

Implementation Statement, covering the Plan Year from 1 April 2020 to 31 March 2021

The Trustee of the Philip Morris Group Pension Plan (the “Plan”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the Plan Year.

The Statement is also required to include a description of the voting behaviour during the Plan Year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year.

1. Introduction

No changes were made to the voting and engagement policies in the SIP during the Plan year. The last time the SIP was formally reviewed was September 2020.

The Trustee has, in its opinion, followed the policies in the Plan’s SIP during the Plan Year, by continuing to delegate to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. The Trustee took a number of steps to review the Plan’s new and existing managers and funds over the period, as described in Section 2 (Voting and engagement) below.

2. Voting and engagement

As part of its advice on the selection and ongoing review of the investment managers, the Plan’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

In July 2020 State Street Global Advisors (SSGA) notified the Trustee that it will be automatically excluding UN Global Compact violators and controversial weapons from some of its Managed Pension Fund (MPF) index funds, including ones that the Plan is invested in. This would be implemented by changes to the underlying benchmarks of the affected funds.

From November 2020, the equity funds used by the Plan cease to invest in any companies which meet the following criteria assessed by FTSE Russell:

- Controversies/Breach of UN Global Compact Principles
- Controversial Weapons.

In assessing the appropriateness of these changes for the Plan, the Trustee’s investment advisor (LCP) focused on their consistency with the Trustee’s fiduciary duty to act in members’ best financial interests.

In general, LCP do not regard an exclusionary screens as the best way of taking account of environmental, social or governance (ESG) factors for financial reasons since it precludes any investment in affected companies, regardless of whether their share/bond prices fully reflect the ESG risks and opportunities.

However, overall LCP did not expect the screens to have a material impact on the Plan’s future aggregate investment returns, and were comfortable with their introduction. The Trustee subsequently considered this issue and LCP’s advice, and were comfortable with the change going ahead.

3. Description of voting behaviour during the Plan Year

All of the Trustee holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore, the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Plan Year.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Plan’s funds that hold equities as follows:

- State Street Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund
- State Street Emerging Markets ESG Screened Index Equity Sub- Fund

- State Street Europe ex UK ESG Screened Index Equity Sub- Fund
- State Street Japan ESG Screened Index Equity Sub-Fund
- State Street North America ESG Screened Index Equity Sub-Fund
- State Street UK ESG Screened Index Equity Sub-Fund

The Trustee has sought to obtain the relevant voting data for this selection from the investment manager listed above. None of the other pooled funds that the Plan invested in over the Plan Year held any assets with voting opportunities.

3.1 Description of the voting process

State Street Global Advisors

“In order to facilitate SSGA’s proxy voting process, SSGA retains Institutional Shareholder Services Inc. (ISS), a firm with expertise in proxy voting and corporate governance. SSGA utilizes ISS’s services in three ways. First, as SSGA’s proxy voting agent, ISS provides SSGA with vote execution and administration services. Second, ISS applies SSGA’s Proxy Voting Guidelines where appropriate. Lastly, ISS provides research and analysis related to general corporate governance issues and specific proxy items.

The Stewardship team reviews its Proxy Voting Guidelines with ISS on an annual basis or on a case- by-case basis as needed. ISS affects the proxy votes in accordance with SSGA’s Proxy Voting Guidelines. Voting matters that are nuanced or that require additional analysis are referred to and reviewed by members of the Stewardship team. Members of the Stewardship team evaluate the proxy solicitation to determine how to vote based on facts and circumstances consistent with SSGA’s Proxy Voting Guidelines, which seek to maximize the value of our client accounts.

As an extra precaution, the Stewardship team will refer significant issues to the Proxy Review Committee (“PRC”) for a determination of the proxy vote. In addition, other measures are put in place in terms of when and whether or not to refer a proxy vote to the PRC. For instance, the Stewardship team takes seriously whether a material conflict of interest exists between proxy issuers or companies and those of SSGA or its affiliates. If such a case occurs, there are detailed guidelines for how to address this concern.

SSGA votes in all markets where it is feasible. However, when SSGA deems appropriate, it could refrain from voting meetings in certain cases, for example if power of attorney documentation is required or voting will have a material impact on SSGA’s ability to trade the security.

All voting decisions are exercised exclusively in accordance with SSGA’s in-house policies and/or specific client instructions. SSGA has established robust controls and auditing procedures to ensure that votes cast are executed in accordance with SSGA instructions. Transparency on these key issues is vital at SSGA. In this regard, SSGA publishes a record of its global voting activity on the Asset Stewardship section of the website.”

The Trustee has reviewed State Street’s description of its voting process above and find it consistent with its understanding of how stewardship is applied to the funds it invests in.

3.2 Summary of voting behaviour over the Plan Year

A summary of voting behaviour over the period is provided in the table below.

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6
Manager name	SSGA	SSGA	SSGA	SSGA	SSGA	SSGA
Fund name	Asia Pacific ex Japan ESG Screened Index Equity Sub- Fund	Emerging Markets ESG Screened Index Equity Sub- Fund	Europe ex UK ESG Screened Index Equity Sub- Fund	Japan ESG Screened Index Equity Sub-Fund	North America ESG Screened Index Equity Sub-Fund	UK ESG Screened Index Equity Sub-Fund
Total size of fund at end of reporting period	£77.8m	£4.0bn	£2.2bn	£1.1bn	£5.5bn	£2.9bn
Value of Plan assets at end of reporting period (£ / % of total assets)	£0.7m	£0.7m	£2.3m	£0.8m	£2.3m	£6.2m

Number of equity holdings at end of reporting period	391	1652	443	504	642	583
Number of meetings eligible to vote	442	3310	538	518	674	740
Number of resolutions eligible to vote	3104	30252	9178	6223	8377	10486
% of resolutions voted	100%	98.4%	99.3%	100%	100%	1.0%
Of the resolutions on which voted, % voted with management	83.0%	84.3%	88.7%	91.6%	90.4%	91.4%
Of the resolutions on which voted, % voted against management	17.0%	15.7%	11.3%	8.4%	9.6%	8.6%
Of the resolutions on which voted, % abstained from voting	0.6%	2.5%	0.5%	0.0%	0.7%	0.6%
Of the meetings in which the manager voted, % with at least one vote against management	62.4%	46.0%	61.2%	54.1%	56.4%	69.9%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	10.1%	9.1%	5.9 %	6.6%	10.5%	8.2%

Source: SSGA. Votes of Abstain can be counted both as a vote of abstain but also as a Vote Against Management and hence Vote with management, vote against management and abstain from voting may add up to more than 100%.

12.3 Most significant votes over the Plan Year

Commentary on the most significant votes over the period, from the Plan's asset managers who hold listed equities, is set out below.

State Street Global Advisors

In determining significant votes, SSGA considers factors including the size of its holdings, past engagement, corporate performance, and voting items identified as areas of potential concern. Based on this assessment, SSGA will not only allocate appropriate time and resources to shareholder meetings but will also assign specific ballot items of interest to ensure maximization of value for its clients.

Due to the number of votes provided by SSGA, the Trustee has chosen a subset of votes to report on in the Statement (one from each fund). The votes selected are those in which SSGA owned a material share of the company and those that relate to ESG factors.

- **Aristocrat Leisure Limited, Australia States, 26 February 2021, Vote: Against**

Summary of resolution: Advisory vote to ratify named executive officers' compensation.

SSGA rationale: Voted against management recommendation, as this item does not merit support as SSGA has concerns with the proposed remuneration structure for senior executives at the company.

Criteria against which this vote has been assessed as "most significant": The vote is significant as the resolution relates to the ratification of executive officers' compensation.

- **China Mobile Limited, Hong Kong, 20 May 2020, Vote: Against**

Summary of resolution: Elect Director

SSGA rationale: SSGA voted against the proposal (and against management recommendation) due to the lack of gender diversity on the board.

Criteria against which this vote has been assessed as “most significant”: The vote is significant as SSGA voted against the election of a director due to a lack of diversity.

- **Skandinaviska Enskilda Banken AB, Sweden, 30 March 2021, Vote: Against**

Summary of resolution: Climate change action

Rationale: This shareholder proposal did not merit support as SSGA deemed the company's disclosure and/or practices related to climate change as reasonable.

Criteria against which this vote has been assessed as “most significant”: The vote is significant as it related to the climate reporting of Skandinaviska Enskilda Banken AB.

- **Chubu Electric Power Co, Inc. Japan, 25 June 2020, Vote: Against**

Summary of resolution: Phase out nuclear facilities

SSGA rationale: SSGA voted against the proposal (in line with management) as they deemed the company's disclosure and/or practices related to nuclear power are reasonable.

Criteria against which this vote has been assessed as “most significant”: The vote is significant as it is related to the nuclear power reporting of Chubu Electric Power Co, Inc.

- **The Coca-Cola Company, United States, 22 April 2020, Vote: Against**

Summary of resolution: Shareholder proposal relating to product toxicity and safety

SSGA rationale: SSGA voted against the proposal (in line with management recommendation) as they deemed the company's disclosure and/or practices related to product toxicity and safety reasonable.

Criteria against which this vote has been assessed as “most significant”: The vote is significant as it is related to the product safety of the Coca-Cola company.

- **Royal Dutch Shell Plc, United Kingdom, 19 May 2020, Vote: Against**

Summary of resolution: Activist shareholder proposal on greenhouse gas emissions

SSGA rationale: SSGA voted against the proposal (in line with management recommendation) as they deemed the company's existing disclosures and/or practices reasonable.

Criteria against which this vote has been assessed as “most significant”: The vote is significant as it is related to the climate reporting of greenhouse gas emissions.