The Co-operative Pension Scheme (Pace) ("the Scheme") Implementation Statement

14 July 2021

Background

From 1 October 2020, and on an annual basis, the Trustee is required to publish an "Implementation Statement" online and in the Scheme's annual report and accounts. This is Pace's second Implementation Statement and covers the Scheme year from 6 April 2020 to 5 April 2021. It sets out:

- How the Statement of Investment Principles ("SIP") for each section of Pace has been followed over the year, along with details of any changes to the SIP;
- How the Trustee has implemented its policies on the exercise of voting rights attaching to its investments and engagement activities; and
- The voting behaviour of the Trustee, or that undertaken on its behalf, including the most significant votes cast.

The Trustee also publishes an annual governance statement from the Chair, which demonstrates how the DC Section of Pace has complied with broader governance requirements; this is also available online and in the report and accounts.

The Trustee's review of the SIP over the year

The Trustee maintains Statements of Investment Principles for the two sections of Pace (the Co-op Section and the Co-operative Bank Section), each of which set out the investment principles for both Defined Benefit (DB) and Defined Contribution (DC) benefits. The two SIPs are reviewed at least annually and following any significant changes in investment policy.

The Co-op Section SIP was reviewed in early 2020 and updated in April 2020 to reflect changes to the DB investment strategy agreed as part of the implementation of two pensioner buy-ins in February and March 2020, and again in August 2020 following a third bulk annuity transaction implemented in May 2020.

The Co-operative Bank Section SIP was also updated in August 2020 to reflect changes to the DB investment strategy agreed as part of the implementation of a pensioner buy-in implemented in April 2020.

The Trustee reviewed the SIP for both sections in September 2020 and updated them to reflect new legislative requirements requiring trustees to explain their policies on how they monitor their asset managers. The latest versions of the SIP for both the Co-op Section and the Co-operative Bank Section were approved on 16 December 2020, and included updates to reflect changes agreed to the lifestyle investment options available to DC members (including changes to the default option), to introduce an increased exposure to equities for younger members, and to introduce a new equity fund.

The current version of the Co-op Section SIP is available on Pace's website, via https://coop.pacepensions.co.uk/useful-information/pace-investments/, while the current version of the Co-operative Bank Section SIP is available via https://bank.pacepensions.co.uk/useful-information/pace-investments/.

In preparing the SIP for each Section, the Pace Trustee consults with the sponsoring employer for each section. The employers are consulted regarding any proposed changes to the Statement and investment strategy, however, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

How have the policies in the SIP been followed over the year?

In the opinion of the Trustee, the respective SIPs have been followed throughout the year for both the Co-op Section and Co-operative Bank Sections, as set out below.

The Trustee's policies for choosing and realising investments, and the kinds of investments to be held (Sections 2.1, 2.4, 3.1 and 3.4 of the SIPs)

The SIPs for both the Co-op Section and Co-operative Bank Section set out the Trustee's policies for choosing investments - specifically by identifying appropriate objectives which reflect each Section's risk and return requirements, and then constructing a portfolio of investments to meet these objectives for DB investments, or identifying a suitable range of options for members of the DC Section.

In considering these objectives and selecting investments, the Trustee obtains and considers written advice from a regulated investment adviser. One change was made to the DB investment strategy for each Section during the year, with the Trustee entering into an insurance policy with Pension Insurance Corporation on behalf of the Co-operative Bank Section in April 2020, and a separate insurance policy with Aviva in May 2020 on behalf of the Co-op Section (following two similar policies entered into by the Co-op Section in the previous scheme year). In each case, this was to match the pension payments due to some of the members of the two Sections.

In addition, as discussed below changes were made in December 2020 to the funds available to members in the DC Section. In each case, formal advice was provided to the Trustee by regulated investment advisers prior to the change, confirming the suitability of the investments for the purposes of Section 36 of the Pensions Act 1995.

The investment managers have discretion in the timing of realisation of investments, and this has continued over the year.

In addition, the Trustee reviews the asset allocation for the DB Sections on a quarterly basis and is comfortable that over the year the investments held were in line with the respective SIPs.

The Trustee's policies on managing and measuring risk, and expected returns

DB Sections (Sections 2.2, 2.5 and 2.6 of the SIPs)

For the DB Sections, the Trustee's investment objective is to target an expected return of around 0.8% p.a. (net of fees) above gilts to support the approach used to value the Co-op Section's liabilities, and around 0.5% p.a. (net of fees) above gilts for the Co-operative Bank Section; this approach was determined following professional advice and considering the Trustee (and the sponsors') risk tolerance. Over the year, the Trustee monitored the expected return on assets on a quarterly basis and considered rebalancing where appropriate.

DC Sections (Sections 3.2 and 3.5 of the SIPs)

For the DC Sections of both the Co-op and Co-operative Bank Sections of Pace, the Trustee's objective is to make available to members a programme of investment, via pooled funds, which seeks to generate income and capital growth and which, together with new contributions from members and the Scheme's employers will provide a fund at retirement with which to provide an income in retirement. In particular, the default arrangement aims to grow member contributions ahead of inflation over a member's working life, reducing absolute fund volatility as the member approaches retirement. It is designed to be appropriate for members who want to take all of their account as a lump sum on retirement. The default strategy was reviewed in 2019 and the Trustee's conclusion was that the target remained appropriate given the Sections' membership profiles, but that a higher return component should be considered for younger members. Following further advice, this was implemented by the incorporation of a new equity fund, the Pace Growth (Shares) 2021 Fund, in the early years for Pace's three lifestyle strategies (including the default strategy). These changes were implemented in December 2020 for new joiners to Pace, and in February 2021 for existing members.

In addition, the Trustee is happy that the risks set out under sections 2.3 and 3.3 of the SIPs have been considered when setting the investment strategy for the DB and DC Sections, and that the policies listed under section 2.4 have been followed when constructing the portfolio for the DB Section.

The Trustee's policies on Investment Manager appointment, engagement and monitoring (Section 5 of the SIPs)

As noted above, the Trustee reviewed the SIP for both sections in September 2020 and updated them to reflect the new legislative requirements requiring trustees to explain their policies on how they monitor their asset managers. The table below summarises how these policies were implemented over the year.

Policy	**Assessment (applicable for both Co-op and Co-operative Bank Sections of Pace)**
5.1 Aligning Manager Appointments with Investment Strategy *Investment managers are appointed based on their capabilities and, therefore, the perceived likelihood of achieving the stated expected return and risk characteristics required for the asset class they are selected to manage.* *If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the wider Trustee investment objectives.*	No new investment manager appointments were made over the year. As noted above, a new passive equity fund was introduced for the DC sections, managed by Legal & General Investment Management ("LGIM"); the fund was selected based on the investment consultant's assessment of the manager's capabilities, and the expected risk and return characteristics of the index it tracks. Over the year, modest changes were made to the return targets for the secured finance mandates held by the Co-op Section to reflect changes to published benchmark indices (specifically the anticipated replacement of LIBOR by Sonia as a benchmark interest rate index) and changes to the liquidity profiles of the funds. In each case the Trustee took advice to ensure the fund remained appropriate and consistent with the overall investment objectives.

5.2 Manager Appointments and Performance *The Trustee receives, and considers, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over various time periods…* *The Trustee may review a manager's appointment if:* • *There are sustained periods of underperformance.* • *There is a change in the underlying objectives of the investment manager, or a change in the portfolio manager.* • *There is a significant change to the Investment Adviser's rating of the manager; or* • *There is a change to the Trustee's overall strategy that no longer requires exposure to that asset class or manager.* *The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it may look to replace the manager or in some circumstances ask the manager to review the Annual Management Charge.*	The Trustee reviewed investment performance for the DB and DC Sections at each quarterly Trustee / DC Committee meeting over the year. No periods of underperformance, downgrades to investment adviser ratings or changes to objectives were identified that led the Trustee to review manager appointments or to take further action
5.3 Portfolio Turnover Costs *Investment manager performance is generally reported net of transaction costs (where possible), and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.* *For the DB Section, the Trustee has engaged a third party to collect cost information (under the Cost Transparency Initiative). Once set up, the aim is for them to analyse data from the Main Portfolio's investment managers to determine the underlying costs involved with its investments. The Trustee aims to use this information to prompt discussion with its investment managers on costs and in order to compare its investments with other managers in the same asset class to ensure consistency.*	At its 6 October 2020 Trustee meeting, the Trustee reviewed final reporting on costs incurred by the Co-op and Co-operative Bank DB Sections over the twelve-month periods to 30 June 2019, as collated and analysed by ClearGlass. These were in line with expectations and therefore there were no particular concerns highlighted around inappropriate costs being incurred. The Trustee has commissioned further work to review and benchmark these costs for the 2019 and 2020 calendar years.

The Trustee will continue to monitor industry improvements concerning the monitoring and reporting of portfolio turnover costs.	
5.4 Manager Turnover *The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustee typically expects to retain an investment manager unless:* • *There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager.* • *The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.*	No changes were made over the year that resulted in the termination of any investment manager appointments.

In addition to the policies set out in the SIPs for monitoring investment managers, the Trustee also monitors its investment consultants.

The Trustee introduced objectives for each of its investment consultant appointments in December 2019 to comply with new regulations governing the role of investment advisors. The Trustee reviews performance against the agreed objectives and the suitability of the Consultant's objectives on an annual basis.

Over the year to 5 April 2021, the Trustee reviewed its investment advisers against those objectives. It also revisited the objectives themselves, and updated them to incorporate the relevant key aspects of the Investment Consultants' Sustainability Working Group (ICSWG) guide for assessing climate competency of Investment Consultants

The Trustee's policies on ESG considerations (section 8 of the SIPs)

The Trustee is committed to achieving its investment objectives in a way that takes into account broader environmental, social and corporate governance concerns. The Trustee believes that as both DB and DC pensions are long-term investments, this is important, and it would also like the Scheme's approach to responsible investment to reflect the views of Pace members as far as reasonably possible, and to be consistent with the values of Pace's sponsors, and their members and colleagues. As a result, Pace has developed a Responsible Investment policy covering both DB and DC investments (and both the Co-op and Co-operative Bank Sections of Pace). The policy was developed with input from the Co-op and the Co-operative Bank, and having considered feedback collected via a survey of current employees of the Co-op.

The Responsible Investment Policy is available on the Scheme's website (along with an annual report detailing how Pace has implemented the policy over the year), via https://coop.pacepensions.co.uk/useful-information/pace-investments/ and https://bank.pacepensions.co.uk/useful-information/pace-investments/.

The Responsible Investment policy should be read in conjunction with, and as if it formed part of, this implementation statement.

The Trustee also recognises that it may take non-financial factors into consideration (i.e. those motivated by other concerns, such as social impact) where the Trustee has good reason to expect that Scheme members would share these concerns, and where the decision is not expected to have material financial detriment; aligned with this, the Trustee has made the Pace Growth (Ethical Shares) Fund available as a self-select option in the DC Section.

The Trustee's policies on the exercise of voting rights and undertaking engagement activities (Section 8 of the SIPs)

The Trustee's specific policies on engagement are common to the Co-op and Co-operative Bank Section SIPs and are summarised below, together with the Trustee's assessment of how and the extent to which these policies have been implemented over the scheme year to April 2021:

Policy	**Assessment (applicable for both Co-op and Co-operative Bank Sections of Pace)**
The Trustee gives its investment managers full discretion to evaluate ESG factors and engage with companies. The Trustee also encourages its investment managers to adopt best practices in these areas and to act in the best interests of Scheme members. The Trustee recognises that where investments are held in pooled funds, it may not be possible to instruct the manager to follow a separate voting policy or to exercise votes.	The DB Section applies explicit exclusion lists where possible to prevent investment in companies that manufacture or distribute controversial weapons, or those in the oil, gas or mining industries that have poor environmental records, or in government bonds from countries with poor human rights records. Members' pension pots in the DC Section are invested entirely in pooled investment funds alongside other investors, and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies, although further detail on the approach taken by LGIM to exercise voting rights is set out in the section below this table. The default option currently invests in the Pace Growth (Shares) 2021 Fund and the Pace Growth (Mixed) Fund, switching out of the Shares Fund as members approach retirement, and then into a cash fund over the 10 years prior to a member's expected retirement date. The Pace Growth (Mixed) Fund is invested 100% in the LGIM Future World Multi-Asset Fund, which the Trustee and the sponsors believe is aligned with their shared values. This fund "tilts" investments towards companies that have higher governance standards, and aims to achieve positive social and environmental impacts, including companies which are less carbon-intensive or earn green revenue; it also

	excludes investment in coal miners, and companies involved in the manufacture or distribution of controversial weapons (companies on the "Future World Protection List"). LGIM also applies its "Climate Impact Pledge" to the fund – each year they engage with the largest companies across the world identified as key to meeting global climate change goals to help improve their strategies, and commit to disinvesting from companies that fail to demonstrate sufficient action. Similarly, the new Pace Growth (Shares) 2021 Fund tilts to invest more in companies with strong and improving ESG attributes, and doesn't invest in companies that manufacture controversial weapons or that earn a sizeable revenue from mining coal or using coal for power generation.
The Trustee may, from time to time, raise specific ESG issues with investment managers and seek a response.	Ad hoc queries have been raised throughout the year through the Co-op Pensions Department (for example, in July 2020 in relation to the equity fund holdings in BooHoo.com and LGIM's assessment of their ESG ratings in light of related press coverage, and in early 2021 in relation to indirect exposure through one asset manager to recreational cannabis, which led to disinvestment from a US domiciled tobacco manufacturer).
Investment Managers are asked to report to the Manager Monitoring and Implementation Committee and the Trustee on the issue of responsible investment.	The Trustee has directly or through the Co-op Pensions Department's Manager Monitoring and Implementation Committee met with each of the Scheme's managers throughout the year as part of a rolling program, and ESG factors and engagement with investee companies are discussed at each meeting to understand the managers' approaches to incorporating ESG considerations in the initial selection of investments (and any disinvestments or sales), and areas of engagement as well as developments over the year. In particular, LGIM report on their compliance with their engagement policies annually, via their Active Ownership Report. The 2019 report

	was published in April 2020 and considered by the DC Committee in September 2020, while LGIM's 2020 update on their Climate Impact Pledge was reviewed at the 30 November 2020 DC Committee meeting. The 2020 report was published in April 2021 and will be reviewed later in 2021. In addition, since Q2 2020 each quarter the DC Committee has reviewed LGIM's quarterly ESG impact report, which includes notes from their engagement with companies and summaries of how LGIM voted on key corporate matters, alongside a summary of their policy work in different regions.
In addition, the Manager Monitoring and Implementation Committee and the Trustee monitor how each manager is incorporating ESG issues into investment decisions and, where relevant, exercising their approach to stewardship.	As well as receiving reporting at meetings on ESG considerations when making investment decisions or disinvesting, the Trustee receives reporting from its investment consultants integrated into the DC Sections' quarterly performance monitoring on its researchers' assessment of the integration of ESG considerations into each manager's investment processes and their stewardship practices.
The Trustee considers how ESG and stewardship are integrated within investment processes in appointing new managers, and all existing managers are expected to have policies in these areas. Within the Defined Contribution section, the Trustee offers an ethical equity fund, the Pace Growth (Ethical Shares) fund, and also considers ESG factors as part of the Scheme's process for selecting and retaining investment options.	No new asset managers were appointed over the year.

In each of these areas, the Trustee is comfortable that it has implemented the policies it intended to over the year.

Exercise of voting rights

Following changes to reduce risk in its investment strategy in late 2017, the DB Sections of Pace no longer invest in company shares (either directly or through pooled funds) and therefore do not hold investments with attaching voting rights.

The DC Sections offer options for investment to members which do include exposure to shares (either through equity funds or the multi-asset fund). The Trustee does not directly exercise voting rights as these investments are through pooled funds with many other investors. Voting rights are exercised by LGIM using ISS's ProxyExchange electronic voting platform, although voting decisions are retained by

LGIM and strategic decisions are made by LGIM's Investment Stewardship Team in accordance with their governance policies for each region.

The DC funds that have an exposure to equities within the DC default option are as follows:

- Pace Growth (Shares) 2021 Fund (introduced during the year)
- Pace Growth (Mixed) Fund

The table below, sets out the further details relating to LGIM's voting record for stocks held within each fund for the year to 31 March 2021.

	LGIM Fund	
	Pace Growth (Shares) 2021 Fund	**Pace Growth (Mixed) Fund**
Number of equity holdings in the fund (at 31 March 2021)	2,396	6,404
Number of meetings at which LGIM were eligible to vote over the year	3,523	8,622
Number of resolutions LGIM were eligible to vote on over the year	40,566	89,374
% of resolutions LGIM were eligible to vote on where they exercised that vote	99.95%	99.8%
% of resolutions where LGIM voted for management / voted against management / abstained from voting*	81.5% / 17.9% / 0.6%	80.7% / 19.0% / 0.4%
% of meetings at which LGIM voted at least once against management	5.8%	6.7%
% of meetings at which LGIM voted against the recommendation of the proxy advisor	0.25%	0.22%

*May not sum due to rounding.

LGIM also provide a quarterly ESG impact report, which summarises LGIM's votes together with details of 'significant votes'. These reports are reviewed at quarterly DC Committee meetings, with any comments or questions fed back to LGIM via the Co-op Pensions Department.

In determining what votes are 'significant', LGIM consider the criteria provided by the Pensions & Lifetime Savings Association guidance, such as:

- A high-profile vote (which may be controversial and therefore subject to a degree of client and/or public scrutiny)
- Significant client interest in a vote: communicated directly by clients to the Investment Stewardship team at LGIM's annual stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote
- A sanction vote as a result of a direct, or collaborative, engagement

- A vote linked to an LGIM engagement campaign – in line with the LGIM Investment Stewardship team's five-year engagement policy

Significant votes identified during the year (for both the above funds) included:

- On 7 May 2020, LGIM voted to support a management resolution at **Barclays** (supported by ShareAction) outlining its target to align the entire business to the goals of the Paris Agreement through plans to shrink its carbon footprint to net zero by 2050; this was deemed 'significant' because of the interest across LGIM's clients in relation to the AGM and voting intentions. The resolution was supported by 99.9% of shareholders.

- On 30 July 2020, LGIM voted against the election of the most senior member of the board at **Olympus Corporation** in line with LGIM's policy for companies in the TOPIX100 to vote against the chair of the nomination committee or the most senior board member if there were no women on their boards or at executive level, to support greater diversity at board level. This was deemed 'significant' as LGIM considers it imperative that the boards of Japanese companies increase their diversity. Approximately 95% of shareholders supported the election of the nominated director, although LGIM has noted that it will continue to engage with the require increased diversity on all Japanese company boards.

- On 13 October 2020, LGIM voted to support a shareholder proposal at the **Proctor and Gamble** (P&G) AGM in relation to increasing transparency around palm oil and wood pulp, to limit deforestation. The resolution received the support of over two thirds of shareholders (including LGIM), and LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement. This was deemed 'significant' as it was linked to LGIM's five-year strategy to tackle climate change, and attracted a great deal of interest from LGIM's clients; and

- On 11 February 2021, LGIM supported a shareholder resolution that requested that **Tyson Foods** produce a report on their human rights due diligence process. This was a result of the potential deficiencies highlighted in the application of their human rights policies during the pandemic, including strict attendance policies, insufficient access to testing and social distancing and non-comprehensive Covid-19 reporting. An ISS AGM benchmark report noted there had been over 10,000 positive Covid-19 cases and 35 worker deaths. This is in conjunction with additional litigation and regulatory investigations in the US. LGIM believes companies should uphold their duty to ensure the health and safety of employees over profits. The resolution failed to get a majority support as only 17% of shareholders supported it; LGIM has noted that it will continue to monitor the company.