

YEAR ENDED 31 DECEMBER 2021

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## **Implementation Statement Piramal Healthcare UK Pension Fund (DB Section)**

### Requirements for the Engagement Policy Implementation Statement (“EPIS”)

New regulations that apply from 1 October 2020 have set out the following requirements for trustees of defined benefit pension schemes regarding the production of an EPIS. Trustees must produce a statement which:

- Sets out the extent to which the Statement of Investment Principles (“SIP”) has been followed during the year, any changes or reviews carried out in relation to the SIP and explain the reasons.
- Explains how and the extent to which they have followed their engagement policy.
- Describe the voting behaviour by, or on behalf of the trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.
- Trustees must publish their EPIS online and in the annual Trustee Report and Accounts. The EPIS has been prepared by the Trustee and covers the Fund year 1st January 2021 to 31st December 2021.

### Data

We have gathered information from your asset managers to support the production of this document. Due to varying stewardship reporting styles, the information is not in an exactly consistent manner. Over time we expect industry wide templates to be more widely adopted and more consistent information received from respective managers. We are working with the managers to improve the data they provide, but we believe it is reasonable to use the information in this document for the purpose of this year's EPIS.

This statement does not disclose stewardship information on the Liability Driven Investment (LDI) portfolio nor the Sterling Liquidity Fund due to the limited materiality of stewardship to the investments within those asset classes.

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This document sets out the actions undertaken by the Trustee, Defined Benefit ('DB') service providers and DB investment managers, to implement the stewardship policy set out in the Statement of Investment Principles. The document includes voting and engagement information that has been gathered from the asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

This is the DB engagement policy implementation statement the Trustee has prepared and covers the year ended 31 December 2021.

### **Executive Summary**

Based on the activity over the year by the Trustee and its DB investment managers, the Trustee is of the opinion that its policies have been implemented effectively in practice. The Trustee notes that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Fund through considered voting and engagement.

### **SIP Review**

The SIP was updated in May 2021 to incorporate the dissolution of the Investment Sub-Committee, and in August 2021 to update the ranges in relation to the asset allocation whilst de-risking activity took place. The de-risking transition was still ongoing at year end, therefore the target weights had not been updated to reflect the new strategy.

### **How the Trustee has met policies set out in the SIP**

The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee identified a number of risks which have the potential to cause a deterioration in the Fund's funding level and therefore contribute to funding risk. The Trustee's policy is to monitor these risks periodically. These are as follows:

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### Overriding principle

### Actions taken by the Trustee

The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk").

The Trustee and its advisers considered this mismatching risk when setting the investment strategy and monitors the LDI portfolio (which hedged 100% of interest rate and inflation risk as a proportion of assets over 2021) on an ongoing basis.

The risk of a shortfall of liquid assets relative to the Fund's immediate liabilities ("cash flow risk").

The Trustee and its advisers have received regular updates from the administration team regarding the Fund's cashflow position and whether a disinvestment from the Fund's assets will be required to meet upcoming cashflow requirements. This is well managed, taking into account the timing of future payments in order to minimise the probability that this risk occurs.

The failure by the asset managers to achieve the rate of investment return assumed by the Trustee ("manager risk").

This risk is considered by the Trustee and its advisers both upon the initial appointment of the asset managers and on an ongoing basis thereafter. The Trustee receives quarterly reporting on each of the Fund's managers performance and on any relevant updates.

The failure to spread investment risk ("risk of lack of diversification").

The Trustee and its advisers considered this risk when setting the Fund's investment strategy. The Trustee has appointed two multi-manager funds, with discretion to the overriding investment managers to make decisions relating to the fund structure. These allocations assist in providing diversification from investing in a number of underlying managers and asset classes.

The possibility of failure of the Fund's sponsoring employers ("covenant risk").

The Trustee and its advisers considered this risk when setting investment strategy and has consulted with the sponsoring employer as to the suitability of the proposed strategy.

The risk of fraud, poor advice or acts of negligence ("operational risk").

The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received. The Trustee has provided the Fund's investment advisor with a set of objectives as per the relevant CMA order, some of which assess the quality of advice and operational performance of the advisor.

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 Fund's asset allocation, when selecting managers and when monitoring their performance.

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The Trustee also regularly monitors the Fund's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies, including those on non-financial matters.

Over 2021, the Fund's investment managers completed a Responsible Investment ("RI") questionnaire, with the purpose being to better understand each managers RI policies, and how the Trustee views are taken into account in relation to RI and Environmental, Social and Governance ("ESG") factors.

In September 2021, the Trustee reviewed the responses from the Fund's managers to the survey, which were in line with expectations. The Trustee discussed the final responses to the survey once all the responses had been completed.

The Trustee has set a long-term asset allocation strategy chosen to meet the objectives set out in the SIP. This can be seen below:

Asset Class	Target Weighting %	Range %
<b>Return seeking assets</b>	<b>30.0</b>	<b>25.0 – 40.0</b>
Multi-strategy Growth Fund	30.0	25.0– 40.0
<b>Income producing assets</b>	<b>15.0</b>	<b>10.0 – 25.0</b>
Direct Lending	15.0	10.0 – 25.0
<b>Risk reducing assets</b>	<b>55.0</b>	<b>35.0 – 65.0</b>
Low Risk Bond Fund	20.0	10.0 – 25.0
LDI	35.0	20.0 – 50.0
<b>Income producing assets</b>	<b>15.0</b>	<b>10.0 – 25.0</b>
Direct Lending	15.0	10.0 – 25.0
<b>Risk reducing assets</b>	<b>55.0</b>	<b>35.0 – 65.0</b>
Low Risk Bond Fund	20.0	10.0 – 25.0
LDI	35.0	20.0 – 50.0

As at 31 December 2021, the weightings for the Multi-strategy Growth Fund allocation was out of its strategic range, with the cash allocation at year-end overweight relative to target. This was due to a de-risking of the investment strategy being implemented towards the end of 2021. The Trustee intends to update the SIP to incorporate these changes once the implementation has been finalised.

The Fund has committed a set amount of capital to the Direct Lending allocation, however these monies are not invested with the respective manager until suitable investment opportunities are available. As a result, the amount invested in these funds will change as monies are invested and once investments are realised and monies are returned. The Trustee expects the Direct Lending allocation to decrease in the medium to long term as this investment begins to distribute cash as the investment period comes to an end.

The distributions are used to meet cashflow requirements from the Fund and hence the investment has to date had no negative impact on the Fund's ability to meet cashflow requirements, neither is it expected in the future. The Trustee monitors the availability of liquid assets and asset allocation on a quarterly basis.

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## Implementation Statement Piramal Healthcare UK Pension Fund (DB Section)

### Fund Stewardship Policy Summary

The extract below is the Fund's stewardship policy (found within the SIP) applicable over the majority of the reporting year. The SIP and stewardship policy have since been updated in August 2021 and the latest version can be found here:

<https://www.piramalpharmasolutions.com/storage/app/uploads/public/61e/126/7d3/61e1267d31ac7955291570.pdf>

As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Fund's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

### Fund stewardship activity over the year

The wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee reviews the suitability of the Fund's investment managers and other considerations relating to voting and methods to achieve their stewardship policy.

### Ongoing Monitoring

The Trustee received quarterly investment reports from its investment advisor, Aon. The reports outlined the valuation of all investments held, monitored the performance of these investments and recorded any transactions encountered during each period under review. Investment returns were compared with appropriate performance objectives and monitored the relative performance of these investments. The asset allocation was also monitored and compared to the strategic asset allocation for each section. The Trustee also appoints Barnett Waddingham as a third-party evaluator to provide an independent view of the multi-manager allocations (Towers Watson Investment Management ("TWIM") and Aon Investments Limited ("AIL")). An annual meeting is held to discuss the ongoing suitability of these mandates. The Trustee discusses stewardship activity, as well as other ESG and non-financial matters, with their asset managers when the opportunity arises via quarterly meetings. The Trustee aims to meet with their asset managers at least once every two years but will engage more frequently if required.

### Discussions with the sponsor to align applicable ESG objectives

The views of the sponsor, where applicable, have been aligned to the Fund's ESG objectives. For example, this includes manager appointments and changes to the SIP.

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## Implementation Statement Piramal Healthcare UK Pension Fund (DB Section)

### Voting and Engagement –Towers Watson Investment Management (TWIM)

Over the year the Fund was invested in a multi-asset fund, the Partners Fund managed by Towers Watson Investment Management. TWIM states it only selects partners with strong sustainability and ESG credentials. Longer-term sustainable performance can only be delivered where providers can show its adding demonstrable value to stakeholders and society more widely and show a commitment to continue to develop and improve practices over time. This is a vital consideration for TWIM in assessing potential managers, and each manager within the Partners Fund has been assessed for its sustainability activities and credentials as an integral part of the TWIM overall manager research process.

#### Engagement example – UK Real Assets underlying manager

As a fiduciary manager, TWIM engaged with one of its underlying managers, a UK real assets manager, after identifying a lack of reporting and articulation around ESG issues and diversity of the senior team. TWIM believed that the way the underlying manager was articulating its approach to different stakeholders through the lens of traditional ESG was lacking. Much of the reporting and policies that market leading ESG firms provide were not available. As part of TWIM's detailed annual questionnaire process, TWIM identified several areas where the manager could improve and provided feedback.

The underlying manager's gender diversity in its business leading positions has been historically poor. Senior leadership of the organisation has been almost exclusively dominated by men over time.

Over the period, the underlying managers has now worked on these elements by delivering strong market facing outputs with respect to sustainability and ESG and by hiring a lead to carry out these efforts. The manager states it will continue to work towards delivering better reporting in this area and next year will be able to provide carbon usage data for all assets across its fund range. The senior team has also evolved to be more diverse, with senior female hires being made for the roles of Chief Operating Officer and Chief Financial Officer.

TWIM will continue to monitor the underlying manager on its progress over the next year.

#### Voting statistics

The table below shows the voting statistics for TWIM's Partner's Fund over the year to the 31st December 2021.

Number of resolutions eligible to vote on over the period	6,436
% of resolutions voted on for which the fund was eligible	99.6%
Of the resolutions on which the fund voted, % that were voted against management	7.9%
Of the resolutions on which the fund voted, % that were abstained from	1.2%

#### Voting policy

As the Partners Fund is a multi-asset fund, voting rights are reflected differently in each segment of the portfolio. In equities, voting rights are virtually all essentially exercised via the underlying managers, namely the Towers Watson Global Equity Focus Fund ("GEFF") and the emerging markets managers.

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In GEFF, voting rights for its holdings are delegated to the underlying managers which are expected to exercise the voting rights at all times. Furthermore, TWIM has engaged with Hermes EOS, a best-in-class stewardship services provider to provide voting recommendations to enhance engagement and achieve responsible ownership. Where they choose to vote differently to the Hermes EOS recommendations, the underlying managers' rationale must be noted and if required, can be discussed further with Hermes EOS. The underlying managers hold the ultimate voting authority.

### Voting example – Amazon Inc

TWIM has detailed a fund level significant voting example in relation to Amazon Inc. In May 2021, TWIM voted for a resolution to ask the investee company to report on the impacts of plastic packaging, on the grounds of promoting transparency around environmental issues. TWIM considers the vote to be significant as it considers ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth.

Whilst the resolution has been rejected, TWIM states its intention to continue to consider proposals whether from management or shareholders which enhance transparency around environmental issues.

### Engagement

TWIM partners with Hermes EOS for the Towers Watson Global Equity Focus Fund, in which the Towers Watson Partners Fund is invested. TWIM receives regular reports on its activities and engagements, and has a seat on its client advisory board, bearing the ability to encourage action. TWIM also sits on numerous investor advisory boards across many of its private market holdings.

Where managers are falling behind best practice or demonstrate weakness, TWIM engages with the manager to improve and influence the manager's actions. The manager has 12 months to enact changes and failure to show improved processes will trigger a review of TWIM's preferred rating and immediate removal from TWIM's line-up.

### Engagement example – Sonic Healthcare

Sonic Healthcare is an Australian company that provides laboratory, radiology and pathology services in eight countries.

During the second quarter of the year this underlying manager engaged with Sonic Healthcare over allegations made against one of its UK operations, The Doctors Laboratory ("TDL"). This related to wrongful dismissal and whether couriers had been provided with adequate personal protective equipment ("PPE") whilst making collections/deliveries during Covid-19. The dialogue also covered the working contracts given to its employees. TDL has offered all its couriers a full employment contract with full employee status and at rates that are at the top quartile of those achieved in the UK market. The company has always been able to recruit new couriers and has low attrition rates as a consequence.

The underlying manager was reassured that adequate PPE had been provided. The company provided in writing assurances that the Director of Health and Safety continually monitor all regulation and guidelines on Covid-19.

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### Engagement – Aon Investments Limited (AIL)

The Trustee has invested in a low-risk bonds portfolio, managed by Aon Investments Limited (“AIL”). AIL selects the underlying investment managers to manage the investments on behalf of the Trustee, and the Trustee therefore expect AIL to demonstrate their approach to asset stewardship transparently and proactively. The Trustee has reviewed the AIL Annual Stewardship Report and believes this evidences that AIL is using its resources to effectively influence positive outcomes in the strategies in which it invests.

Over the Fund year, the Trustee notes that AIL have undertaken a considerable amount of engagement activity. AIL held several Environmental, Social and Governance (“ESG”) focussed meetings during the reporting year with fixed income managers in which the Fund is invested. At these meetings, AIL discussed ESG integration and engagement activities undertaken by the investment managers, allowing AIL to form opinions on each managers’ relative strengths and areas for improvement. AIL have provided feedback to managers following these meetings with the goal of continuing to lift the standard of ESG integration across portfolios. AIL continue to focus on their ESG integration approach and engagement with managers in 2022 and beyond.

Aon Solutions UK Limited (“Aon”) also actively engage with investment managers and this is used to support AIL in its fiduciary services. Aon launched its Engagement Programme (“EP”) in early 2020, a cross asset class initiative which brings together members of Aon’s manager research team and responsible investment specialists to help promote manager engagement with the needs of the Fund’s investments in mind.

In Q3 2021, Aon was confirmed as a signatory to the UK Stewardship Code. With one-third of applicants failing to reach signatory status, this achievement confirms the strength and relevance of stewardship activity undertaken on behalf of the Trustee by Aon (both ASUKL and AIL entities). For further details, please see the submission report here.

#### Engagement example – Fixed Income Manager

In September 2021, Aon’s EP engaged with an underlying manager to understand why the manager’s submission for the UK Stewardship Code 2020 was not accepted. The UK Stewardship Code is audited by the Financial Reporting Council (“FRC”), which sets the stewardship standards for UK pension schemes. The underlying manager was previously a signatory to the 2012 UK Stewardship Code. At the EP meeting, the feedback from the FRC was discussed, and it was understood that the rejection was due to the format of the Stewardship Report submission rather than the substance. Aon shared the feedback it had heard from other asset managers as to why they had also failed, and suggested areas to focus attention on, such as the disclosures of outcome focussed evidence. The manager stated its intention to resubmit in October 2021 and to be re-audited with the results to be released in March 2022. In March 2022, the manager was approved as a signatory to the UK Stewardship Code.

### Voting and Engagement Activity – Underlying Investment Managers

Over the year, the Fund was invested in a number of fixed income funds through its investment in AIL. This section provides an overview of the activities of some of the most material underlying managers.

Aegon believes that actively engaging with companies to improve ESG performance and corporate behaviour is generally more effective than excluding companies from its investment universe. Aegon’s preference is for its engagements with portfolio companies to remain private to encourage a more open discussion. Engagement dialogues are conducted by investment managers, research analysts and its responsible Investment team. When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment (“PRI”). Aegon also seeks to strengthen its investor voice in engagement by actively participating in collaborative engagement platforms such as the UK Investor Forum, and Institutional Investors Group on Climate Change.

Aegon engages ABS issuers regularly through ESG questionnaires specific for consumer loan ABS. It then follows up with meetings to discuss the answers, companies ESG goals and areas where Aegon would like to see improvement.

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#### Engagement Example – Collateralized Loan Obligations (“CLO”)

In 2021 Aegon Asset Management engaged with Brignole (Italian Consumer ABS) regarding climate change. The objective of this engagement was to create and improve ESG awareness among ABS issuers. The focus of the engagement was to get more insight in to the loan purpose of the consumer loans that were originated by the company, so that it would be able to assess whether the loans would have an impact from an environmental angle (i.e., green purposes like the financing of solar panels). Furthermore, Aegon suggested that the company increases its origination volumes of loans with a green purpose by offering the borrowers a discount if the loan purpose has an environmental impact.

The portfolio managers conducted the engagement via sending the ABS issuers its ESG questionnaire specific to consumer loan ABS. After receiving the answers, it had several meetings with senior executives to discuss the answers to the questionnaire, its ESG goals and areas in which it would like to see improvement/development or more ESG awareness.

As an outcome of this engagement, the result was twofold:

1. The company gave Aegon more insight into the loan purposes, which benefited its ability to make a thorough ESG analysis.
2. The company embraced its recommendation to issue loans with a green loan purpose for which the borrowers receive a 50bps discount in the interest rate.

Aegon stated that it will pursue similar engagements with other consumer loan originators.

### **Insight Investment (“Insight”) - Short Dated Buy and Maintain Fund**

#### Engagement policy

Insight proactively engages on industry and regulatory issues that have implications for its clients and the wider market. Insight's credit analysts regularly meet with issuers to discuss ESG related issues. Insight's engagements inform the credit analysts' views of companies and provide a platform for increased transparency on ESG issues and ongoing engagement to change company behaviour, where appropriate.

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The credit analysts identify the engagement issues relevant for each issuer. If Insight does not already have regular meetings with a company's management, its investment teams will request a meeting with them. Where this is not possible, or if Insight deems additional action to be needed, Insight may consider raising issues with the company's broker. If Insight does not receive a response from the issuer when it engages with it then Insight will lead a wider collaborative initiative, via the PRI or with other investors, to achieve greater influence over the issuer. It is also involved in long-term initiatives such as Climate Action 100+ ("CA100+").

### Engagement Example – Exxon

In Q2 2021, Insight engaged with Exxon. Exxon has an Insight Climate Risk Rating of 5 out of 5 (1 being the best possible, 5 being the worst possible) due to its very high emissions (leading to >5°C alignment). Their overall ESG rating is 4 with scores of 3 for environmental, 4 for social and 4 for governance issues. Insight engaged with Exxon on their limited efforts to mitigate their impact on biodiversity and the limited evidence provided to show they are trying to reduce their carbon emissions.

Insight also expressed concerns about the lack of independent directors on the board who were also experts in energy. Exxon have committed to reducing greenhouse gas ("GHG") emissions by 30% for the upstream business, however, this accounts for less than half of the total emissions. In addition, they are making no renewable energy investments. Instead, they are focused on Global Thermostat technology, removing carbon dioxide directly from the atmosphere, which is yet to provide conclusive and scalable results. The lack of engagement response from the issuer and poor climate scores has led Insight to selling its exposure to Exxon across its Buy and Maintain portfolios.

## Engagement – Hayfin Direct Lending Funds

The Fund is invested in Hayfin's Private Direct Lending Fund II and Private Direct Lending Fund III.

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that private credit investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers is to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making.

### Engagement policy

Hayfin is an active member of several collaborative initiatives. In addition to being a signatory to the United Nations ("UN") PRI since 2018 and a supporter of the Task Force on Climate-Related Financial Disclosures ("TCFD") since 2021, Hayfin has, over the last 12 months, engaged with other investors and stakeholders to drive change on specific issues where it recognises that collaboration is more effective to drive that change. Some of the issues Hayfin has focused on include the lack of ESG data available to lenders and the evolution towards carbon neutrality, specifically for the maritime industry.

### Engagement example

Over the period, Hayfin partnered with an institutional investor, Caisse de dépôt et placement du Québec ("CDPQ"), with the aim of carrying out long-term sustainable investing with a focus on businesses that are regarded as being net positive for the environment, that benefit society and use technology as a key factor to drive change. The first investment made by the CDPQ partnership was in a financial services company, FNZ.

FNZ distinguishes itself in the market through a strong commitment to sustainability, providing retail investors, advisers and wealth managers with a range of individually tailored sustainability analytics through a tool called FNZ Impact.

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FNZ Impact offers retail investors detailed information on the sustainability of their investment portfolios (previously only available to institutional investors) thereby empowering retail investors to contribute to tackling sustainability challenges by deciding how they would like their portfolios to be invested.

### **In summary**

Over the year, various regular monitoring processes as well as ad hoc engagement carried out has demonstrated the Trustee has effectively implemented the stewardship policy in practice.

From the information reviewed, the Trustee is of the opinion that the appointed fiduciary managers have demonstrated a willingness and ability to engage appropriately. However, there is a need for more transparency from Hayfin on specific examples of engagement and this is an area the Trustee will continue to monitor moving forward to ensure that all the managers are implementing voting and engagement activity in a manner consistent with the Trustee's policy and expectations.