Whitbread Group Pension Fund – DB Section

Annual Implementation Statement – Fund year ending 31 March 2023

August 2023

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1. Introduction

This document is the Annual Implementation Statement ("the Statement") prepared by the Trustee of the Whitbread Group Pension Fund ("the Fund") covering the Fund year ("the Year") to 31 March 2023.

The purpose of this statement is to:

- Detail any reviews of the SIP that the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review.
- Set out the extent to which, in the opinion of the Trustee, the Scheme's Statement of Investment Principles ("SIP") required under section 35 of the Pensions Act 1995 has been followed during the scheme year, including policies on engagement and voting.

The Fund makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact. The Trustee confirms that the investments which the Fund holds were chosen in line with the requirements of S36 of the Pensions Act 1995.

A copy of this implementation statement has been made available on the following website: https://www.whitbreadpensions.com

2. Review of, and changes to the SIP

The SIP was reviewed and updated twice in the year. The versions in place were dated:

1. November 2021
2. June 2022
3. October 2022

The SIP was updated as at June 2022 to account for any bulk annuity insurance policies ("buy-ins") that the Fund may enter, the first of which was completed in June 2022. Furthermore, the SIP was also updated to note that the Fund reached full funding on its Secondary Funding Target in April 2022, and the Trustee agreed (in consultation with the Fund's sponsor) to proceed with de-risking the portfolio to the target return of Gilts+0.75% p.a.

The SIP was then updated as at October 2022 so that the wording around the buy-in (completed in June 2022) was more retrospective looking. In addition, the terms of reference within the SIP was updated to include the FISC's responsibilities regarding the Taskforce for Climate Related Disclosures ("TCFD") requirements.

For the purpose of assessing how the Fund's SIP has been followed, the remainder of this statement specifically focusses on the SIP agreed in October 2022. All policies that were included in the previously agreed SIP (dated June 2022) remained in the October 2022 SIP.

3. Adherence to the SIP

The Trustee believes the SIP has been followed during the year. Specifically:

SIP Section 1: Introduction

These paragraphs provide relevant introductory and background comments rather than setting out any policies.

SIP Section 2: Governance

These paragraphs outline the Trustee's governance arrangements in relation to its investment policy and investments. In particular, the Trustee has established a Funding and Investment Committee (FISC) which is responsible for implementation of the Trustee's investment policy including manager selection. The FISC acts within Terms of Reference set out by the Trustee. The FISC works closely with the Fund's advisors in carrying out its duties, in particular the Fund's Investment Consultant, WTW.

SIP Section 3: Fund Objectives

The Trustee manages the Fund to a target return of Gilts+0.75% p.a. (inclusive of any buy-in assets).

In April 2022, the Fund reached full funding on its Statutory Funding Objective, and as per the latest Investment Strategy Deed agreed with the Sponsor, the target return was then reduced to Gilts+0.75% p.a. from the previous target return of Gilts+1.2% p.a. Throughout the year, a de-risking implementation process took place to reduce the Fund's return towards the target of Gilts+0.75% p.a. which involved full redemptions from the liquid return seeking assets. This de-risking process is currently on-going as it requires the sale of illiquid assets.

SIP Section 4: Investment Strategy

The Trustee has received advice on an investment strategy aimed at maximising the chances of achieving its objectives. As noted above, implementation of the Fund's investment strategy is delegated to the FISC. Over the course of the year, the FISC monitored the performance of the Fund relative to its objectives on a quarterly basis and reported up to the Trustee.

The Trustee believes in diversification and the Fund's portfolio over the year was built using a range of return-seeking assets and a dedicated allocation to liability driven investments which seek to match the sensitivity of the Fund's liabilities to inflation and interest rates, in line with the policies set out in the SIP. In order to de-risk as quickly as possible, the FISC agreed to redeem from all liquid return-seeking assets through the year balancing the benefits of a de-risked portfolio and increased liquidity with some loss of diversification which the FISC were ultimately comfortable with. The Fund introduced a buy-in, completed in June 2022, which covers a proportion of the Fund's liabilities.

The Trustee recognises that the expected return on the portfolio will change through time as forward-looking assumptions change and the Trustee does not frequently rebalance the portfolio in order to meet the expected return as this could lead to a high degree of portfolio turnover and associated costs. Given the return-seeking assets are now all illiquid, the FISC will have a reduced ability to rebalance frequently.

Together with its Investment Consultant, the FISC monitored the Fund's investments and managers on a regular basis throughout the year to ensure that the investment strategy remained consistent with the Fund's objectives. On a quarterly basis, the Trustee reviewed the Fund's asset allocation, funding position and measures of the expected return and risk of the Fund's portfolio to ensure that these remained broadly consistent with the Fund's objectives. The Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Fund whilst helping the Fund to achieve its ultimate objective over an appropriate time horizon.

As is common for pension schemes, the Trustee's investment strategy seeks to outperform a benchmark based on a projection of the Fund's liability cashflows. The liability benchmark is updated following each actuarial valuation, and when there is any significant change to the structure of the Fund's liabilities. The last proxy update took place in June 2022 following the completion of the buy-in, to exclude the buy-in and to more accurately match the movements in the Fund's remaining liabilities. There were no subsequent changes to the liability proxy between 24 June 2022 and 31 March 2023.

The Trustee seeks to hedge the interest rate and inflation sensitivities of the Fund's remaining liabilities to a target level of 100% of the Fund's assets (exclusive of the buy-in). The Trustee recognises that the hedge ratio will deviate from this target from time to time due to market movements. Recognising this, the Trustee has set rebalancing ranges such that should the hedge ratio deviate outside of these ranges, the FISC will consider the merits of bringing the hedge ratio back towards its target based on the circumstances at that time. Over the year at each quarter end, the Fund was within its target ranges for both inflation and interest rates and so no action was taken.

The Trustee has a policy to ensure that the Fund's cashflow requirements can be readily met without disrupting its investments. Throughout the year, the Pensions Team managed and monitored the Fund's cash position on a day-to-day basis and reported to the FISC on a quarterly basis.

SIP Section 5: Investment Managers

In accordance with industry regulation, the Trustee has delegated responsibility for the selection of individual investments to investment managers who are deemed to have the necessary skill and expertise to carry out this function. The Trustee maintains appropriate processes to ensure that the performance of investment managers is reviewed and assessed on a regular basis. The Trustee has delegated the detailed monitoring of the investment managers to its Investment Consultant.

Throughout the year, the Investment Consultant and Trustee regularly monitored the performance of the Fund's investment managers. Performance was monitored relative to an appropriate market benchmark where one was available or an appropriate return objective where a market benchmark was not available. In addition, the Investment Consultant assessed the performance of the Fund's investment managers relative to peers and in the context of the prevailing market environment. Throughout the year, the Investment Consultant and Trustee focussed their assessment of investment manager performance on the long-term, consistent with the Trustee's position as a long-term investor.

On a forward-looking basis, past performance is only one input into the Investment Consultant's assessment of an investment manager, which relies predominantly on research views based on a range of qualitative and quantitative factors, including the consideration of Sustainable Investment ("SI"), or Environment Social and Governance factors as outlined below. Whilst there were some changes to the underlying investment managers owing to illiquid funds selling their investments or winding up, no managers were terminated based on short-term performance alone. Consistent with the Fund's long investment time horizon, the Trustee seeks to be a long-term investor and has appointed investment managers with the expectation of a long-term relationship. This in turn allows investment managers to take a longer-term approach to investing, with a view to improving investment outcomes over the long term.

The Trustee received quarterly monitoring reports from its Investment Consultant. Performance shown in these reports is based on performance reporting provided by the Fund's Independent Performance Measurer, Northern Trust. These reports are included for scrutiny and discussion at the Trustee's quarterly meetings. The reports include details of short-, medium- and longer-term performance relative to benchmarks/targets for all funds (with the exception of illiquid assets which the Trustee receives a special report on annually) as well as commentary on an exceptions basis regarding performance with significant deviation from benchmark/target. In addition to using these reports to assess the performance of the Fund's investment managers, the Trustee also used these reports as an input into its ongoing assessment of the Investment Consultant's performance. Similar to the approach taken with the Fund's underlying investment managers, the Trustee appointed the Investment Consultant with the expectation of a long-term relationship and therefore takes a long-term approach to its assessment of the Investment Consultant's performance.

With the exception of the Fund's investment with Insight and the insurer selected for the first buy-in (Standard Life), the Fund's assets are invested in pooled funds managed by a number of different investment managers. When appointing an investment manager, the Trustee, in conjunction with the Investment Consultant, ensures that the investment objectives and policies of these pooled funds are consistent with the Trustee's objectives. The continued appropriateness of these pooled funds is also considered as part of the Investment Consultant's ongoing monitoring process. For the Fund's investments managed by Insight, the Trustee has set explicit guidelines for the investment manager in order to ensure alignment. The Standard Life policy is specifically designed to cover a defined set of liabilities.

Through the engagement activity undertaken by the Fund's Investment Consultant, the Trustee engages with managers to encourage alignment of their processes including sustainable investment / ESG. If, despite engagement by the Investment Consultant, the investment managers policies are not deemed to be sufficiently aligned, the Trustee may decide to terminate an investment manager based on the advice of the Investment Consultant. No investment managers were terminated for this reason during the year.

As part of its ongoing review processes, the Investment Consultant considers the level of fees and the type of fee structures used by each manager (including a consideration of the alignment of interests created by certain fee structures). The Investment Consultant considers a number of factors including the asset class / investment strategy, the way in which the strategy is implemented (e.g. active management or passive benchmark tracking), and fee benchmarking relative to peers. The majority of the Fund's investment managers were paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. The exceptions to this were in the areas of hedge funds, private markets, and secure income assets where part of the manager's remuneration was based on its performance over an appropriate time horizon. The Trustee and the Investment Consultant recognise the incentives and complexities created by such fee structures and their aggregate use within the total Fund portfolio is limited. The Trustee deems the level of fees appropriate based on the nature of the investments.

The Trustee has agreed a policy in relation to monitoring portfolio turnover and the costs associated with it. In practice, the Investment Consultant incorporates an assessment of these factors in its manager research and portfolio management processes on an ongoing basis and the Trustee is satisfied this was the case throughout the year. The Trustee has agreed to monitor such matters on a regular basis using reporting provided by the Investment Consultant and has deemed that annual monitoring is sufficient. During the year, the Trustee reviewed information provided by the Investment Consultant on the total fees and costs incurred by the Fund through its investments. As part of its review of the Fund's costs, the Trustee reviewed the costs associated with portfolio turnover, including a consideration of whether experienced turnover within investment strategies was consistent with the individual manager's expectations and within the Investment Consultant's expectations given its knowledge and understanding of the asset class and peers.

<u>SIP Section 6: Responsible investing, stewardship and sustainability</u>

Consistent with the Trustee's view that ESG factors can influence investment returns, particularly over the long-term, the Trustee seeks to be an active long-term shareholder. The Investment Consultant's processes for manager selection and de-selection (including recommendations to the Trustee), and ongoing manager monitoring explicitly and formally include an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Investment Consultant engages with investment managers to improve their processes.

The Investment Consultant produces detailed reports on the SI characteristics of the Fund's managers on an annual basis. These reports form part of the Trustee's ongoing portfolio monitoring. These were last reviewed in March 2022. The Trustee also received training from the Investment Consultant on the requirements for TCFD. Although the Trustee retains ultimate decision-making responsibility for all investment matters regarding climate-related risk and opportunities, the Trustee has delegated to the FISC the responsibility for carrying out tasks as appropriate under the four pillars of the TCFD requirements. This includes (but is not limited to) setting the overall approach for climate risk management, working with the Fund's Investment Consultant to agree reported metrics and targets, and monitoring the underlying managers' policies in relation to Sustainable Investment (including climate). As such, the Investment Consultant has delivered quarterly reports and training on these four pillars to the FISC, which includes climate scenario analysis of the Fund in addition to carbon footprint and alignment metrics. The FISC then reports to the Trustee following these meetings.

<u>Company level engagement and rights attached to investments (including voting):</u>

The day-to-day integration of ESG considerations and stewardship activities (including consideration of all relevant matters, voting and engagement) are delegated to the Fund's investment managers.

Through the engagement undertaken by the Investment Consultant, the Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The Investment Consultant considers the investment managers' policies and activities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis. The Investment Consultant engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the year.

Over the year, the Fund was invested across a diverse range of asset classes which carry different ownership rights, for example credit whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Fund's equity managers as here there is a right to vote as an ultimate owner of a stock. Responses received are provided in the tables below. Where managers provided multiple examples of "significant votes", the top three have been shown below. The Trustee has endeavoured to select "significant" votes which align with the Trustee's identified priorities for voting and engagement such as human and labour rights, and climate – where the data has allowed. The Fund's equity holdings were invested in one pooled fund for the vast majority of the year - the TWIM GEFF, a long-only equity fund, was terminated on 21 April 2022 and so we have kept our comments to the TWIM Hedge Advantage Fund (as we do not have data for that short, specific period for TWIM GEFF):

- Towers Watson Investment Management (TWIM) – Hedge Advantage Fund – a global, multi-strategy fund managed by a firm affiliated with the Investment Consultant which invests in a number of underlying hedge fund manager strategies

TWIM delegates voting rights and the execution of those rights to the underlying managers of the TWIM Hedge Advantage Fund for the securities they hold, where applicable.

Further information on the voting activities within the TWIM Hedge Advantage Fund (HAF) is provided in the table below. The voting data included is of the long-short equity managers within the HAF portfolio where equity holdings are a key part of their strategy. These managers make up approximately 22% of the total fund as at 31 March 2023. In addition, the subsequent section outlines some of the key industry and public policy engagement undertaken by the Investment Consultant.

TWIM Hedge Advantage Fund

<table>
<tr><td>Voting activity</td><td colspan="4">Number of votes eligible to cast: 1038
Percentage of eligible votes cast: 98%
Percentage of votes with management: 94.5%
Percentage of votes against management: 4.8%
Percentage of votes abstained from: 0.7%</td></tr>
<tr><td rowspan="4">Most significant votes cast</td><td>Company</td><td>Occidental Petroleum Corp</td><td>RWE</td><td>Royal Vopak</td></tr>
<tr><td>Size of holdings as a % of the fund</td><td>0.34%</td><td>0.67%</td><td>0.17%</td></tr>
<tr><td>Resolution</td><td>Report on Quantitative Short, Medium and Long-Term Greenhouse Gas (GHG) Emissions Reduction Target</td><td>Approve Binding Instruction to Prepare Spin-Off of RWE Power AG</td><td>Discharge or election of Directors</td></tr>
<tr><td>Outcome of decision /Vote</td><td>Pass</td><td>Fail</td><td>Pass</td></tr>
</table>

	Rationale for decision	Occidental has made significant progress on ESG targets in the last 12-24 months, being one of the few oil & gas companies in the US with a Scope 1/2/3 net zero target (2050 or earlier) via its Oxy Low Carbon Ventures business, where it is a global leader in Carbon Capture efforts.	If implemented, would put significant pressure on management and policy makers, which the manager does not believe would be helpful to reach the best outcome, given the current environment. The manager agrees on the valuation benefits of the spinoff, but in the manager's view, this option should be pushed by the government, as the contrary would expose the company to high political and financial risks. Additionally, the timing of the proposal is not good, given the significant concerns on security of supply in Germany, which make lignite strategic assets.	The manager noted the high dissidence level at last year's AGM on the remuneration report (20%+). No changes to remuneration policy since then with CEO being awarded 99% of maximum possible bonus despite significant share price underperformance.
	Rationale for classifying as significant	In line with Trustee policy on climate being an important topic	Voted against management	Voted against management
Use of proxy voting	Within the Towers Watson Hedge Advantage Fund, the voting rights for the holdings are delegated to the underlying managers. Some of these managers use proxy voting platforms to assist in the proxy voting process and to electronically vote clients' shares.			

Industry wide / public policy engagement:

As mentioned in the SIP, the Investment Consultant has partnered with EOS at Federated Hermes (EOS) for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Investment Consultant represents client policies/sentiment to EOS via the Client Advisory Council, of which its Head of Stewardship currently chairs. It applies EOS' services, from public policy engagement to corporate voting and engagement, to several of its funds. Some highlights from EOS' activities over 2022:

- Engaging with 1,138 companies on 4,250 issues and objectives
- Making voting recommendations on 134,188 resolutions at 13,814 meetings, including recommended votes against 24,461 resolutions
- 33 consultation responses or proactive equivalent and 75 discussions with relevant regulators and stakeholders
- Active participation in many collaborations including Climate Action 100+, Principles for Responsible Investment (PRI), and UN Guiding Principles Reporting Framework

The Investment Consultant is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Becoming a signatory to the 2020 UK Stewardship Code in the first wave; and subsequently retaining that status

- Co-founding the Net Zero Investment Consultants Initiative with eleven other investment consultants in 2021, with a commitment across its global Investment business
- Joining the Net Zero Asset Managers Initiative in 2021, committing 100% of its discretionary assets
- Being a signatory of the Principles for Responsible Investment (PRI) and active member of their Stewardship Advisory Committee
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC)
- Co-founding the Investment Consultants Sustainability Working Group
- Continuing to lead collaboration through the Thinking Ahead Institute and WTW Research Network.
- Being a founding member of The Diversity Project
- Being an official supporter of the Transition Pathway Initiative

Other matters

The Trustee has identified a number of risks which it seeks to manage and monitor, in conjunction with the Investment Consultant. Solvency and mismatch risk, investment manager risk, liquidity risk, and interest rate and inflation risks have been discussed above in the relevant sections on investment strategy and investment managers. The Investment Consultant reported to the Trustee on each of these risks in quarterly meeting papers which were discussed at the Trustee's quarterly meetings.

In addition to these risks, the Trustee also seeks to measure and manage:

- Insurer risk: the Trustee recognises that there is a risk of the insurer failing to fulfil its obligation of paying benefits to the members covered by any bulk annuity insurance policy. The Trustee manages this by conducting due diligence on bulk annuity providers prior to appointment. The risk is also mitigated by the existence of the Financial Services Compensation Scheme (FSCS) which will cover some level of benefits in the instance the insurer becomes insolvent.

- Custodial risk: the Fund is exposed to the risk that the custodian fails to provide safekeeping of the Fund's assets or is unable to settle trades on time. The Fund has appointed Thomas Murray to monitor the ability of the custodian to carry out its duties and report to the Trustee on an annual basis.

- Political risk: the Trustee recognises that the value of the Fund's assets may be impacted by political regimes and actions, particularly in less established/ more opaque markets. Throughout the year, the Fund's portfolio remained well diversified by geography. The Investment Consultant considers political risk and geographic diversification when making investment recommendations to the Trustee. The Trustee reviewed information provided by the Investment Consultant periodically on the portfolio implications of the Russia-Ukraine conflict.

- Sponsor risk: the Trustee monitors the performance of the Sponsor's business and wider environment through regular engagement with the Sponsor and through the use of a specialist covenant advisor, Penfida, where deemed appropriate. The Trustee and Sponsor have also agreed a number of funding arrangements which seek to protect the Fund in the event that the Sponsor's ability to support the Fund is impaired.