

Sumitomo Mitsui Banking Corporation Europe Limited Pension Scheme (the “Scheme”) - Implementation Statement for the year ending 31 December 2020

Welcome to the Trustees statement of how they implemented the policies and practices in the Scheme’s Statement of Investment Principles (SIP) during the year ending 31 December 2020.

Introduction

This is the Trustees’ first Implementation Statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This Statement sets out how the Trustees have complied with the policies and practices in the Scheme’s SIP during the period from 1 January 2020 to 31 December 2020.

Why do the Scheme’s investments matter to me?

The Scheme provides you with benefits on a defined benefit (“DB”) and/or a defined contribution (“DC”) basis (sometimes called money purchase benefits). Benefits which are DB in nature are based on the service you have completed in the past but take account of expected future salary increases. Contributions from the employer are invested in such a way as to meet your DB benefits as they fall due. Benefits which are DC in nature will be determined by how much the funds where your savings are invested grow over the years.

What is the Statement of Investment Principles (‘SIP’)?

The SIP sets out the investment principles and practices the Trustees follow when governing the Scheme’s investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the funds used and the Trustees approach to responsible investing (including climate change).

This Implementation Statement is in respect of the Scheme’s SIP that was in place over the year to 31 December 2020. In order to reflect new regulatory requirements, the SIP was reviewed and signed by the Chair during the last Scheme year on 9 July 2020. The main changes to the SIP were as follows:

- How the Trustees take account of ‘financially material considerations’ from a strategic, structural and investment manager selection perspective. ‘Financially material considerations’ includes, but is not limited, to Environmental, Social and Governance (ESG) factors. Climate change is an issue singled out for attention;
- The extent to which any non-financial matters are considered;
- The Trustees’ approach to stewardship activities for the assets held, including how they engage with investment managers, delegation of voting rights and the monitoring process carried out by the Trustees;

Apart from the inclusion of the topics referenced in the above bullet points, the Scheme’s SIP between 31 December 2019 and 9 July 2020 was fundamentally the same as the SIP signed on 9 July 2020 from an investment policy, objective and risk management perspective. The next review of the SIP will take place no later than July 2023, or sooner if there are changes to the investment strategy.

You can find a copy of the Scheme’s SIP at <https://www.smbcgroup.com/pdf/emea/smbce-pensions-statement-of-investment-principles.pdf/>

What is the Implementation Statement for?

Each year from 2020, the Trustees are required to prepare an Implementation Statement which sets out how they have complied with the Scheme’s SIP during the last Scheme year. This report covers the SIP that was signed on 9 July 2020 as well as the SIP in place between 1 January 2020 and 9 July 2020.

Overall, the Trustees are satisfied that:

- **Throughout the last Scheme year, the Scheme’s investments have broadly been managed in accordance with the SIP at that time; and**
- **The provisions in the current SIP remain suitable for the Scheme’s members.**

How the Scheme’s investments are governed

The Trustees have overall responsibility for how the Scheme’s investments are governed and managed in accordance with the Scheme’s Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

There have been no changes to the Trustees or the governance processes during the last year.

The Trustees have delegated day-to-day investment decisions, such as which investments to buy and sell, to the their investment manager, currently Legal and General Investment Management (“LGIM”).

The Trustees undertook the following during the last year to ensure that their knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
June 2020	The Pensions Regulator’s new DB Funding Code	Training on the more prescriptive DB code of practice.	Hymans Robertson
December 2020	Responsible Investment	Training on the implication of the new SIP requirements.	Hymans Robertson

The Trustees hold their investment advisers to account by monitoring how well they meet the objectives agreed with them. These are intended to help the Trustees meet their SIP objectives by aligning the objectives with the requirements of the SIP, including minimising risks, considering responsible investment and providing appropriate advice, monitoring and training.

The Trustees are satisfied that during the last Scheme year:

- **The Scheme’s DC governance structure was appropriate; and**
- **The Trustees have maintained their understanding of investment matters;**

The Trustees have liaised with their investment adviser in relation to their objectives and will review their investment adviser against their agreed objectives in late 2021.

How the investment strategy is managed

The objectives and rationale for the investment strategy is set out in the Scheme’s current SIP on page 1.

DC members currently have units allocated in each of the underlying pooled funds, in proportion to the strategic asset allocation.

The Trustees have reviewed certain segments of the investment strategy and structure over the last year. This included the Scheme’s matching portfolio (gilts and index-linked gilts).

The Trustees have not carried out a formal investment strategy review over the last Scheme year but, in line with the SIP, expect to review the strategy in the 2021/22 Scheme year following the triennial actuarial valuation.

Over the last Scheme year, the Trustees monitored fund performance relative to LGIM's respective benchmarks and targets on a quarterly basis.

How investments are chosen

The Trustees approach to the selection of new investments is set out in the SIP on pages 2-4.

The Trustees review the performance of LGIM, its mandate and the underlying pooled investment funds (which are all passively managed) on a regular basis against a series of metrics, including, but not limited to, financial performance against the benchmark and objectives of the mandate and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Over the last Scheme year, the Trustees amended the LGIM mandate to include Liability Driven Investment ("LDI" funds).

For any future manager appointments, the Trustees will continue to consider the policies set out in the SIP, especially around the remuneration of managers.

The expected risks and returns in the Scheme

The investment risks and returns relating to the Scheme are described in the SIP on pages 3 and 4.

The Trustees believe that the main investment risks the Scheme faces as described in the SIP have not changed materially over the last year.

The Trustees are satisfied that through a diversified portfolio, systemic risk can be mitigated, and accept that it is not possible to make specific provision for all possible eventualities which arise under this heading.

The Trustees' views on the expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the Scheme invests in over the longer-term) and the style of management adopted by the Scheme.

When determining the long-term mix of investments for the Scheme, the Trustees monitored and managed risks as described in the SIP.

Ability to invest / disinvest promptly ('liquidity')

It is important that member benefits can be received promptly, and that the Scheme's investments can be realised quickly if required. The emergence of the COVID-19 pandemic in March did bring with it concerns over a lack of liquidity, mainly in credit markets, however with central bank support, these concerns were abated.

No issues of liquidity were reported over the last Scheme year.

Portfolio turnover within funds

The Trustees monitor the volume of buying and selling of the assets underlying each pooled investment fund by the fund managers. Short-term changes in the level of turnover may be expected when a manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover might indicate a shift in the amount of risk the manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustees.

The Trustees are satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives.

Manager incentives

As described on page 2 of the SIP, the Trustees seek to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

Following the end of the year, the Trustees have reviewed the fees paid to all its managers against industry standards.

Additional Voluntary Contributions (AVCs)

The Trustees offer members the opportunity to pay additional contributions and invest in a range of vehicles at the members' discretion. The Trustees holds these assets separately from the Scheme to secure benefits on a money purchase basis for those DB members electing to pay AVCs.

The Trustees periodically monitor the investment suitability of the underlying AVC fund range.

The Trustees have thought about the policies specified in the SIP and have applied them in a proportionate manner to the Scheme's AVCs. Therefore, the reporting summarised elsewhere in the Implementation Statement also broadly holds true for the Scheme's AVC investments.

Conflicts of interest

As described on page 6 of the SIP, the Trustees consider potential conflicts of interest.

Over the last Scheme year, the Trustees considered any conflicts of interest arising in the management of the Scheme and its investments and have ensured that the appropriate conflicts of interest policies are in place.

Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Scheme's assets which includes the Trustees approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment manager, LGIM. The Trustees believe it is important that LGIM takes an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with LGIM which is undertaken in conjunction with their investment advisers. The Trustees meet regularly with LGIM to consider their exercise of stewardship both during these meetings and through reporting provided by their investment adviser.

The Trustees also monitor their compliance with their Stewardship Policy on a regular basis and are satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

Voting activity

The Trustees seek to ensure that LGIM is exercising voting rights and, where appropriate, will monitor voting patterns. The Trustees also monitor LGIM's voting on particular companies or issues that affect more than one company.

The Trustees have investments in equity assets. LGIM has reported on how votes were cast in each of these mandates as set out in the table below.

LGIM Index Fund	UK Equity	North America Equity – GBP Hedged	Europe Ex UK Equity – GBP Hedged	Japan Equity – GBP Hedged	Asia Pacific (ex Japan) Equity – GBP Hedged	Emerging Markets Equity
Proportion of Scheme assets at 31 December 2020	4.4%	1.6%	1.4%	0.7%	0.7%	1.1%
No. of meetings eligible to vote at during the year	894	804	635	547	515	3,778
No. of resolutions eligible to vote on during the year	12,468	9,634	10,402	6,538	3,634	34,537
% of resolutions voted	100%	100%	99.9%	100%	100%	99.9%
% of resolutions voted with management	93.1%	72.3%	84.2%	89.7%	73.2%	85.5%
% of resolutions voted against management	6.9%	27.7%	15.4%	13.3%	26.8%	13.0%
% of resolutions abstained	0.0%	0.0%	0.3%	0.0%	0.0%	1.5%
% of meetings with at least one vote against management	3.2%	7.7%	4.5%	5.6%	10.1%	4.9%

Significant votes

The Trustees have asked LGIM to report on the most significant votes cast within the portfolios they manage on behalf of the Trustees. LGIM were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement they had undertaken with the company and the outcome of the vote. From LGIM's reports, the Trustees have identified the following votes as being of greater relevance to the Scheme:

Date	Fund	Company	Subject	Manager's vote and rationale	Outcome
07/09/20	UK Equity	International Consolidated Airlines Group	Remuneration	Opposed – LGIM believed the size of the bonus payments to the departing CEO and current executives was excessive given recent events in laying off 30% of the workforce, seeking an additional	Vote passed – Around 30% of shareholders voted against the remuneration package and LGIM will continue to

				€2.75bn from investors during the pandemic and withdrawing their 2020 dividends.	closely engage with the new board.
11/12/20	North America Equity – GBP Hedged	Medtronic plc	Executive Officers' Compensation	Opposed - Following the end of the financial year, executive directors were granted a special, one-off award of stock options to compensate for no bonus being paid out during the financial year. LGIM voted against the one-off payment as they are not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criteria were not met. Prior to the AGM they engaged with the company and clearly communicated their concerns over one-off payments.	Vote passed - The voting outcome was as follows: For: 91.73%; against: 8.23%.
13/10/20	North America Equity – GBP Hedged	The Procter & Gamble Company (P&G)	Environmental	For – P&G to produce a report on their effort to eliminate deforestation. P&G use palm oil and forest pulp as raw materials within their products and have only obtained sustainable certification for around one-third of its supplies despite setting a goal of 100% by 2020. These are significant contributors to illegal deforestation and LGIM believe they have not done enough to combat this nor show significant commitment to doing so in the future.	Vote passed – The resolution received two-thirds of shareholders support including LGIM who continue to engage with P&G on the issue and monitor its sustainability disclosure for improvements.

05/05/20	Europe Ex UK Equity – GBP Hedged	Lagardere	Director appointments	For – Amber Capital, a 16% shareholder proposed removing all incumbent director pre-2019 and appointing 8 new directors to the Supervisory Board (SB). LGIM agreed with their opinion that company strategy was not creating value for shareholders and the structure was restricting the SB from holding management accountable.	Vote rejected – The vote did not pass but did receive a significant portion of overall votes at c35%, suggesting other shareholders have similar concerns. LGIM continue to engage with the company on its future strategy, corporate structure and long-term plans.
30/6/20	Japan Equity – GBP Hedged	Olympus Corporation	Director Appointment	Opposed – LGIM believe that Japanese companies lack diversity at board level when compared to Europe and the US regarding the proportion of women in senior roles.	Vote passed – LGIM continue to engage with all Japanese company boards and since the beginning of 2020 have voted against board appointments within the largest Japanese companies who have no female directors on their board.
22/10/20	Asia Pacific (ex Japan) Equity – GBP Hedged	Whitehaven Coal	Environmental	For – Shareholders asked for a report exploring an increase in the amount of capital returned to them following the potential wind-down of the company's coal operations. LGIM have publicly supported this stance.	Vote rejected – only a small percentage of shareholders voted for this resolution. The company has previously broken environmental laws surrounding mining and is on LGIM's Future

					World protection List of exclusions with their ESG funds not investing in this company. They continue to monitor the company.
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LGIM voted against management across a wide range of topics including remuneration, environment and governance. They take an active role when engaging with companies to better understand the reasons behind a resolution and vote against the majority if they believe a better outcome can be achieved.

Engagement activity

The Trustees hold meetings with LGIM on a regular basis where stewardship issues are discussed in further detail. Over the last 12 months, the Trustees have met with LGIM twice.

LGIM produces a report on their wider stewardship activity over the year detailing their engagement activity across their entire range of funds. The following table summarises the key engagement activity for the 12-month period ending 31/12/2020.

Topic Engaged on	Number of times topic was engaged
Climate Change Matters	407
Executive Remuneration	234
Diversity (gender and ethnicity)	174
Board Composition	94
Strategy	92

The above are the top five topics LGIM engaged with companies on over 2020 with LGIM frequently engaging on executive remuneration as well as topics surrounding climate change and sustainability. The main methods of engagement were management meetings, shareholder calls and AGMs.

Use of a proxy adviser

Over the Scheme year, LGIM have made use of the services of Institutional Shareholder Services (ISS), a proxy voting advisor. LGIM use ISS's 'Proxy Exchange' platform in conjunction with their own in-house custom voting policy.

Review of policies

The Trustees have committed to reviewing LGIM's responsible investing policies on a regular basis. This review was undertaken by the Trustees on June 2020. The review considered LGIM's broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustees also considered changes to LGIM's voting policies.

The Trustees and their advisors remain satisfied that the responsible investment policies of LGIM and, where appropriate, the voting policies, remain suitable for the Scheme.

Limitations and missing information

The Trustees have been unable to obtain full information on voting data and engagement activity for the Scheme's AVC investments. The Trustees believe that this is a temporary issue while platform providers and fund managers put these new reporting requirements in place. The Trustees and their investment adviser will work with the AVC manager (and voting service agencies) to compile this information in readiness for next year's Implementation Statement.