The risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced.

The Trustee recognises that members take the investment risk. This is the risk of their funds falling in value. The Trustee manages this risk through the selection and monitoring of investment performance and the choice of funds offered to members. To help DC members manage this risk, the Trustee ensures that a number of funds covering different types of investments and with differing investment levels of investment risks are available for members to choose from. All fund factsheets detail the level of investment risk that applies to a particular fund to help members make an investment decision. The funds available on the Clerical Medical platform are reviewed annually. For the other arrangements, the funds are reviewed every three years.

The Trustee has demonstrated that this policy has been met.

- ***Risks associated with changes in the Employer covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy) and also by reviewing the Employer's annual report and accounts.***

The Trustee keeps up to date with any changes to the Employer covenant and has been in contact with the Employer more frequently since the outbreak of COVID-19. The Trustee also reviews the Employer's annual report and accounts, noting any material developments that could impact the Scheme and consulting the Company where appropriate. The Trustee also considers the risk-based element of the covenant each year as part of its PPF levy calculation.

This policy is not relevant to the DC assets.

Therefore, the Trustee is happy that the risks associated by the Employer covenant has been assessed in line with the policy set out in the SIP.

- ***The Trustee monitors the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by its professional advisers.***

The Trustee receives quarterly monitoring reports for the DB assets from its investment managers which provides information regarding the performance of all funds used against the performance objective. The Trustee considers the performance of these funds with its investment adviser, Aon.

This can be further demonstrated as in 2021, the Trustee undertook a manager selection exercise for the Scheme's Asset Backed Security mandate. The Trustee, with the assistance of Aon, the Scheme's investment advisor, prepared a shortlist of possible managers and Funds based on the Scheme's requirements and a variety of other criteria, including Aon's fund ratings. Both Aegon and Schroders were invited to present their respective funds at the 18 December 2020 Trustee meeting. The Trustee assessed the risks associated with both Aegon and Schroders before investing and were advised on any necessary action by Aon.

For the DC assets, the Trustee reviews the performance of the Clerical Medical funds on an annual basis with their investment advisers. The performance of the funds is considered against the relevant benchmarks. Where funds are not performing in line with their benchmarks, the Trustee considers whether any action is required such as closing a fund, further monitoring of a fund or writing to members to highlight concerns. In addition to the Clerical Medical funds, the Trustee has assets invested in a number of legacy funds. The performance of these legacy DC assets is reviewed less often and typically on a triennial basis, with the next review taking place in December 2021. Some of the assets are invested in funds that have valuable underlying guarantees which makes it difficult to consolidate the number of managers used. This is something that the Trustee will continue to review.

The Trustee is happy that the policy has been met for the DB assets. For the DC assets the performance is reviewed less regularly due to the size of the DC assets held. The Trustee has taken a proportionate approach to monitoring the DC assets and will consider whether it is appropriate to increase the frequency of the review of these funds from time to time.

- ***For due diligence purposes, the Trustee aims to meet quarterly and to meet the investment managers as appropriate.***

During the year, the Trustee met on a quarterly basis. At the 25 September 2020 Trustee meeting, LGIM were invited to provide the Trustee with an update on their respective funds. This included updates on recent performance, portfolio structure and their outlook going forward.

Therefore, the Trustee is happy that this requirement has been met.

- ***As regards the review and selection of its investment managers, the Trustee takes expert advice from its advisers.***

As best practice, and to meet regulatory requirements, the Trustee takes professional advice when reviewing the investment managers.

In December 2020, the Trustee took professional advice regarding the appointment of Aegon and Schroders to manage the Scheme's Asset Backed Security mandate. Following this advice, the assets from the Aviva REaLM and Insight Bonds Plus sales were transferred to the Schroders Securitised Credit and Aegon European ABS Funds over multiple trade dates on 15 and 16 July 2021 respectively.

Therefore, the Trustee is happy that this requirement has been met. There have been no new DC asset managers appointed so this policy does not apply to the DC assets for this Scheme year.

- ***Assets held to cover the Scheme's technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.***

  The main investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable on a technical provisions basis under the Trust Deed and Rules as they fall due. The Trustee sets the investment strategy, taking into account considerations such as the strength of the Employer covenant, the long-term liabilities and the funding agreed with the Employer.

The Trustee has set the Scheme's level of protection against changes in interest rates and inflation expectations at 90% of technical provisions liabilities.

This policy is not relevant to the DC assets as these are maintained separately to the DB assets that are held to cover the Scheme's technical provisions. There are a small number of DC members that have a DB underpin via an entitlement to a Guaranteed Minimum Pension. However, the liability for this small number of members is immaterial to the DB liabilities as a whole and as such these DC members are able to choose how to invest their DC funds within the fund range offered.

Therefore, the Trustee is happy that this policy has been met over the Scheme year.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

The DB and DC assets are predominantly invested in regulated markets. The funds are spread over a number of managers and different asset types to provide diversification.

As such, the Trustee is comfortable that this policy has been met.

- ***Investment in derivatives within pooled funds is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.***

The DB assets have derivative exposure in the following Funds:

- JPMorgan Multi-Sector Credit
- Aegon European ABS
- Schroders Securitised Credit
- LGIM Buy & Maintain
- LGIM LDI

In each of the above cases, this is to avoid excessive risk exposure in each fund.

This policy is not relevant to the DC assets as they are not invested in derivatives.

Therefore, the Trustee is happy that this policy has been met over the Scheme year.

- ***The Trustee recognises that there is a risk in holding assets that cannot be easily realised should the need arise.***

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

On 30 July 2021, Aon presented the Trustee with an updated formal cashflow policy document outline the cashflow management process of the Scheme. This included information on both of the Scheme's 'new' managers, Aegon and Schroders.

The DC assets are held in daily priced funds, meaning that these are readily realisable. The exception to this has been that a period of suspension applied on the Clerical Medical Property Fund and the Prudential UK Property Fund. The suspension was applied as the ongoing COVID-19 pandemic made it difficult to accurately value properties held by the fund. During the period of suspension, funds can only be paid out in certain circumstances, such as at retirement or on death. The suspension of the Clerical Medical Property Fund was lifted on 28 September 2020. Prudential took the decision to close the Prudential UK Property Fund in June 2021 due to concern over the large number of withdrawal requests from the underlying fund, the M&G PP UK Property fund, creating pressures to sell properties to fund those withdrawals. These pressures were likely to affect the property funds' performance over the next five years and meant that the suspension on the property fund would not be able to be lifted for some time. Despite the suspension of the property funds, which were outside of the Trustee's control, the Trustee is happy that this policy has been met.

- **The Trustee's policy on Social, Environmental or Ethical Considerations** - This section specifically considers the Trustee's policy on Social, Environmental or Ethical Considerations. This policy applies from September 2019 as prior to this date the Trustee did not have a policy in place on these issues set out in the SIP.

'In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.'

The current DB strategy primarily aims to seek the best return that is consistent with a prudent and appropriate level of risk. The Trustee has previously undertaken responsible investment training to better understand the environmental, social and governance factors and the impact on the value of the investments. Responsibility for ongoing due diligence on each manager's regard to ESG risks has also been delegated to Aon and is included as part of its manager monitoring service through Aon's ESG ratings.

In December 2020, the Trustee took professional advice regarding the appointment of Aegon and Schroders to manage the Scheme's Asset Backed Security mandate. When assessing both Aegon and Schroders, how each manager integrated ESG factors into its investment philosophy and processes was considered. For example, Schroders informed the Trustee that ESG factors complemented the assessment of the quality of the collateral and the sustainability of the cashflows.

The current DC investment strategy does not consider these factors, other than the fact that the managers use their engagement and voting policies to seek to influence companies on these issues. This is as the size of the DC assets is immaterial.

The Trustee will continue to monitor its engagement in this area over 2021/2022.

- **Stewardship – Voting and Engagement**– Prior to the changes made in September 2019, the SIP explained the Trustee did not have a policy relating to the exercise of rights (including voting rights). As explained earlier in this Statement this was addressed in the SIP changes made which set out the steps that the Trustee expected the managers to take around exercising rights and reporting on these. This policy is considered in more detail in the Engagement Policy Implementation section of this Statement.
- **Members' Views and Non-Financial Factors** – in 2019, the Trustee developed the following policy on the extent to which it considers members' views and non-financial factors:

> ***'the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").***

The Trustee has complied with this policy.

Cost Transparency - The SIP states that ***'The Trustee is aware of the importance of monitoring its investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee collects annual cost transparency reports covering all of its investments.'***

For the DB assets, the Trustee collated the costs and charges associated with the fund's the Scheme invested with for the year to 30 June 2020. These costs were the presented to the Trustee at the February 2021 Trustee meeting. This provided the Trustee with a better understanding of the types and level of costs the Scheme was paying for each Fund respectively.

For the DC assets, the Trustee collects the costs and charges that members pay for the funds available on an annual basis. These include transaction costs (these are costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio). These costs are shown in the Chair's Statement as earlier referred to in this Statement.

The SIP states that for the DC assets '***No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects their advisers to highlight if these costs and charges appear unreasonable. The Trustee assesses the (net of all costs) performance of the investment manager against each fund's investment objective.'*** Over the reporting year, the Trustee's value for members assessment demonstrated that the costs associated with the funds remain reasonable for the benefits members receive through their membership of the Scheme. The investment reporting received showed the net performance of the funds against the fund benchmark/objective. As such the Trustee is comfortable that this policy has been met.

Arrangements with Investment Managers

For the DC assets, the Trustee has a number of legacy arrangements. Due to the immaterial size of the DC assets, the Trustee has limited engagement with the investment managers, and it is not felt necessary to share the Trustee's investment policies with the DC arrangement providers. However, the Trustee does monitor the net performance of the funds. The suitability of the managers is considered annually for Clerical Medical and triennially for the other managers, taking into account legacy guarantees that apply to certain managers' funds.

Effective Decision Making – The SIP states that ***'The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.***

The Trustee board is made up of five Trustee Directors with varying skill sets and have varying backgrounds including investment and administration expertise.

The Trustee has a training policy to ensure that the Trustee Directors have the required level of knowledge and understanding to be able to make investment decisions. The Trustee Directors have completed modules in the Pension Regulator's Trustee toolkit (an online training and assessment programme designed by the Pension Regulator for Trustees of pension schemes) and have successfully gained the PMI award in Pension Trusteeship certificate. The Trustee is comfortable that this policy has been met over the year. For more information around how the Trustee has met its requirement to have an adequate level of knowledge and understanding, members can download a copy of the Chair's Statement, available at

https://www.nskeurope.com/content/dam/nskcmsr/downloads/literature_corporate/CO_UK_NSK_Pension_Scheme.pdf

Ongoing Monitoring

Investment monitoring for the DB assets takes place on a quarterly basis with monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Engagement Activity – Fixed Income Funds

The Trustee and its advisers have gathered information from the various investment managers to consider the ongoing suitability of their stewardship activity. Given the large number of investment managers and funds that the Trustee invests in, this statement discloses stewardship information only in relation to the following most material funds.

The Scheme's liability driven investment mandate has exposure to UK government bonds and cash equivalent securities. It has been excluded from this review due to the limited materiality of stewardship to these asset classes. The Scheme's additional voluntary contributions "(AVC") assets are considered separately.

For those funds where engagement is most relevant, the Trustee recognises that as debt financing is continuous, there is a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Additionally, downside risk mitigation and credit quality is a critical part of investment decision-making.

Whilst voting rights are not typically applicable to fixed income mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt.

The Scheme's assets are primarily invested in fixed income funds. While in some instances, certain issuances within these funds can allow votable rights to be exercised, this is not material within the wider context of the Scheme and that the investment managers have defined firm level voting policies which would apply to these. On this basis, voting is not considered relevant to the Scheme and is not detailed in the following sections.

The following example demonstrates the engagement activity being carried out on behalf of the Scheme over the year for the Scheme's most material funds.

Manager	Fund Name
Legal & General Investment Management ("LGIM")	Buy and Maintain Credit (Segregated) Portfolio
JPMorgan Asset Management ("JPM")	Multi Sector Credit Strategy
Insight Investment Management ("Insight")	Bond Plus Fund
Aegon Asset Management ("Aegon")	European ABS
Schroder Investment Management ("Schroder")	Enhanced Securitized LIBOR

LGIM Buy and Maintain Credit (Segregated Portfolio)

Engagement Policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues
2. Formulate the engagement strategy
3. Enhancing the power of engagement
4. Public Policy and collaborative engagement
5. Voting
6. Reporting to stakeholders on activity

The manager takes an active role in stewardship and considers it their duty to be accountable to its clients' assets and ensure it upholds the highest corporate governance standards and identify ESG risks and opportunities. They monitor a number of areas and conduct engagement on various issues. LGIM's top five engagement topics/ESG issues are climate change, remuneration, diversity, board composition and strategy.

All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. The Corporate Governance team meets with the Active Equity and Fixed Income team on a bi-weekly basis to share information gained from analysis and engagement activity. This is a forum for raising and discussing particular investment and ESG concerns, insights and updates.

LGIM's engagement (and voting, where applicable) activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy here:

https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Engagement Example

A firm level example of ongoing LGIM engagement with investee companies over the year was with Proctor and Gamble (P&G). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

A resolution was proposed by Green Century, that P&G should report on efforts to eliminate deforestation (that was voted on in October 2020). LGIM engaged with P&G, the resolution proponent Green Century, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Following continued engagements, LGIM decided to support this resolution (on behalf of clients invested in funds where voting on this resolution was applicable) as although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, the manager considered it to not be doing as much as it could. LGIM has asked P&G to respond to the CDP (formerly Carbon Disclosure Project) Forests Disclosure and continue to engage on the topic and encourage other companies to ensure a greater proportion of their pulp and wood resources are from Forest Stewardship Council certified sources.

JPM Multi Sector Credit Strategy

Engagement Policy

JPM believe that regular engagement with investee companies is vital to their active heritage. They engage with companies through regular and ad-hoc meetings. JPM adopted an integrated approach to stewardship involving active participation between the Investment and Stewardship groups, with shared meetings and collaboration on engagement topics.

In their engagement with the companies JPM invest in, the manager has five main investment stewardship priorities that they believe are most applicable:

1. Governance
2. Strategy alignment with the long-term
3. Human capital management
4. Stakeholder engagement
5. Climate risk

Over the twelve months to 30 June 2021, the manager recorded 500 meetings globally with 402 portfolio companies. Of those meetings, 427 were specifically focussed on governance issues, 110 on environmental issues and 166 on social issues; with engagements with 96 companies focussed on more than one issue.

For more information on JPM voting and engagement activities please see:

https://am.jpmorgan.com/gb/en/asset-management/liq/about-us/investment-stewardship/

Engagement Examples

JPM engaged at a strategy level with Berkshire Hathaway in relation to their energy assets on a number of ESG factors. Two of the company's largest utilities generate more than 30% of their electricity from coal. JPM has met with the company 3-4 times per year to discuss changes in Californian regulation, the possibility of issuing green-bonds to fund investment in environmentally friendly power generation, and to assess compliance with the Paris Climate Agreements. The company later came to market with a $850m green-bond issue where proceeds were earmarked for solar power projects by Topaz Solar, owned by MidAmerican Energy (a Berkshire Hathaway subsidiary). The manager continues to monitor the company's developments in this area.

JPM provided a strategy level engagement example with Volkswagen, where environmental and governance factors influenced their investment decision. In September 2015, the US Environmental Protection Agency issued a "notice of violation" to the large German automaker, accusing the company of violating the US emission rules by intentionally installing software in diesel powered cars which would act differently under emissions tests than in a real-world driving environment. Over the following years, the manager met and actively engaged with company management multiple times. Conversations focused on the investigation and related governance concerns and associated reputational risk, in addition to the wider direction of strategy within the business. These conversations also focused on communicating that a change in company culture is required to encourage accurate disclosure of data, advance ESG standards and develop investment in electric vehicles.

In September 2020, the company took the step of issuing green-bonds for the first time in order to help fund its electric vehicle investments. The manager continues to monitor the company in relation to these themes.

Insight Bond Plus Fund

Engagement Policy

Insight state within its responsible investment policy that they engage as a bondholder with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. Insight approach engagement conscious of wider factors such as portfolio positioning, materiality of issuance and company access.

A key element of stewardship at Insight is proactive engagement with companies to ensure accurate analysis and to influence them to improve their practices. This engagement with issuers is a key part of Insight's credit analysis and monitoring, which complements Insight's approach to responsible investment. One of the key inputs into the ESG analysis is the direct information which Insight receive from companies via engagements that take place with them.

As a global investment manager, Insight believe that it must take a proactive role in ensuring the long-term sustainability of the markets, and fixed income in particular. Long-term initiatives include:

- Active engagement with other industry members to ensure our clients' rights and considerations are fully represented;
- Development of new sources of repo liquidity (a repurchase agreement, "repo", which is a form of short-term secured borrowing)- a key issue for pension funds seeking to manage risk efficiently and effectively;
- Challenging the pressure on derivatives users, including pension funds; and
- Supporting the transition to a low carbon economy by investing in over 40 green bond issuances, and encouraging banks to consider green bond issuance, and through its Advisory Council role with the Green and Social Bond Principles.

Insight is supporting the Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Insight produced a detailed annual report on responsible investment covering examples of their collaboration, engagement and ESG integration. More information can be found here:

https://www.insightinvestment.com/globalassets/documents/responsible-investment/responsible-investment-reports/uk-responsible-horizons-report-2020.pdf

Engagement Example

At a fund level, Insight undertook an engagement with Boeing concerning product quality and safety issues surrounding the 737MAX in Q4 2020. This follows a tragic accident involving which a new Boeing 737MAX in October 2018. Insight provided feedback that it is difficult to assess any improvement to the companies processes without disclosure on the internal product quality and safety metrics, which would demonstrate the changes Boeing have articulated. Insight state they will continue to monitor progress and engage again within 12-18 months following the appointment of a Chief Sustainability Officer.

Aegon European ABS

Engagement Policy

For Aegon, ESG analysis forms a critical aspect of its risk mitigation analysis. This is at the originator and country of domicile levels, where each level is scored between one (best) and five (worst), with a weighted average taken to form their overall ESG score for the ABS bond.

Aegon's engagement efforts can be categorised according to three buckets; policy-based, thematic and product support. The reasons it starts these engagements include seeking to:

- Improve performance and promote companies' long-term financial performance;
- Monitor, manage and mitigate investment risk;
- Better understand companies and set expectations on company management;
- Set goals and timeframes to meet, in order to reach compliance with our policies;
- Improve ESG disclosure;
- Maximise positive sustainability outcomes, including those related to the SDGs (UN Sustainable Development Goals, which address global issues such as poverty, healthcare access and sustainability challenges);
- Encourage the issuance of green, social and sustainable bonds for the purpose of investment participation and growing sustainable business practices.

Aegon was able to provide examples of the engagement policy being implemented during the reporting period.

Schroders Enhanced Securitized LIBOR

Engagement Policy

Schroders engage and vote on any issue affecting the long-term sustainable value of a company in which it is invested. The manager's engagement activities combine the perspectives of their portfolio managers, financial analysts and ESG specialists in order to form a rounded opinion of each company and the issues it faces. Intervention will generally begin with a process of enhancing understanding of the company and helping the company to understand its position.

Engagements primarily arise with the aim:

1. To seek improvement in performance and processes in order to enhance and protect the value of their investment.
2. To monitor developments in ESG practices, business strategy and financial performance within a company.
3. To enhance analysis of a company's risks and opportunities.

Their mechanism for engagement varies but typically involves one-to-one meetings with company representatives or focussed ESG engagements undertaken by the manager's ESG specialists using written correspondence, phone conversations and collective engagement with other investors.

With respect to credit, Schroders engage at a firm level with banks in relation to their fossil fuel financing. Schroder's credit team, along with a number on equity teams, selected around 50 banks in Europe, North America and Asia for detailed analysis and engagement. Following each engagement, Schroders highlighted three to four objectives they would like the bank to work on over 2021 and beyond.

Examples of these engagements include:

- Development of a commitment to align the banks financing activities with the goals of the Paris Agreement, plus related milestones and targets;
- Reviewing and strengthening the bank's fossil fuel policies in line with the latest science and/or good practice; and
- Development of the Task Force on Climate Related Financial Disclosures ("TCFD")/climate risk reporting, including disclosure of additional climate metrics.

For banks that have already made progress in the areas, their discussions have focused on the robustness and evolution of their measurement and target-setting methodologies, in relation to the bank's commitment to align its financing activities with the Paris Agreement. Schroders have said it is still too early to assess the impact of their discussions, however they have had good response from banks so far. Out of the 50 banks contacted over the last 6 months, they have met with 25 by the end of June 2021.

AVCs and DC assets

The performance of Clerical Medical is reviewed annually and for the other legacy AVC arrangements these are reviewed triennially. Given the relatively small proportion of assets invested and that the arrangements are closed to new entrants and contributions, the Trustee does not disclose the stewardship activity of AVC managers in this report in further detail.

Over the year, the Defined Contribution and AVC assets were managed by BlackRock, Prudential, Utmost, Janus Henderson, Clerical Medical, Phoenix Life and LGIM. These funds are mostly in respect of AVC arrangements and in total comprise less than 1% of the overall assets of the Scheme. The voting and engagement information for these funds has been excluded from this statement on the grounds of materiality.

Summary

Overall, the Trustee is of the opinion the stewardship carried out on behalf of the Scheme is appropriate and in line with policies and objectives set out in its SIP. The Trustee notes examples of the willingness and ability of its managers to take proactive engagement with management where appropriate.

The Trustee acknowledges that stewardship may be less applicable to certain asset classes and management styles, but still expects to see responsible investment policies and processes formalised and developed over time from the investment managers linked to the Scheme.

The Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

This Implementation Statement has been approved by the Trustee of the NSK Pension Scheme.

Contact Details

If you have any questions or wish any additional information in relation to this statement, please contact Graham Burgess, Secretary to the Trustee.

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