

Deeside Cereals Pension Scheme – Annual Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by Deeside Cereals I DB Pension Ltd, as Trustee has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 as amended and the guidance published by the Pensions Regulator. The table later in the document sets out the how, and the extent to which, the policies in the SIP have been followed.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives of the Scheme included in the SIP are as follows:

DB Section:

The Trustee's primary investment objective for the Scheme is 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.

In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustee also ensures that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

DC Section:

There is no formal DC section to the Scheme, however it holds money purchase benefits in relation to the historic transfers in to the Scheme for 3 members.

There are also money purchase AVC arrangements provided by the Scheme for members who have historically paid AVCs to the Scheme.

For the avoidance of doubt, the Scheme is not being used as a qualifying scheme for Auto Enrolment purposes.

Review of the SIP

During the year the Trustee reviewed the Scheme's SIP. A revised SIP was approved on 11 September 2020 in order to reflect new legislative requirements to set out the Trustee's policies in respect of arrangements with asset managers. In particular:

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- How the arrangement with the investment managers incentivises the investment managers to align their investment strategies with the Trustee's investment policies, including in relation to ESG
- How the arrangement incentivises the investment managers to make decisions based on their assessment of investee companies' medium to long term financial and non-financial performance and engage accordingly
- How the method and time horizon for evaluating the investment manager's performance, and the basis of their remuneration, are aligned with the Trustee's other investment policies;
- How they define and monitor portfolio turnover (frequency of buying or selling) costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range;
- The duration of the arrangements with the investment managers

These policies have been included as Appendix A to this Statement.

The updated SIP also included the Trustee's policy in respect of the Scheme's additional Default Funds. More background on these additional Default Funds is provided in Section 2 of the table below, and a summary of this policy is also set out in Appendix A.

Trustee Governance

The Chair's Statement for the year ending 5 April 2021 sets out information on the Trustee's Governance structure and how the Trustee demonstrated appropriate knowledge and understanding over the Scheme year.

Assessment of how the policies in the SIP have been followed for the year to 5 April 2021

Overall, the Trustee is satisfied that the policies set out in the SIPs which have been in place over the year have been followed.

The information provided in the table below highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP. The SIP is included in the Trustee Report and Accounts, and is also available online at http://www.deesidecereals.co.uk/wp-content/uploads/2020/09/Deeside-SIP-September-2020_Approved.pdf and sets out the policies referenced below.

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	Requirement	Policy	In the year to 5 April 2021
1	Securing compliance with the legal requirements about choosing investments	<p>The Trustee obtains advice from their investment adviser on investment vehicles that can fulfil the Scheme's investment objectives.</p> <p>The choice of the underlying funds for the Defined Benefit (DB) assets was delegated to JLT Investment Management. Following the removal of the fiduciary overlay it is now the responsibility of the Trustee, and any such decisions will be based on appropriate advice from their investment adviser.</p> <p>In the Trustee's opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.</p>	<p>Over the Scheme Year, the fiduciary overlay which had been provided by JLT Investment Management (JLT IM), before being novated to Mercer Limited, was removed on 25 March 2021. This was due to a change of corporate policy from Mercer. The Scheme's investments remain invested through a Trustee Investment Policy issued by Mobius Life Limited, and therefore the removal of the financial overlay does not constitute a change of investments.</p> <p>The Scheme made changes to the investment strategy for the DB assets with new investments into the M&G Total Return Credit Fund, which is a third Multi Asset Credit fund to complement the existing Ninety One Global Total Return Credit Fund and Payden Absolute Return Bond fund.</p> <p>These funds were chosen by JLT Investment Management to implement the Trustee's revised strategic allocation prior to the removal of the fiduciary overlay.</p>
2	Kinds of investments to be held	<p>The Scheme's DB assets are held in a Trustee Investment Policy with Mobius Life Limited (Mobius) which enables investment into a range of underlying funds.</p> <p>All the underlying funds the Scheme invests in are pooled, unitised and, in normal circumstances, daily dealt.</p>	<p>The Scheme had an AVC policy with the Equitable Life Assurance Society ('Equitable Life'), to which new contributions can no longer be made.</p> <p>On 1 January 2020, following High Court approval and a policyholder vote, the business of Equitable Life was transferred to Utmost Life and Pensions. AVCs that were previously held in the Equitable Life With Profits Fund were transferred initially to the Utmost Secure Cash Fund. Over the second half of 2020, the Utmost Secure Cash Fund holding was closed down by Utmost and the Trustee decided, based on advice from Mercer, that members' investments should be transitioned to the Utmost Money Market Fund, unless members chose to make an investment choice of their own.</p> <p>Because the Trustee had chosen to invest members' former With Profits AVCs in the Utmost Secure Cash Fund and subsequently the Utmost Money Market Fund in the event that members do not make their own investment choice, these funds are also classed as a 'Default' fund. Both these funds are pooled, unitised, and in normal circumstances, daily dealt.</p>

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			There were no other changes to the kinds of investments held over the year.
3	Investment Strategy	<p>The Trustee's primary investment objective for the Scheme is 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.</p> <p>In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.</p>	<p>The Trustee concluded its review of the investment strategy, which had commenced in the previous Scheme year. This review was undertaken in accordance with the principles set out in the SIP in force at the time, after considering the Scheme's liability profile and requirements of the Statutory Funding Objective, the Trustee's appetite for risk, the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. In determining the revised investment strategy, the Trustee received written advice from Mercer, the Investment Adviser.</p> <p>The revision to the investment strategy was made as a further step in the Trustee's plan to reduce the Scheme's funding risk over time. It reflected the Scheme's improved funding position, the lower investment return required to meet the Trustee's long term objectives and therefore the Trustee's lower appetite for risk.</p> <p>Overall the result of the change of strategy was to reduce the expected volatility of the Scheme's funding position with a corresponding reduction in the expected return of the Scheme's assets.</p>
4	Risks, including the ways in which risks are to be measured and managed	The Trustee recognises risk from a number of perspectives in relation to the Scheme.	<p>As detailed in the Section 5, the Risk section of the SIP the Trustee considers both quantitative and qualitative measures for managing these risks.</p> <p>The Trustee is satisfied that over the Scheme year the risks have been managed in accordance with its policies, and notes in particular:</p> <ul style="list-style-type: none"> • Solvency risk was managed by monthly monitoring of the Scheme's funding risk and by reducing the level of risk in the investment strategy over the year. • Interest rate risk has been reduced by the additional investment into LDI funds. • Market risk has been reduced by selling down a further portion of the Scheme's equity allocation. • Manager risk has been further reduced by introducing a third Multi Asset Credit Fund.

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			<ul style="list-style-type: none"> The Trustee Directors also received updates in relation the employer covenant so that they could be satisfied that it wasn't significantly impacted by COVID-19. The Statement of Investment Principles was updated due to the requirements of updated legislation.
5	Manager review and monitoring	The funds in which the Scheme is invested are expected to provide a long term investment return consistent with benchmark, acknowledging that it is important to consider the impact of financial market conditions as this can have a significant impact on short term performance.	<p>The quarterly investment performance reports and monthly strategy updates are reviewed by the Trustee as and when received and at each Trustee meeting.</p> <p>The investment performance report includes how each investment manager is delivering against their specific mandates, and provides background on general financial market developments to put the performance into context from both a return and risk perspective.</p> <p>The Trustee is satisfied that overall the Scheme's assets were able to deliver their strategic objective, in particular:</p> <ul style="list-style-type: none"> The BMO LDI funds provided returns consistent with benchmark to provide significant protection against liability risk, whilst the equity portion of the Equity Linked LDI fund provided a contribution of 43.5% to the fund's return. Threadneedle performed strongly with a return of 23.9% as equity markets bounced back from the significant falls in Q1 2020. Nordea, which had only fallen by 4.4% in Q1 2020 provided a reasonable return of 9.0% The MAC funds all provided strong returns of between 14.1% and 21.0%.
6	Financially Material Considerations	The Trustee recognises that environmental, social and corporate governance ("ESG") factors, such as climate change, can have a financially material impact over the investment risk and return outcomes of the Scheme's portfolio and it is therefore in members' and the Scheme's best	<p>The Trustee received training on ESG issues at their meeting on 14th June 2019, and as part of that training, Mercer's ESG scores were provided for the funds in which the Scheme was invested.</p> <p>Mercer's ESG scores for the funds in which the Scheme is invested have been included in Mercer's quarterly reports from 30 September 2020.</p>

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		<p>interests that these factors are taken into account within the investment process.</p> <p>The Trustee expects the pooled funds in which they are invested to approach investments in a responsible way and take account of ESG related risks as far as appropriate to their particular mandate.</p> <p>In setting their investment strategy, the Trustee has prioritised funds which provide leveraged protection against movements in the Scheme's liability value and also funds which provide actively managed diversification across a wide range of investment markets and consider the financially significant benefits of these factors to be paramount.</p> <p>The Trustee receives ESG scores provided by the Investment Consultant in relation to the funds in which the Scheme is invested and will monitor how these develop over time.</p> <p>The Trustee has built an ongoing review of ESG considerations into the annual business plan to make sure that their policy evolves in line with emerging trends and developments.</p>	<p>Based on this information, the Trustee is satisfied that the Scheme's fund managers incorporate ESG appropriately in relation to their specific portfolios.</p> <p>The Trustees were satisfied that the ESG scores provided by Mercer gave sufficient reassurance and that it was not necessary to undertake a formal review of ESG considerations over the Scheme Year.</p> <p>The Trustees intend to formally review ESG considerations as part of the next investment strategy review.</p> <p>In accordance with the Trustee's policy, the investment strategy changes which were concluded over the Scheme year prioritised funds which provide leveraged protection against movements in the Scheme's liability value and also funds which provide actively managed diversification across a range of bond markets.</p>
7	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	Non-financial matters, such as member views, are not taken into consideration.	No comment required.

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8	The exercise of the rights (including voting rights) attaching to the investments	<p>The Trustee only invests in pooled investment funds via an investment platform, and therefore have no direct voting rights and no direct ability to influence the voting of the managers of the pooled funds in which the Scheme's assets are ultimately invested.</p> <p>The Trustee's policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.</p> <p>If the Trustee is specifically invited to vote on a matter relating to corporate policy, they would exercise their right in accordance with what they believe to be the best interests of the majority of the Scheme's membership.</p>	<p>The Trustee has not been invited to vote on any matters of corporate policy over the Scheme Year and has therefore not cast any votes.</p> <p>A summary of the voting and engagement of the Plan's underlying investment funds is set out in Appendix B. This includes information on votes considered significant by the investment managers. The Trustee has no influence on the managers' definitions of significant votes but have noted these and are satisfied that they are all reasonable and appropriate.</p> <p>The Trustee has not included information in relation to the Scheme's Money Purchase arrangements as these are a small proportion of the Scheme's total assets.</p>
9	Compliance with Best Practice	The Trustee meets the investment adviser on a regular basis, monitoring developments both in relation to the Scheme's circumstances and in relation to evolving guidance, so that the investment approach can be revised if considered appropriate.	<p>Over the Scheme year, the Investment Adviser attended the Trustee meetings in June 2020, October 2020 and February 2021.</p> <p>This enabled the SIP to be updated to meet the new legislative requirements and also the investment strategy to be updated to reflect the developments in the Scheme's funding position and the Trustee's risk appetite.</p>
10	Cash Flow and Re-Balancing and LDI Recapitalisation Policy	The Trustee had put in place an appropriate cashflow, re-balancing and LDI Recapitalisation policy with JLT IM.	The Trustee is satisfied that the policy in place with JLT IM was followed over the Scheme Year until the fiduciary overlay ceased.

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		Following the removal of the Fiduciary Overlay provided by JLT IM, a suitable replacement policy has been put in place with Mercer and Mobius.	The replacement policy which commenced on 25 March 2021 was effective for the remainder of the Scheme Year.
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Appendix A – Policies in respect of arrangements with asset managers and additional default funds

The policies below are included within the 11 September 2020 SIP.

- How the arrangement with the investment managers incentivises the investment managers to align their investment strategies with the Trustee's investment policies, including in relation to ESG

The Scheme only invests in pooled funds via an investment platform.

The Trustee therefore cannot specify the risk profile and return targets of the manager, but pooled funds are chosen with appropriate characteristics to align with the overall investment strategy.

The Trustee also cannot influence the charging structure of the pooled funds in which the Scheme is invested, but is satisfied that the ad-valorem charges for the different underlying funds are clear and are consistent with each fund's stated characteristics.

Comment: The Trustee is satisfied that this policy was followed over the Scheme Year.

- How the arrangement incentivises the investment managers to make decisions based on their assessment of investee companies' medium to long term financial and non-financial performance and engage accordingly

The underlying investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme.

Neither JLT IM, nor any of the underlying managers in which the Scheme's assets are invested have performance based fees which could encourage the manager to make short term investment decisions to hit their profit targets.

The Trustee therefore considers that the method of remunerating fund managers is consistent with incentivising them to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity. By encouraging a medium to long-term view, it will in turn encourage the investment managers to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.

Comment: The Trustee is satisfied that this policy was followed over the Scheme Year.

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- How the method and time horizon for evaluating the investment manager's performance, and the basis of their remuneration, are aligned with the Trustee's other investment policies;

The Trustee receives quarterly monitoring reports on the performance of the underlying investment managers from Mercer, which present performance information over 3 months, 1 year and 3 years. The reports show the absolute performance, performance against the manager's stated target performance (over the relevant time period) on a net of fees basis. The reports also provide returns of market indices so that these can be used to help inform the assessment of the underlying managers' performance.

The reporting also reviews the performance of the Scheme's assets in aggregate against the Scheme's strategic benchmark and compared to expected changes in the value of its liabilities.

JLT IM, as Investment Manager had the role of replacing the underlying investment managers where appropriate. Following the removal of the fiduciary overlay on 25 March 2021 this is now the role of the Trustee. Both JLT IM and now the Trustee take a long-term view when assessing whether to replace the underlying investment managers and such decisions would not be made based solely on short-term performance concerns. Instead, changes would be driven by a significant downgrade of the investment manager by Mercer. This in turn would be due to a significant reduction in Mercer's confidence that the investment manager will be able to perform in line with their fund's mandate over the long term.

Changes will also be made to the underlying managers if there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

Comment: The Trustee is satisfied that this policy has been followed. The L&G equity fund was removed over the Scheme Year, which was for strategic reasons as part of the Scheme's de-risking.

- How they define and monitor portfolio turnover (frequency of buying or selling) costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range;

The Trustee does not currently monitor portfolio turnover costs for the funds in which the Scheme is invested, although notes that the performance monitoring report which it receives is net of all charges, including such costs. Portfolio turnover cost means the cost incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustee is also aware of the requirement to define and monitor targeted portfolio turnover and turnover range.

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Given that the Scheme invests in a range of pooled funds, many of which invest across a wide range of asset classes, the Trustee does not have an overall portfolio turnover target for the Scheme.

Comment: The Trustee's policy is not to have an overall portfolio turnover target for the Scheme and is satisfied that this remains appropriate.

- The duration of the arrangements with the investment managers

The Trustee is a long term investor and does not look to change the investment arrangements on a frequent basis.

The Trustee has appointed JLT IM as investment manager. JLT IM was first appointed in March 2015.

Comment: The Trustee is satisfied that this policy has been followed. Over the Scheme Year, the fiduciary overlay which had been provided by JLT Investment Management (JLT IM), before being novated to Mercer Limited, was removed on 25 March 2021. This was due to a change of corporate policy from Mercer. The Scheme's investments remain invested through a Trustee Investment Policy issued by Mobius Life Limited. The Mobius policy was incepted in March 2015.

- Additional Default Funds: Utmost Secure Cash and Money Market Fund

The Trustee has determined that with the potential for elevated levels of volatility in investment markets due to Covid 19 the funds of these members which received a 75% uplift in compensation for the removal of the investment guarantees in the Equitable With Profits Fund should be invested in low risk money market funds where capital preservation is the key objective rather than maximising investment return or providing protection against inflation.

The Trustee notes that the Money Market Fund is unlikely to keep pace with inflation.

The Secure Cash Fund and the Money Market Fund have the lowest expected volatility of the funds available with Utmost.

The Trustee will review this periodically.

Comment: The Trustee wrote to the relevant members over the Scheme Year to inform them of the changes and what options they have. The Trustee intends to review the position in 2021 and update members accordingly and is satisfied that this is in accordance with its policy.

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Appendix B - Voting Activity

The Scheme does not hold any equities directly and the Trustee has not been asked to vote on any specific matters over the Scheme year. Nevertheless, this Appendix sets out a summary of the key voting activity of the pooled funds in which the Scheme's assets are ultimately invested for which voting is possible.

We note that best practice in developing a statement on voting and engagement activity is evolving and we consider relevant developments before the production of next year's statement.

Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
Threadneedle Multi Asset	ISS Proxy Exchange used for voting execution. Final vote decisions take account of, but are not determinatively informed by, research issued by proxy advisory organisations such as ISS and Glass Lewis as well as MSCI ESG Research.	6988 resolutions eligible for (98.90% cast)	5.74% of votes cast	3.92% of votes cast	Threadneedle consider a significant vote to be any dissenting vote i.e. where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where we support a shareholder-tabled proposal not endorsed by management.	<p><i>Facebook Inc.</i> – Vote 'FOR' the creation of a report on median gender/racial pay gap.</p> <p>Rationale: Reduce material risk for the business and provide information that is in shareholder's interests.</p> <p>Outcome: Fail</p> <p>Implications: Active stewardship (engagement and voting) continues to form an integral part of Threadneedle's research and investment process.</p> <p>Significance: Vote against management</p>
Nordea Diversified Return	Nordea rely on ISS for proxy voting, execution as well as research, while Nordic Investor Services (NIS) is used for analysis.	3344 resolutions eligible for (44.89% cast)	9.93% of votes cast	0.60% of votes cast	Significant votes are those that are severely against Nordea's principles, and where they feel they need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason. From	<p><i>Cisco</i> – Vote "FOR" in a shareholder proposal to require an independent Board Chairman.</p> <p>Rationale: It is in the best interest of shareholders to separate the CEO and COB functions and therefore Nordea supported the shareholder proposal as well as voted against Charles H. Robbins as COB.</p>

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Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
	<p>ISS is a global player with international reach and practices, while NIS is a small niche player whose best practices are much in line with those of Nordea. This gives a broad palette of input which is very valuable in the evolution of their Corporate Governance principles.</p> <p>Normally, every vote cast is considered individually on the background of their in house bespoke voting policy.</p> <p>Nordea have decided to massively scale up their voting to cover a majority of all voting activities. For 2021 they have contracted ISS to vote on some minor holdings as per their policy. Nordea's Corporate Governance unit will continue to oversee all voting activities.</p>				<p>there, Nordea benchmark the proposals versus their policy.</p>	<p>Outcome: Fail</p> <p>Implications: Nordea Funds does not believe that the CEO and Chairman of the Board should be the same person. We will continue to raise this question with companies. Shareholder proposals demanding a split of the roles continue to increase every year, and we are supportive of this development.</p> <p>Significance: Significant votes are those that are severely against Nordea's principles, and where Nordea feel they need to enact change in the company.</p>
LGIM Global Equity Fixed Weight (50:50) Index*	LGIM's Investment Stewardship team uses Institutional Shareholder Services (ISS) 'ProxyExchange' electronic voting platform to	44,680 resolutions eligible for (99.97% cast)	16.29% of votes cast	0.15% of eligible votes	In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:	<i>Whitehaven Coal</i> – Vote "FOR" the resolution in which shareholders asked the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.

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Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
	<p>electronically vote clients' shares.</p> <p>The use of ISS recommendations is purely to augment internal research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the ISS research reports for UK companies when making specific voting decisions.</p> <p>All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.</p>				<ul style="list-style-type: none"> High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny; Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote; Sanction vote as a result of a direct or collaborative engagement; Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes. 	<p>Rationale: The continuing advocacy for a "managed decline" for fossil fuel companies, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets.</p> <p>Outcome: The resolution did not pass as only 4% of shareholders voted in favour.</p> <p>Implications: LGIM will continue to monitor this company.</p> <p>Significance: The vote received media scrutiny and is emblematic of a growing wave of 'green' shareholder activism.</p>