Servier Laboratories Limited Pension Fund ("the Fund")
Implementation Statement for the year to 31 March 2020

Introduction

This Implementation Statement (the "Statement" or "IS") covers the year to 31 March 2020.

The Trustees outline in their Statement of Investment Principles (SIP) a number of key objectives and policies. These are noted in *blue* below together with an explanation of how these objectives and policies have been met and adhered to over the course of the year. All section numbers follow those set out in the SIP effective from 30 September 2019.

The policies on stewardship and engagement, together with information on voting behaviour, have been treated separately for clarity.

Changes to the SIP over the year to 31 March 2020

The SIP was updated on 30 September 2019 to take account of new regulations which came into effect from 1 October 2019, requiring the Trustees to include a number of policies relating to Responsible Investment, Stewardship (e.g. voting and engagement) and non-financial factors, such as members' views.

The Trustees consulted with the Sponsor, Servier Laboratories Limited, when making these changes and obtained written advice from their investment consultant, Aon Solutions UK Limited.

The SIP has been reviewed and revised following 31 March 2020 to take account of further regulatory changes which are required to expand the SIP for policies on cost transparency and their arrangements with their asset managers. The Trustees have outlined their policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies on cost transparency, their policies on voting and stewardship and how their policies align with that of the sponsoring employer in relation to sustainability. The most recent SIP includes the changes outlined here and was agreed and approved by the Trustees ahead of the 1 October 2020 deadline.

Meeting the objectives and policies as set out in the SIP that apply to both the Defined Benefit (DB) and Defined Contribution (DC) sections

Scope of SIP: Reviewing the SIP

"The Trustees will review this Statement and the Fund's investment strategy no later than three years after the effective date of this Statement and as soon as practicably possible after any significant change in investment policy."

The latest version of the SIP prior to the 30 September 2019 update referred to in the above section was signed on 8 March 2018. There were no significant changes to the investment strategy over the year to 31 March 2020. The Trustees are therefore comfortable that they have met this policy.

3.2 Social, environmental or ethical (ESG) considerations

"In setting the Fund's DB and DC investment strategies, the Trustees' primary concern is to act in the best financial interests of the Fund's

beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes:

- *The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly.*

The Trustees consider this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance."

This policy came into effect from 30 September 2019. The prior policy stated that there was not an active policy on social, environmental or ethical considerations but these matters would be kept under review.

During the year, the Trustees discussed how to expand this policy and how to best monitor their investment managers. The Trustees agreed to invite a different manager to each Trustees' meeting to discuss performance, investment strategy and ESG considerations amongst other relevant matters. BlackRock attended the meeting on 23 October 2019 and provided an update on their approach and agreed to circulate additional reporting. As a result of a full agenda and the pending COVID-19 situation, that pushed our Trustees meeting to an on-line format for the first time, it was agreed to postpone Investec's attendance from the 9 March 2020 meeting.

There were no changes to the asset allocation or investment managers over the year.

The Trustees are comfortable that they have met this policy.

3.3 Stewardship – Voting and engagement

"As part of their delegated responsibilities, the Trustees expect the Fund's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustees' voting rights in relation to the Fund's assets.

The Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers."

This policy is considered in more detail later in this Implementation Statement.

3.4 Members' views and non-financial factors

"In setting and implementing the Fund's investment strategy (for both DB and DC) the Trustees do not explicitly take into account the views of Fund members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

For DC members, the Trustees have made the Ethical and Islamic funds available to members who would like to invest in funds with these specific considerations. The underlying funds that make up the default fund and other self-select funds should not apply personal ethical or moral judgements as the sole basis for an investment decision."

The Trustees are comfortable that this policy has been met over the year.

3.5 Effective decision making

"The Trustees recognise that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. They also recognise that where they take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice received."

The Trustee board is made up of four Trustees with varying skill sets. With the exception of one Trustee, all Trustees are also members of the Fund. The Trustees have varying backgrounds, including an Investment specialist. The Trustees have particular areas of skills and interest that they will take the lead in relation to, including communication, investments and funding. At the Trustees' meeting on 9 March 2020, the Trustees considered the diversity of the Board and, overall, the Trustees concluded that the Board has a desirable level of diversity. The Trustees agreed that the credentials for any new future Trustee will be based on any gaps identified in skills in the Trustee Board.

The Trustees have a formal training policy in place dated June 2015. Under this policy, all Trustees are required to complete the Pensions Regulator's online training and must attend formal or informal training totalling a minimum of 12 hours each year. Each Trustee is required to maintain a training log detailing attendance of both internal and external training courses. The training log is for the period 1 April to 31 March. Training logs are submitted to the Chair of Trustees who checks that the required level of training has been met. The Chair of Trustees is happy to report that all Trustees had undertaken the required number of hours of training during the period 1 April 2019 to 31 March 2020.

During the year the Chair of Trustees carried out a review of the Trustees' board skills and a review of the effectiveness of the Board. The reviews highlighted a few areas around training that required further attention by the Trustees and these were addressed after the Fund year end at the Trustees' meeting held on 17 June 2020.

The Trustees are comfortable that this policy has been met over the year.

3.6 Additional Voluntary Contributions ("AVCs") arrangements

"Some members obtain further benefits by paying Additional Voluntary Contributions (AVCs) to the Fund. The majority of members AVC assets are invested in the same funds that are utilised for the main Fund. Some assets are also invested with Scottish Widows Fund and Life Assurance Society ["Scottish Widows"].

From time-to-time the Trustees review the choice of investments available to members to ensure that they remain appropriate to the members' needs."

Given the majority of AVCs are invested in the same funds at the main DC assets, the Trustees consider any review of the main fund to help fulfil this policy. The Trustees have tried to engage with Scottish Widows but failed to receive a response.

The Trustees are comfortable that this policy has been met over the year.

Meeting the objectives and policies as set out in the SIP that apply to DC section alone

1.1 Objectives and policy to securing objectives

"The Trustees' investment objective is to make available a range of pooled investment funds which serve to meet the varying investment needs and risk tolerance of the Fund's members. In particular, the Trustees aim to provide investment options that allow members:

- *To maximise the value of their assets at retirement*
- *To maintain the purchasing power of their savings in real (ie post-inflation) terms; and*
- *To provide protection for accumulated assets in the years approaching retirement against:*
  - *Sudden (downward) volatility in the capital value*
  - *Fluctuations in the cost of securing an income and / or cash in retirement"*

The Trustees have provided members over the course of the year with a range of investment choices. For members who do not wish to make an active investment decision, a default lifestyle arrangement is in place which gradually moves members from higher risk, growth seeking assets to lower risk capital preservation assets as they approach retirement. In addition, 11 self-select funds are available which members can choose from depending on their risk appetite and if they are comfortable making their own investment decisions.

The investment strategy of the default investment option is managed by the Trustees' fiduciary manager, Aon Investments Limited. This strategy invests members' assets in higher risk, growth assets up to 15 years before a member's retirement to help maximise the value of assets at retirement. The strategy then moves into inflation linked assets and lower risk assets to help reduce volatility and protect against fluctuations on the cost of securing an income in retirement.

The Trustees receive and review quarterly monitoring reports from their fiduciary manager. The reports provide both short and long-term fund performance on the default strategy and all other self-select funds. These reviews did not raise concern over the adequacy of the investment strategy to meet the Trustees' objectives stated above.

The Trustees are comfortable that they have met this objective over the year.

1.2.1 Strategic management

"The Trustees will regularly review the appropriateness of the three asset allocation strategies, taking into account any significant changes in the demographic profile of the relevant members, and may make changes to fund choice from time to time. Members will be advised accordingly of any changes."

The current asset allocation strategies were put into place in December 2017 following a review that started in 2015. A further review was carried out as at 28 February 2020 ("Review of the DC Investment Strategy", Aon) and discussed at the Trustees' meeting held on 9 March 2020. The Trustees met this objective by commissioning the review and deciding that the asset allocation strategies (and the self-select range of funds) remained appropriate and that no changes should be made at that time.

1.2.2 Day-to-day management

"The Trustees have regard to the suitability of the investment funds described above through periodic strategy and performance review."

The Trustees consider that they have met this objective through the strategy review carried out under objective 1.2.1 and the receipt and review of quarterly monitoring reports from the fiduciary manager. The Trustees also received an update from their fiduciary manager through a presentation at the Trustees' meeting on 9 April 2019 which covered strategic changes with the delegated fund range and comment on recent performance.

1.3 The balance between different kinds of investments

"The Trustees retain responsibility for choosing the funds available and take advice as required from its professional advisors."

The Trustees consider that they have met this objective through the strategy review carried out under objective 1.2.1.

1.4 Investment risk measurement and management

"The Trustees recognise that members take the investment risk and the Trustees manage this risk through the selection and monitoring of investment performance and the choice of funds offered to members and monitors the continued appropriateness of the default strategy for the membership."

The Trustees consider that they have met this objective through the strategy review carried out under objective 1.2.1.

Meeting the objectives and policies as set out in the SIP that apply to DB section alone

2.1 Investment objectives

"The Trustees recognise that the key objective is to maximise the probability that the Fund is able to provide all of the benefits due to members. They recognise that the investment strategy should take account of the Company's interests in respect of the size and incidence of contributions required."

The Trustees meet this objective by assessing the ability of the Fund to provide all benefits due to members through annual monitoring of the funding position and quarterly monitoring of asset performance. The asset performance is monitored by the Trustees on receipt of the quarterly reports from the investment managers, together with comment from their investment advisor at Trustees' meetings (and in between meetings by the Trustees’ request or when the consultant considers it necessary). One example of the ad-hoc monitoring concerns an update in March 2020 from the investment consultant on the Fund's asset performance as the Coronavirus pandemic started to spread around the globe and led to a significant downturn in investment markets.

2.3 Choosing investments

"It is the Trustees’ intention to ensure that the assets of the Fund are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to an investment manager) in a manner calculated to ensure, as far as is reasonably practicable, the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk, a spread of assets is held. The diversification is both within and across the major asset classes.

Assets held to cover the Fund's technical provisions (the liabilities of the Fund) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Fund.

The assets of the Fund are invested predominantly in regulated markets (with investments not in regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made insofar as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

BlackRock will make extensive use of derivatives in their pooled LOI fund in order to provide leveraged exposure to interest rates. However, and as noted above, these are only used in-so-far as they contribute to the reduction of investment risks and are managed so as to avoid excessive risk exposure to a single counterparty of other derivative operations.

The Trustees monitor the level of self-investment by the Fund on a periodic basis and are satisfied that at the current time there is negligible self-investment."

The Trustees received advice on all of the above factors to be considered when choosing investments at the point of the implementation of the DB Section's investment strategy. No changes have been made to the strategy since implementation and the Trustees were not made aware of any changes at each investment manager that would compromise the above factors. The Trustees therefore consider that they have met this objective over the year.

The Trustees monitor the level of self-investment annually through the reporting requirements of the Trustees' Report and Accounts.

2.4 The balance between different kinds of investments

"The Trustees recognise that the key source of financial risk in relation to meeting its objectives arises from asset allocation. It therefore retains responsibility for setting the Fund's overall asset allocation and takes advice as required from its professional advisers.

The Trustees review their investment strategy in conjunction with each formal actuarial valuation of the Fund or more frequently should the circumstances of the Fund change in a material way."

There was no formal actuarial valuation completed in the year to 31 March 2020. However, the Trustees discussed the investment strategy, and in particular the split between growth and liability matching assets, at the Trustees' meeting held on 23 October 2019. A further review was carried out as at 28 February 2020 ("Review of the DC Investment Strategy update: Growth / matching split", Aon) and discussed at the Trustees' meeting held on 9 March 2020. The Trustees therefore consider that this policy has been met during the year to 31 March 2020.

2.5 Investment risk measurement and management

"The most important risks are recognised as arising from asset allocation. These will be assessed at least annually and following an update of the actuarial valuation. This assessment is forward-looking and may incorporate the use of asset and liability modelling techniques. Checks will be made to assess whether the funding and investment strategy remains on target to achieve the original objectives and within acceptable parameters. If it does not then corrective action will be considered by adjusting investment policy or through amendments to the Schedule of Contributions.

Risks associated with changes in the employer covenant are assessed by monitoring the Failure Score as defined for the purposes of calculating the risk-based element of the Pension Protection Fund levy. The Trustees also have an agreement with the principal employer to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employer.

In particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator, and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Fund's existing investment strategy.

For due diligence and good governance purposes, the Trustees will meet with the investment managers on a regular basis."

The Trustees discussed the appropriateness of using diversified growth funds as their growth assets at the Trustees' meeting on 9 April 2019.

The Trustees were not notified of any changes in the employer covenant due a change in failure score, Type A event or alteration of creditworthiness of the sponsor over the year to 31 March 2020.

The Trustees invited BlackRock to attend the Trustees meeting on 23 October 2019 to discuss the LDI and growth portfolios held by the Trustees. The discussion also covered the level of Environmental, Social and Governance ("ESG") integration into BlackRock's decision-making process when selecting investments.

The Trustees therefore consider that this policy has been met during the year to 31 March 2020.

Stewardship Policy Implementation: Introduction

The Trustees' stewardship policy as set out in the SIP, as at the accounting year end 31 March 2020, states:

"As part of their delegated responsibilities, the Trustees expect the Fund's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets: and
- exercise the Trustees' voting rights in relation to the Fund' assets.

The Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers."

The Servier Laboratories Limited Pension Fund is a hybrid pension scheme.

- For the Defined Contribution (DC) section of the Fund, the Trustees delegate portfolio management including the selection, retention and realisation of investments to the fiduciary manager, Aon Investments Limited ("AIL"). As at 31 March 2020, the Fund was invested in 36 underlying investment funds, of which 20 were equity funds and 16 were invested in other asset classes such as Fixed Income, Infrastructure and Property
- For the Defined Benefit (DB) section, the Fund invests in two diversified growth funds alongside the matching portfolio and liquidity fund.

The following sections set out the actions undertaken by the Trustees, service providers and applicable investment managers, to implement the stewardship policy as set out in the SIP as well as including voting and engagement information that has been gathered from the respective investment managers.

Stewardship Policy Implementation:

Trustees' activity over the year to 31 March 2020

Prior to the year covered by this Statement, in December 2018, the Trustees carried out Responsible Investment ("RI") training, including a discussion on the different approaches to RI, types of ESG factors, regulation and other drivers. This included a recap of the ESG Ratings process carried out by the investment advisers on the Fund's behalf as well as a recap of the 3-stage process that AIL carry out on behalf of the Trustees (described as 'Assess, Engage, Deliver'). This was recapped at the 9 April 2019 meeting.

At the 15 July 2019 meeting, the Trustees' stewardship policy was agreed. It was noted that the Fund invests in pooled funds and therefore the Trustees have limited ability to have their views reflected in the investment choices made. Therefore, the Trustees expect the managers to fulfil this as part of their delegated responsibilities and will regularly review the continued suitability of the investment managers.

The Trustees aim to invite a different investment manager to each Trustees' meeting to engage with them on performance, strategy and ESG considerations amongst any other relevant matters. Over the year, the Trustees invited BlackRock (DB Liability Driven Investment, Liquidity and Diversified Growth fund manager) to present an update at the October 2019 Trustees' meeting. The Trustees engaged with them on a number of areas including their performance, strategy, risk, corporate governance and ESG practice. The Trustees engaged with their DC fiduciary manager, AIL, through their attendance at the meeting on 9 April 2020.

The Trustees regularly review the quarterly investment reports prepared by the investment managers for DB and AIL for DC. For DB, Ninety One (formerly Investec) provided an ESG review within their quarterly report which provides an update on relevant business and industry developments, as well as developments with their investment teams, and highlighted the engagement and proxy voting activities over the quarter. The Trustees have requested that BlackRock include ESG metrics into quarterly reports. Amongst other analysis, the DC report includes ESG ratings on applicable managers. These ESG ratings reflect analysis carried out by the investment adviser assessing the investment managers on the extent of ESG integration and Stewardship programs.

Stewardship Policy Implementation:

Defined Contribution Section

Under the Trustees' fiduciary mandate managed by AIL, AIL appoint underlying investment managers to achieve an overall target return. The Trustees delegate the monitoring of ESG integration and stewardship of the underlying investment managers to AIL. AIL have confirmed that all equity and fixed income managers have been rated 2 or above on Aon's four-tier ESG ratings system[1].

In addition to assessing and monitoring managers via the ESG ratings and regular dialogue. Over the year, AIL have carried out a number of proactive engagements and discussions with appointed managers. For example, themes of regular discussion with Blackrock include detailed voting rationale, voting detail at fund level and their future role within Climate Action 100+.[2]

All applicable appointed fund managers used service providers (typically ISS and/or Glass Lewis) to provide proxy vote related services that may include research, vote recommendations, vote execution and record keeping. All applicable managers typically have their own voting guidelines and do not simply accept the service provider's vote recommendation.

Most of the equity funds voted at least 95% of all potential votes. Exceptions include the BlackRock Global Developed Fundamental Weighted Index and BlackRock Global Property Securities Index Tracker Fund where 93% and 92% of eligible resolutions over the year were voted on. While BlackRock aim to vote at all shareholder meetings of companies, in cases where there are significant obstacles to voting, such as share blocking or requirements for a power of attorney, they will review the resolutions to assess the extent of the restrictions on voting against the potential benefits.

[1] More information on the Aon ESG Ratings process can be found here: https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment-GuideESGRatings.aspx

[2] Climate Action 100+ is an investor initiative to systematically engage with the world's most important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. http://www.climateaction100.org/

The majority of managers demonstrated a level of independence as seen from most of the funds voting against company management at least around 4% of the time. Exceptions include the Blackrock UK Equity Optimum Fund and the Lindsell Train UK Equity Fund, however, this is not a significant concern given the geography and relatively smaller companies held within the funds. An example of the other side of the spectrum is the HSBC Islamic Global Equity Index Fund that voted against the company management recommendation 11% of the time.

2020 in particular has seen improved reporting from many managers who have introduced new processes to track, record and publish their voting records. An example of detailed reporting is from Newton Investment Management, whoseQ1 2020 Report can be found here: https://www.newtonim.com/uk-institutional/file/responsible-investment-report-q1-2020-uk/ . An example of a significant vote from this report is where Newton voted against the Bangkok Bank management recommendation on the acquisition of an Indonesian bank owing to the Newton belief that it would be a poor use of shareholders' capital.

AIL are generally satisfied with all managers meeting at least minimum expectations on their exercising (and corresponding disclosures) of voting rights. However, AIL were not satisfied with the records that one of the global active equity managers had to justify their voting decisions. In particular, insufficient rationale was provided in relation to voting against a resolution for a gender pay report which may have been positively financially material for the company in the long-term. AIL have provided formal feedback to the manager explaining that they must make improvements in this area, by ensuring they can provide sufficient rationale to justify voting decisions which are contentious.

As per the stewardship policy, AIL, on behalf of the Trustees review stewardship information of the appointed underlying managers across all asset classes and are content that the managers are carrying out at least the minimum expectation of them in relation to their responsibility to engage with the companies they invest in. Nonetheless, AIL note that there are varying levels of engagement across managers and continue to encourage movement towards better practices.

An example of a progressive engagement carried out by one of the Fixed Income managers PIMCO is with respect to the company Verizon. Verizon demonstrated commitment to specific climate targets, such as lowering its carbon intensity by 50% as well as increasing energy needs met by renewable energy to 50%, both by 2025. They also issued one of the first green bonds in the telecommunications industry. PIMCO engaged with the company in 2019 on its climate strategy to enhance its environmental credentials in line with advanced practices and green bond reporting. The company committed to publish its first green bond report in early 2020, to setting a science based target (Scope 1, 2, and 3 emissions) by September 2021, and to be carbon neutral (Scope 1&2) by 2035.

Stewardship Policy Implementation:

Defined Benefit section

Within the Defined Benefit arrangement, BlackRock and Ninety One (previously Investec) exercised voting rights on behalf of the Trustees in their investment in the BlackRock Dynamic Diversified Growth Fund and Ninety One Diversified Growth Fund.

Both managers receive proxy voting services from ISS but ultimately make decisions using internal guidelines and inputs.

BlackRock voted 96% of all possible resolutions, with 5% of votes against management. Ninety One voted on 85% of all possible resolutions, though they have added that they aim to cast a voting decision across 100% of holdings, which may be a 'do not vote' decision for several reasons including where there is a conflict of interest, share-blocking restrictions, power-of-attorney restrictions or where they did not hold the stock at the time of voting.

BlackRock have issued public voting bulletins on some significant votes, including on companies the Fund invests in via the Dynamic Diversified Growth Fund such as BHP Group and Qualcomm. The voting bulletins are available here: https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-and-voting-history.

Similarly Ninety One provide detailed information, including voting case studies in their annual stewardship report https://ninetyone.com/-/media/documents/stewardship/91-esg-annual-stewardship-report-en.pdf .

An example of a significant vote in relation to the Diversified Growth Fund specifically was an abstain vote on a Partners Group Holding AG management resolution to approve a remuneration report. Ninety One chose to abstain due to the rationale of a lack of alignment between pay and performance.

BlackRock reported that of the 537 companies held in the portfolio, they held 468 engagements with 279 individual companies. Ninety One carried out meetings, calls or bespoke letters with companies with around 10% of companies held within the portfolio.

An example of engagement carried out by Blackrock is with regards to a UK self-storage company. Following votes against management on executive pay dating back to 2017 and Blackrock's multi-year engagement with the company, the company announced it would make changes to its compensation practices. These changes were reflected in the management's updated compensation policy and long-term incentive plan, which Blackrock supported; both received nearly 98% shareholder support.

Engagement Policy Implementation:

Conclusion

The Trustees consider the Fund's investment managers to be exercising their respective voting and engagement abilities in a largely responsible manner and that the Trustees' stewardship policy is being appropriately implemented to a large extent on their behalf. The Trustees will continue to consider and discuss best practice in these areas with their investment adviser and amend policies and action plans when needed.
