# Continental Teves UK Employee Benefits Scheme ('the Scheme')

## Annual Implementation Statement for the Year Ended 31 December 2022

## 1. Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ("SIP") for the DB Section and DC Section (the "DB SIP" and "DC SIP", respectively) produced by the Trustees has been followed during the year running from 1 January 2022 to 31 December 2022 (the "**Scheme Year**"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the DB SIP and DC SIP that were in place for the Scheme Year, which were dated September 2020. The DB SIP and DC SIP were reviewed following the Scheme Year-End, to reflect the strategic changes made in the Scheme, as outlined in this Statement, where appropriate.

Section 2.1 of this statement sets out the investment objectives of the Scheme. No changes have been made to the DB SIP and DC SIP during the Scheme Year.

Section 2.2 of this statement sets out how, and the extent to which, the policies in the DB SIP and DC SIP have been followed. **The Trustees can confirm that all policies in the DB SIP and DC SIP have been followed in the Scheme Year.**

A copy of the SIP is available at https://www.continentaltevesukltd.co.uk.

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers within each Section of the Scheme.

## 2. Statement of Investment Principles

### 2.1. Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the objectives they have set.

DB

The objectives for the DB Section of the Scheme specified in the DB SIP are as follows:

- To achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.
- To maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

DC

For the DC Section of the Scheme, the Trustees' objective is to provide members with an investment strategy aligned to the needs of their members that will produce an acceptable level of return on investments in order to build up a savings pot which will be used in retirement.

### 2.2. Assessment of how the policies in the DB SIP and DC SIP have been followed for the Scheme Year

The information provided in this section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the DB SIP and DC SIP, dated September 2020, relating to the DB Section and DC Section of the Scheme.

**In summary, it is the Trustees' view that the policies in the DB SIP and DC SIP have been followed during the Scheme Year.**

# Investment Mandates

## Securing compliance with the legal requirements about choosing investments

**Policy**

As required by legislation, the Trustees consult a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant. The policy is detailed in Section 3 of the DB SIP and Section 1 of the DC SIP.

DB **How has this policy been met over the Scheme Year?**

Over H2 2022, the Trustees agreed to de-risk the Scheme's investment strategy which included terminating the Diversified Growth Funds managed by Nordea and Schroders Investment Management Limited, a full redemption of the Managed Property Fund managed by Legal and General Investment Management Limited ("LGIM") and reducing the Scheme's investment in the Columbia Threadneedle Multi Asset Fund. The disinvestment proceeds were invested in cash and government bond funds managed by LGIM, as part of the restructuring of the Stabilising Portfolio to broadly match the characteristics of the Scheme's liabilities. The Trustees received suitability advice prior to the investment in the LGIM funds.

DC **How has this policy been met over the Scheme Year?**

No new investments were made over the year to 31 December 2022.

## Realisation of Investments

**Policy**

The Trustees' policy is that the Scheme's assets should offer sufficient liquidity to meet ongoing cashflow requirements, so that realisation of assets will not disrupt the Scheme's overall investment policy and objectives.

DB **Policy**

Further details are set out in Section 5 and Appendix 2 of the DB SIP.

**How has this policy been met over the Scheme Year?**

Over the year, the Scheme held a diversified portfolio consisting mostly of readily-realisable assets.

Income is distributed from the Scheme's assets, where appropriate, on a monthly basis and is paid into the Trustee bank account. This is then used to meet cashflow requirements of the Scheme.

The Scheme is invested in daily-dealt funds, which the Trustees are confident provide sufficient liquidity to meet ongoing cashflow requirements.

DC **Policy**

Further details are set out in Section 3 and Section 6 of the DC SIP.

**How has this policy met over the Scheme Year?**

Members' investments within the DC Section are traded and priced on a daily basis. As part of the annual Value for Members assessment, the promptness and accuracy of core financial transactions (such as receipt of contributions, settlement of transfer values and payment to scheme beneficiaries) represented as good value for members.

# Monitoring the Investment Managers

## Incentivising asset managers to align their investment strategies and decisions with the Trustees' policies

**Policy**

The Trustees' policy is set out in Section 6 of the DB SIP and Section 7 of the DC SIP.

DB **How has this policy been met over the Scheme Year?**

As the Trustees invest in pooled investment funds, they accept that they cannot specify the risk profile and return targets for these funds. However, appropriate funds have been selected to align with the investment strategy.

DC **How has this policy been met over the Scheme Year?**

As the Trustees invest in exclusively pooled investment funds, they accept that they cannot specify the risk profile and return targets for these funds.

## Evaluation of the asset manager's performance and the remuneration for asset management services

**Policy**

The Trustees' policy is set out in Section 6 of the DB SIP and Section 7 of the DC SIP.

DB **How has this policy been met over the Scheme Year?**

Over the year to 31 December 2022, the Trustees received an annual investment performance report, which included both one-year and longer-term performance metrics for all of the Scheme's investment mandates at both an asset class and investment manager level. The Scheme's assets performed negatively over the one-year and longer-term periods due to the market environment over 2022. There was no concern over this given the asset movements had been more than offset by the reduction in the value of the Scheme liabilities, hence an improvement in the overall funding position. This resulted in the implementation of the de-risked investment strategy, as mentioned above.

DC **How has this policy been met over the Scheme Year?**

Over the year to 31 December 2022, the Trustees receive updates to the fund performance against their benchmarks over both quarter and longer-term periods at each Trustee meeting. Performance is also considered as part of the annual Value for Members assessment, which concluded the Scheme's net performance represented good value for members.

The charges paid to LGIM for their services were analysed as part of the annual Value for Members assessment for the DC Section, which was conducted by the Scheme's Investment Consultant. The Investment Consultant determined that the funds available to members were competitively priced.

# Monitoring the Investment Managers

## Monitoring portfolio turnover costs

**Policy**

The Trustees' policy is set out in Section 6 of the DB SIP and Section 7 of the DC SIP.

DB **How has this policy been met over the Scheme Year?**

As noted in the SIP, the Trustees do not explicitly monitor portfolio turnover costs with respect to the DB Section of the Scheme. Investment manager performance was reported gross of fees and net of turnover costs.

DC **How has this policy been met over the Scheme Year?**

Transaction costs are disclosed in the annual Chair's Statement and Value for Member Assessment. The transaction costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager.

## The duration of the arrangement with the asset manager

**Policy**

The Trustees are a long-term investor and do not seek to change the investment arrangements on a frequent basis. The Trustees' policy is set out in Section 6 of the DB SIP and Section 7 of the DC SIP.

DB **How has this policy been met over the Scheme Year?**

The aforementioned changes to the Scheme's investment strategy were made following the significant improvement in the Scheme's funding level and a desire by the Trustees to reduce overall portfolio risk by reducing the allocation to growth assets. The Trustees, after taking advice from Mercer, agreed that the proceeds of the disinvestments from Nordea, Schroders and Threadneedle would be invested as part of the restructuring of the Scheme's bond assets to better protect the Scheme's funding position against the impact of movements in interest rates and inflation.

DC **How has this policy been met over the Scheme Year?**

Over the year to 31 December 2022, there was no strategic changes to the Scheme's investment and the Trustees remained comfortable with the arrangements held with LGIM.

# Environmental, Social and Governance ("ESG")

## Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

**Policy**

The Scheme's SIP outlines the Trustees' beliefs on ESG factors (including climate change). Further details are included in Section 4 of the DB SIP and Section 5 of the DC SIP. The Trustees keep their policies under regular review.

**How has this policy been met over the Scheme Year?**

DB DC

The Trustees review the ESG rating provided by Mercer as part of the Scheme's regular monthly valuation reporting. ESG ratings are also monitored as part of the annual Value for Member Assessment in respect of the DC Section.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments.

The Trustees do not require the Scheme's investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

In April 2023, after the Scheme Year-End, the Trustees received training from Mercer on the DWP's new regulations regarding the requirement for pension scheme trustees to agree upon a definition of "most significant votes" and provide the necessary voting disclosures within the annual Implementation Statement. The Trustees' agreed definition is outlined in the section on "most significant votes" below.

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# Voting and Engagement Disclosures

**The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments** (including the methods by which, and the circumstances under which, the Trustees would monitor and engage with relevant persons about relevant matters).

**Policy**

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the investment managers. Further details are set out in Section 4 of the DB SIP and Section 5 of the DC SIP.

**How has this policy been met over the Scheme Year?**

DB DC

The Trustees have delegated the decision on how to exercise voting rights to their investment managers under the terms of the investment arrangements with the managers. The Trustees expect the investment managers to exercise these rights in accordance with their respective published corporate governance policies. These policies, which are provided to the Trustees from time to time, take into account the financial interests of shareholders and should be for the Scheme's benefit.

The Trustees are supportive of the UK Stewardship Code published by the Financial Reporting Council and encourages the Scheme's underlying manager who is regulated by the Financial Conduct Authority to comply with the UK Stewardship Code.

The Trustees expect the Scheme's investment manager to use their influence as major institutional investors to pursue the Trustees' rights and duties as an investor in the pooled fund including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good governance, accountability, and positive change.

Where the Trustees are specifically invited to vote on a matter relating to corporate policy, the Trustees (having sought advice) will exercise its right in accordance with what it believes to be the best interests of the majority of the Scheme's membership.

The Trustees monitor the performance, strategy, risks, ESG policies and corporate governance of the investment managers.

Section 3 sets out some examples of engagement activity undertaken by the Scheme's investment managers over the period and section 4 sets out a summary of voting activity and the most 'significant votes' (as defined by the Trustees) which were cast on behalf of the Trustees by these investment managers.

# Strategic Asset Allocation

## Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

DB **Policy**

The Trustees' policy on the kinds of investments to be held and the balance between different kinds of investments can be found under Section 4 of the DB SIP.

**How has this policy been met over the Scheme Year?**

During 2022, the Trustees agreed to restructure the assets within the DB Section to better match the Scheme's liability profile. This was implemented in order to reduce the interest rate and inflation risks.

The Trustees regard the basic distribution and balance of the assets to be appropriate for the Scheme's objectives and liability profile.

DC **Policy**

The Trustees' policy on the kind of investments to be held and the balance between different kinds of investments can be found under Section 3 of the DC SIP.

**How has this policy been met over the Scheme Year?**

The default investment strategy is designed after careful analysis of the membership demographic and other characteristics in order to offer a suitable approach in so far as is practical, to meet the needs of the Scheme's members. The Trustees, with the help of their Investment Consultant, carry out regular assessments of the performance of the default investment strategy and its design to ensure it continues to remain appropriate for the membership.

The Trustees recognise that the default investment strategy will not meet the needs of all members and as such, alternative investment options are available for members to choose from a range of self-select funds.

The strategic asset allocation of the default lifestyle option is reviewed on a triennial basis, with expected risk and return requirements being considered as part of the review. The next triennial review is expected to commence in H2 2023.

## DB DC Risks, including the ways in which risks are to be measured and managed

**Policy**

The Trustees recognise a number of risks involved in the investment of the assets of the DB Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Section 5 of the DB SIP and Section 6 of the DC SIP.

**How has this policy been met over the Scheme Year?**

The Trustees consider and manage these risks during the year as described in Section 5 of the DB SIP and Section 6 of the DC SIP. A risk register is maintained and regularly updated by the Trustees in order to monitor these risks.

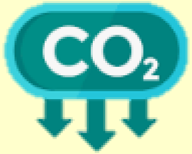
# 3. Examples of Engagement Activity by the Scheme's Investment Managers

## Threadneedle engages with Devon Energy Corporation on its approach to the energy transition

Devon Energy is a CA100+ company. While it seems to exhibit positive corporate governance, compensation and ESG performance, Columbia Threadneedle wanted the opportunity to discuss its approach to the energy transition. Devon Energy contacted Threadneedle to engage prior to its AGM, with Threadneedle subsequently holding a video conference attended by their stewardship team, the thematic Responsible Investment analyst covering energy topics, and a senior equity analyst. Personnel from the investor relations, sustainability and total rewards teams joined from the Devon Energy side.

Threadneedle believed that Devon exhibited strong ESG performance relative to US peers, but that the company lagged its European peers. In Threadneedle's opinion, the areas for improvement were clear, such as the adoption of a target relating to scope 3 emissions. In terms of the energy transition, low breakeven, short-cycle assets will be the most resilient under low carbon scenarios.

Devon exhibits positive corporate governance, with which Threadneedle had few concerns. It has developed a well-constructed compensation structure and Threadneedle will monitor its proxy statement for an increased portion of performance-based incentives in its long-term plan.




Threadneedle agreed to continue to monitor Devon Energy's updates to see whether it has joined the Oil & Gas Methane Partnership and will continue the conversation around Paris-aligned targets.

## LGIM engages with Glencore on decarbonisation

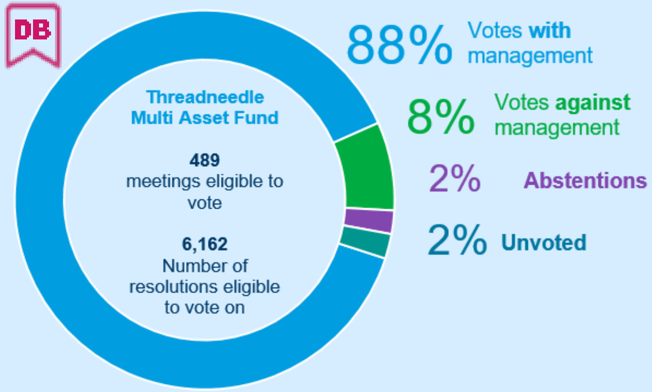
As one of the world's largest diversified mining companies, with strong exposure to metals needed to decarbonise the global economy, LGIM believes that Glencore has a key role to play in the energy transition. Nevertheless, the company's exposure to thermal coal is material and, given the need to rapidly phase out coal to meet the company's own 1.5°C target, LGIM have expressed their concerns about the lack of time-bound commitments to reduce or exit this business line entirely during a total of six engagements they have had with the company since 2020.

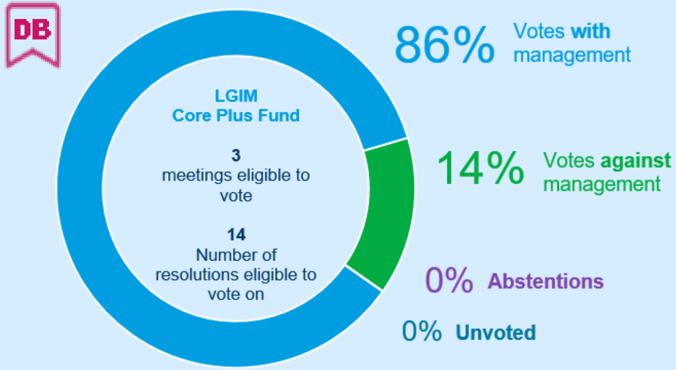
LGIM welcomed the company's commitment to prioritise investments in metals that support the energy transition and to strengthen its interim emissions reduction targets. But LGIM's concerns regarding Glencore's thermal coal exposure and future plans led them to vote against the company's climate transition plan at its 2022 AGM. Additionally, in line with LGIM's 'engagement with consequences' approach, they identified the company as a 'leading laggard' as part of their Climate Impact Pledge programme, and applied voting sanctions against the chair at the same AGM.

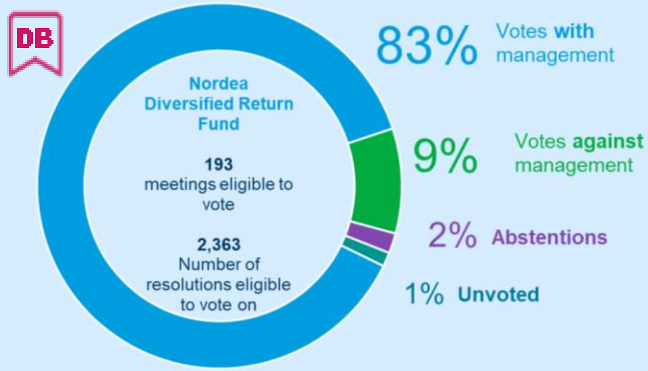
In 2022, LGIM pledged to increase pressure on companies that fail to put suitably ambitious and credible transition plans to a shareholder vote, by filing shareholder resolutions. In light of their ongoing concerns at Glencore, LGIM are putting their commitment into effect by co-filing a shareholder resolution at Glencore's 2023 AGM, requesting that the company disclose how its thermal coal production is aligned with the Paris Agreement objective of limiting the increase in global temperature to 1.5°C.

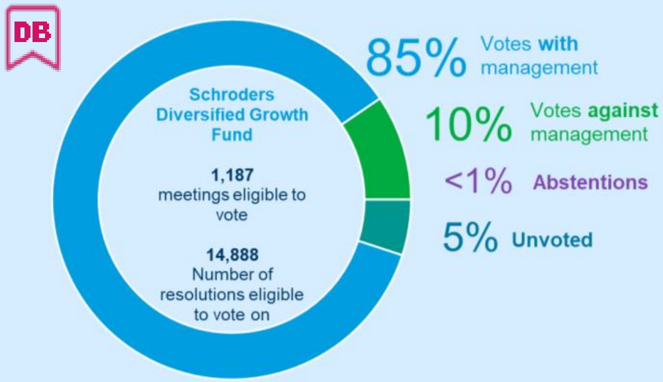
# 4. Voting Activity during the Scheme Year

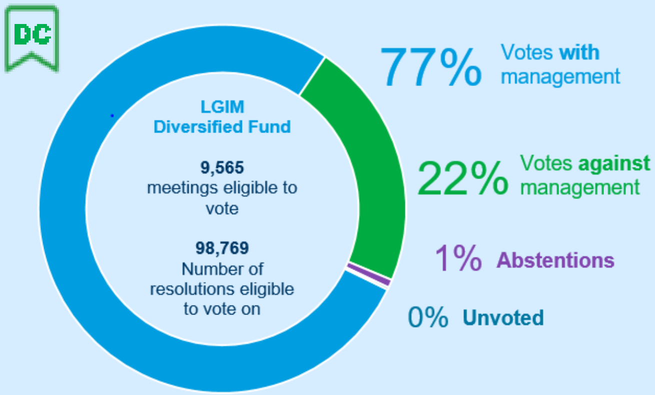
Set out below is a summary of voting activity for this reporting period relating to the relevant strategies in the DB and DC Sections of the Scheme. Funds where voting is not applicable (i.e. most non-equity funds) are not included in the list below.

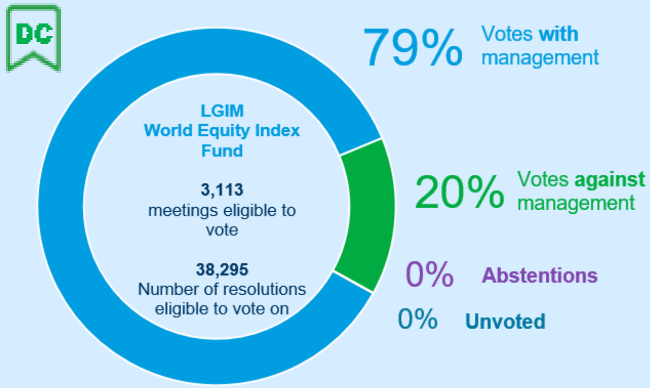



*Source: Investment managers.*

*The Scheme fully disinvested from the Nordea Diversified Return Fund and Schroders Diversified Growth Fund on 19 October 2022.*

## Most significant votes DB DC

A “Significant Vote” is defined as one that is related to the Plan’s beliefs and stewardship priorities, which refers to voting in relation to reduction in carbon emissions and board diversity and/or it is a significant proportion of the portfolio. The top 3 votes (by approximate size of holding) included below are those that the Trustee believe to be significant based on the Trustee’s beliefs and stewardship priorities.

✗ Resolution **not** passed ✓ Resolution passed

| Manager | Approximate Portion of Fund (%) | Fund | Company | Date of vote | How the Manager voted | Rationale of Manager vote | Final outcome following the vote | Why vote is significant |
|---|---|---|---|---|---|---|---|---|
| DB Threadneedle | 1.30% | Multi Asset Fund | Microsoft Corporation | 12 October 2022 | Threadneedle voted for the assessment and report on the Company's Retirement Funds' Management of Systemic Climate Risk | Threadneedle believes that climate change presents ongoing and serious risks to shareholder value. Additional information on the company's strategy and competitive positioning is merited | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DB Threadneedle | 1.24% | Multi Asset Fund | Alphabet Inc. | 1 June 2022 | Threadneedle voted for a report on the Physical Risks of Climate Change | | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DB Threadneedle | 0.76% | Multi Asset Fund | United Parcel Service Inc | 5 May 2022 | Threadneedle voted to report on corporate climate lobbying aligned with Paris Agreement | | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DB Nordea | 4.09% | Diversified Growth Fund | Alphabet Inc. | 1 June 2022 | Nordea voted for a report on the Physical Risks of Climate Change | Nordea’s vote for this proposal is warranted as they believe shareholders would benefit from increased disclosure regarding how the company is assessing and managing climate change risks. | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DB Nordea | 3.61% | Diversified Growth Fund | Microsoft Corporation | 12 October 2022 | Nordea voted for the assessment and report on the Company's Retirement Funds' Management of Systemic Climate Risk | Nordea’s vote for this resolution is warranted. While Microsoft may not be responsible for its employees' investment decisions, the information requested in the report would not only complement and enhance Microsoft's existing commitments regarding climate change, but also allow shareholders to better evaluate the company's strategies and management of related risks. | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |

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|---|---|---|---|---|---|---|---|---|
| DB Nordea | 1.27% | Diversified Growth Fund | Monster Beverage | 14 June 2022 | Nordea voted for the report on GHG emission reduction targets aligned with the Paris Agreement goal. | Nordea think that additional information on the company's efforts to reduce its carbon footprint and align its operations with Paris Agreement goals would allow investors to better understand how the company is managing its transition to a low carbon economy and climate change related risks. | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DB Schroders | 0.50%* | Diversified Growth Fund | Alphabet Inc. | 1 June 2022 | Schroders voted against electing Director John L. Hennessy. | Less than 33% of the board are female directors. | ✓ | The Trustee has deemed votes related to board diversity to be a significant vote. |
| DB Schroders | 0.50%* | Diversified Growth Fund | Alphabet Inc. | 1 June 2022 | Schroders voted for a report on the Physical Risks of Climate Change | The company is asked to report on the physical risks of climate change. Schroders feel that shareholders would benefit from increased disclosure regarding how the company is assessing and managing its climate change risks. | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DB Schroders | 0.30%* | Diversified Growth Fund | Royal Dutch Shell Plc | 24 May 2022 | Schroders voted for the request for Shell to set and publish targets for Greenhouse Gas (GHG) Emissions | Schroders believe that the proposal is aligned to their net-zero ambitions, in particular by addressing scope 3 as fully as they believe is necessary. | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DC LGIM | 0.35% | Diversified Fund | NextEra Energy, Inc. | 19 May 2022 | LGIM voted against electing Director Rudy E. Schupp | LGIM expects a company to have at least 30% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. | ✓ | The Trustee has deemed votes related to board diversity to be a significant vote. |
| DC LGIM | 0.27% | Diversified Fund | American Tower Corporation | 18 May 2022 | LGIM voted against electing Director Robert D. Hormats | A vote against is applied as the company has an all-male Executive Committee. | ✓ | The Trustee has deemed votes related to board diversity to be a significant vote. |
| DC LGIM | 0.28% | Diversified Fund | Royal Dutch Shell Plc | 24 May 2022 | LGIM voted against the approval of the Shell Energy Transition Progress Update | Despite substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway, LGIM remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses. | ✓ | The Trustee has deemed votes related to climate change to be a significant vote. |

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|---|---|---|---|---|---|---|---|---|
| DC LGIM | 1.18% | World Equity Index Fund | Alphabet Inc. | 1 June 2022 | LGIM voted for the Report on Physical Risks of Climate Change | A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. | ✗ | The Trustee has deemed votes related to climate change to be a significant vote. |
| DC LGIM | 0.77% | World Equity Index Fund | NVIDIA Corporation | 2 June 2022 | LGIM voted against electing Harvey C. Jones as Director | LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023 | ✓ | The Trustee has deemed votes related to board diversity to be a significant vote. |
| DC LGIM | 0.61% | World Equity Index Fund | Exxon Mobil Corporation | 25 May 2022 | LGIM voted for setting GHG Emissions Reduction targets consistent with the goals of the Paris Agreement | A vote for is applied in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5 C goal. | ✗ | The Trustee has deemed votes related to board diversity to be a significant vote. |

*Source: Investment managers.*

** Based on the approximate size of holding as at 31 May 2022 (data available at closest date to vote held provided by Schroders).*