

## **DC Implementation Statement**

### **1. Introduction**

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 20 December 2020, as after that date, the Defined Contribution section of the Scheme moved to the Legal & General Master Trust. 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 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 DC Section of SIP have been followed.

During the year, The Trustees decided to transfer the Scheme's DC Section assets to the L&G Pension Master Trust ("L&G Master Trust"). This bulk transfer was concluded on 21 December 2020. The Company stopped paying contributions to the DC section of the Scheme and started paying new contributions from 1 November 2020 to the British Horseracing Authority Mastertrust Pension Plan.

### **2. Investment Objectives of the Scheme**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the latest DC Pension Scheme SIP are as follows.

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees regard their duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs.

The Trustees also recognise that members may not believe themselves qualified or confident to make investment decisions. As such the Trustees make available a default investment option. The default investment option places the emphasis on aiming to deliver a good level of real return over members' working lifetimes (whilst mitigating risk through diversification) and also encompasses a switch into asset classes designed to protect the member from a sudden fall in the retirement benefit purchasing power of their pension savings, in the years approaching the member's selected target retirement age. The Trustees have chosen two default investment options; one applies to members with only DC savings in the Scheme, and a second to the members with a Defined Benefit entitlement, who paid AVCs or Sunday or Extra Day pay.

The Trustees primary objectives' translate to the following principles:

- Offering members a pre-defined 'Lifestyle' investment approach to the default investment options and ensuring that the investment options available allow members to plan for retirement. Including the default investment options, there are three lifestyle investment strategies targeting the different ways a member can take benefits at retirement (annuity purchase, cash lump sum and income drawdown);
- Making available a focused range of risk profiled investment funds which serve to meet the varying investment needs and risk tolerances of Scheme members. The Trustees, with advice from its investment consultant, designed these blended investment funds, built from a range of predominantly passively managed funds.
- Actively managed funds will only be included to the extent that the Trustees have a high level of confidence in the respective investment managers achieving their performance objectives, net of active investment management fees and believe that passive management is less suitable for the asset class in question.
- Within the blended funds, currency risks will be considered when deciding upon allocations to overseas investments and where these risks cannot be reduced via currency hedging, allocations to overseas investments will be reduced in favour of pound sterling denominated investments;
- The range of pooled investment funds will have strategies that are highly rated by the Trustees' investment adviser unless the Trustees decide there is good reason not to. If the Trustees' investment adviser downgrades the rating of an investment strategy which is used within a pooled investment fund, the Trustees will seek to replace it with another highly rated strategy, as recommended by their investment adviser, again unless the Trustees decide there is good reason not to;
- Providing general guidance as to the purpose of each investment option;
- Encouraging general guidance as to the purpose of each investment option;
- In determining an appropriate balance between providing flexibility and choice, as well as simplicity and cost control, the Trustees aim to make available a focused range of investment options which satisfy the needs of the majority of members.



### **DC Implementation Statement - continued**

The Trustees regularly review the suitability of the investment choices provided and from time to time will change or introduce additional investment funds as appropriate.

#### **3. Review of the SIP**

During the year to 20 December 2020, the Trustees reviewed the Scheme's SIP in July 2020. The revision related to the new requirements for the SIP to include the Trustees' policy in relation to their arrangements with their asset managers, requiring the inclusion of:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies in SIP.
- How that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangement with the asset manager.

#### **4. Assessment of how the policies in the SIP have been followed for the year 20 December 2020**

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 SIP, relating to the Scheme as a whole and the default investment arrangement. In summary, it is the Trustees' view that the policies in the SIP have been followed during the Scheme year to 20 December 2021.

Due to the move to the L&G Master Trust, this statement will focus on detailing how the Trustees comply with the SIP requirements, relating to the Voting Policies and Voting Behaviour by the Trustees, during the period indicated above.

	Requirement	Policy	In the year 31 December 2020
1	Securing compliance with the legal requirements about choosing investments	<p><i>The Trustees of the British Horseracing Authority Pension Scheme (the "Scheme") have drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended).</i></p> <p><i>In preparing this Statement, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer").</i></p>	<p>During the year 2020 the Trustee reviewed the Scheme's SIP in July 2020. The revision related to the new requirements for the SIP to include the Trustees' policy in relation to their arrangements with their asset managers.</p> <p>The SIP was updated to comply with the new requirements in relation to their arrangements with their asset managers. The new sections 3.11 to 3.14 were added covering – Investment Manager Appointment, Engagement and Monitoring:</p> <ul style="list-style-type: none"><li>- Aligning manager appointments with investment strategy;</li><li>- Evaluating investment manager performance;</li><li>- Portfolio turnover costs;</li><li>- Manage Turnover.</li></ul>

DC Implementation Statement - continued

2	Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	<p><i>The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.</i></p> <p><i>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, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.</i></p> <p><i>The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers.</i></p>	<p>The following policies were updated in the last SIP review to reflect:</p> <ul style="list-style-type: none"> <li>- The Trustees' willingness to consider the investment consultant's assessment of how the investment managers embeds ESG into their investment process and how the managers' responsible investment philosophy aligns with the Trustees' responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.</li> <li>- The Trustees' ability to review the investment managers' policies and engagement activities (where applicable) on an annual basis.</li> </ul> <p>The investment performance report is reviewed by the Trustees on a regular basis and it is documented. Where managers may not be highly rated from an ESG perspective the Trustees continue to monitor. When implementing a new manager they would consider the ESG rating of the manager.</p> <p>The Trustees acknowledge that managers in fixed income do not have a high ESG rating assigned by the investment consultant due to the nature of the asset class where it is harder to engage with the issuer of debt.</p> <p>The Trustees review the investment performance reports on a quarterly basis – this includes ratings (both general and specific ESG) from the investment advisers.</p> <p>The investment performance report includes how each investment manager is delivering against their specific mandates.</p>
3	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	<p><i>Member views are not explicitly taken into account in the selection, retention and realisation of investments.</i></p>	<p>No changes during the year to this policy</p>



## DC Implementation Statement - continued

4	The exercise of the rights (including voting rights) attaching to the investment	<p><i>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, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.</i></p> <p><i>The Trustees will review the investment managers' policies and engagement activities (where applicable) on an annual basis.</i></p>	<p>The Trustees have delegated their voting rights to the investment managers.</p> <p>Investment managers are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustees to ensure that they align with the Trustee's policy.</p> <p>Over the period, the Trustees have equity exposure through the following funds:</p> <ul style="list-style-type: none"> <li>• LGIM UK Equity</li> <li>• LGIM North America Equity</li> <li>• LGIM Europe (ex-UK) Equity</li> <li>• LGIM Japan Equity</li> <li>• LGIM Asia Pacific (ex-Japan) Equity</li> <li>• LGIM Emerging Markets Equity</li> <li>• LGIM Global Equity (30:70) (75% GBP Hedged)</li> <li>• LGIM Diversified Fund</li> </ul>
5	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters)	<p><i>The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.</i></p>	<p>Over the period, the Trustees believe that the appointments with its investment managers were consistent with its long-term objectives and no changes were made on this basis</p>

## 5. Voting Activity and Engagement Policy Statement

Section 3.10 of the SIP sets out the Trustees' policy on ESG factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

Following the DWP's requirements, which came into force on 1 October 2019, the Trustees reviewed the SIP setting out how they take account of financially material considerations, including Environmental, Social and Governance (ESG) considerations, and explicitly climate change. In addition, in line with the requirements, the SIP also includes the approach to the stewardship of the investments and how the Trustees take account (if at all) of member views on 'non-financial matters'.

### Voting Activity during the Scheme year

The Trustees have delegated their voting rights to the investment managers. The SIP states "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, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code".

It is the Trustees' view that the policy has been followed during the Scheme year to 20 December 2020.

Over the year, the Trustees have not actively challenged the managers on their voting activity. The Trustees do not use the direct services of a proxy voter.

## DC Implementation Statement - continued

The majority of voting activity will arise in public equity funds. However, voting opportunities may arise in other asset classes such as certain bonds, property, private equity and multi-asset funds. However, the Trustees have only received information relating to public equity funds this year. The assets of the Scheme are invested via the Legal & General platform.

### Overview of voting activity, on behalf of the Trustees, for the funds containing equity for the 12 months to 31 December 2020

Voting activity information from each of the underlying investment managers (where provided) over the prior 12 months to 31 December 2020 is summarised in the table below. Where fund managers have not been included, this is due to being able to supply voting information at the time of finalising this report.

Fund	How many resolutions were you eligible to vote on?	What % of resolutions did you vote on for which you were eligible?	Of the resolutions on which you voted, what % did you vote with management?	Of the resolutions on which you voted, what % did you vote against management?	Of the resolutions on which you voted, what % did you abstain from voting?
LGIM UK Equity	13,941	99.94%	93.05%	6.95%	0.01%
LGIM North America Equity	10,174	99.90%	72.43%	27.53%	0.04%
LGIM Europe (ex-UK) Equity	10,695	99.87%	84.37%	15.25%	0.37%
LGIM Japan Equity	6,697	100.00%	86.89%	13.11%	0.00%
LGIM Asia Pacific (ex-Japan) Equity	5,701	100.00%	78.13%	21.86%	0.02%
LGIM Emerging Markets Equity	37,948	99.84%	85.57%	12.93%	1.50%
LGIM Global Equity (30:70)	77,223	99.69%	84.53%	14.75%	0.72%
LGIM Diversified Fund	112,453	98.76%	81.97%	17.48%	0.55%

### Overview of Legal and General Investment Management ("LGIM") approach to voting and engagement

#### LGIM's policy on consulting with clients before voting

LGIM's voting and engagement activities are developed and carried out by investment specialists who have a focus on ESG considerations, and their assessment of the requirements in these areas "seeks to achieve the best outcome for all their clients". Their voting policies are reviewed annually and take into account feedback from their clients where this has been provided.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and other investors) are invited to express their views directly to the members of the LGIM Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead. LGIM also take into account client feedback received at regular meetings and/or ad-hoc comments or enquiries.

#### LGIM's process for deciding how to vote

All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This aims to ensure their stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.



## **DC Implementation Statement - continued**

### Proxy voting services

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. LGIM's use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that LGIM receive from ISS for UK companies when making specific voting decisions

To ensure their proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice.

LGIM retain the ability in all markets to override any vote decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows them to apply a qualitative overlay to their voting judgement. LGIM have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

### Processes for determining the most significant votes

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- 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 they 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.

LGIM will provide information on significant votes in the format of detailed case studies in their quarterly ESG impact report and annual active ownership publications.

LGIM publicly disclose their votes for the major markets on their website. The reports are published in a timely manner, at the end of each month and can be used by clients for their external reporting requirements.

Source: LGIM

### **Significant votes undertaken by LGIM to the equity holdings for the 12 months to 31 December 2020.**

LGIM has provided 16 "vote bulletins" for the year to 31 December 2020 which they consider to be the most significant ones. As detail of all vote bulletins cannot be disclosed in this statement we have selected some examples below, focusing on four large cap companies which would represent a significant holding in such an exposure. The examples include how they voted and their rationale on determining how to vote.

DC Implementation Statement - continued

Company	Resolution	How you voted and the rationale for the voting decision
Amazon	Shareholder resolutions 5 to 16	<p><b>FOR</b> 10 out of 12 shareholder proposals. We looked into the individual merits of each individual proposal, and there are two main areas which drove our decision-making: disclosure to encourage a better understanding of process and performance of material issues (resolutions 5, 6, 7, 8, 10, 13, 15 and 16) and governance structures that benefit long-term shareholders (resolutions 9 and 14).</p> <p>In addition to facing a full slate of proxy proposals, in the two months leading up to the annual meeting, Amazon was on the front lines of a pandemic response. The company was already on the back foot owing to the harsh workplace practices alleged by the author of a seminal article in the New York Times published in 2015, which depicted a bruising culture. The news of a string of workers catching COVID-19, the company's response, and subsequent details, have all become major news and an important topic for our engagements leading up to the proxy vote. Our team has had multiple engagements with Amazon over the past 12 months. The topics of our engagements touched most aspects of ESG, with an emphasis on social topics: Governance: Separation of CEO and board chair roles, plus the desire for directors to participate in engagement meetings Environment: Details about the data transparency committed to in their 'Climate Pledge' Social: Establishment of workplace culture, employee health and safety The allegations from current and former employees are worrying. Amazon employees have consistently reported not feeling safe at work, that paid sick leave is not adequate, and that the company only provides an incentive of \$2 per hour to work during the pandemic. Also cited is an ongoing culture of retaliation, censorship, and fear. We discussed with Amazon the lengths the company is going to in adapting their working environment, with claims of industry leading safety protocols, increased pay, and adjusted absentee policies. However, some of their responses seemed to have backfired. For example, a policy to inform all workers in a facility if COVID-19 is detected has definitely caused increased media attention.</p> <p>Date of vote: 27 May 2020</p>
ExxonMobil	Resolution 1.10: Elect Director Darren W. Woods	<p><b>AGAINST.</b> In June 2019, under our annual 'Climate Impact Pledge' ranking of corporate climate leaders and laggards, we announced that we will be removing ExxonMobil from our Future World fund range, and will be voting against the chair of the board. Ahead of the company's annual general meeting in May 2020, we also announced we will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying. Due to recurring shareholder concerns, our voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.</p> <p>Date of vote: 27 May 2020</p>
Barclays	Resolution 29: Approve Barclays' Commitment in Tackling Climate Change Resolution 30: Approve ShareAction Requisitioned Resolution	<p><b>FOR</b> resolution 29, proposed by Barclays and <b>FOR</b> resolution 30, proposed by ShareAction. The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.</p> <p>Date of vote: 7 May 2020</p>



**Appendix 1:**  
**Statement of Investment Principles**

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**DC Implementation Statement - continued**

The Procter & Gamble Company (P&G)	Resolution 5: Report on effort to eliminate deforestation.	<p>FOR. P&amp;G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp. Palm oil and Forest Pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests. LGIM engaged with P&amp;G to hear its response to the concerns raised and the requests raised in the resolution. We spoke to representatives from the proponent of the resolution, Green Century. In addition, we engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns. Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&amp;G has introduced a number of objectives and targets to ensure their business does not impact deforestation, we felt it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that companies we invest our clients' assets in are not contributing to deforestation. LGIM has asked P&amp;G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources.</p> <p>Date of vote: 13 October 2020</p>
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