

Implementation Statement for year ending 31 December 2020

Knowles Europe Pension Plan

Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustees of the Knowles Europe Pension Plan (the “Plan”) covering the Plan year to 31 December 2020.

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustees, the Plan’s Statement of Investment Principles (“SIP”) required under section 35 of the Pensions Act 1995 (including any engagement policy contained within it) has been followed during the year;
- detail any reviews of the SIP the Trustees have undertaken, and any changes made to the SIP over the year as a result of the review;
- describe the voting behaviour by, or on behalf of, the Trustees over the year.

A copy of this implementation statement will be made available on the following website: <https://www.ptluk.com/Statement-of-investment-principles> and included in the Trustees’ annual report and Plan accounts for the year to 31 December 2020.

This is the first year of the Plan providing an Implementation Statement and the format of the statement is expected to evolve over time as practices are established.

Adherence to the SIP

In the Trustees’ opinion, at all times during the year to 31 December 2020, the SIP in force at the relevant time during that period (including any engagement policy contained within it) has been followed.

Trustees’ voting and engagement policy

In line with the SIP, the Trustees have delegated all day-to-day investment decisions to State Street Global Advisors Limited (“State Street”). The Plan’s assets (other than those in respect of AVCs) are entirely passively managed and invested in State Street pooled arrangements.

Due to the primarily passive nature of the Plan’s investments, the Trustees recognise that no material decisions are taken by the investment manager on the holdings to be included in the portfolio. However, the Trustees expect that the extent to which social, environmental or ethical issues may have a fundamental impact on the portfolio will be taken into account by the investment manager in the exercise of their delegated duties. Indeed, State Street took the decision in 2020 to exclude UN Global Compact violators and controversial weapons companies from some of its pooled funds. The Trustees will monitor the activities of its manager in this regard from time to time but appreciate that its applicability may be limited for certain asset classes such as bonds.

The Trustees receive annual updates from the investment consultant on the investment manager’s performance and whether there have been any changes to the investment manager’s research ratings. This is discussed at Trustee meetings together with whether the manager is performing in line with the Plan’s objectives. The Trustees are satisfied that the manager is engaging with investee companies in a manner aligned with the Plan’s long-term investment objectives.

The Trustees’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Non-financial matters policy

Non-financial matters, such as the views of beneficiaries and members of the Plan, have not been (and are not ordinarily) taken into account in determining the Trustees' investment principles or the current investment strategy.

Specific requirements

In years where a full review of the investment policy is not undertaken, the Trustees conduct a high-level review of the Plan's investments which specifically covers some of the Trustees' requirements under the SIP in force at the time of the review. The last such review took place in June 2020.

The table below sets out the Trustees' requirements under the SIPs in force during 2020 (with a paragraph reference to the SIP in force as at 31 December 2020) and comments on the extent to which each requirement was met during 2020.

Requirement	Paragraph	Comment / compliance
Review at least every three years, or sooner following an unscheduled actuarial valuation, or without delay following any significant change in investment policy, the content of the SIP and for modifying it if deemed appropriate	1.4 / 2.2	Reviewed to reflect new regulatory requirements and then again later in the year to reflect changes to fund names and benchmark (see the following section).
Review the investment policy following completion of each actuarial review	2.2	Actuarial valuation as at 31 December 2019 was completed in December 2020. The Trustees will review their investment policy in 2021.
Assess the quality of the performance and processes of the investment manager by means of regular, but not less than annual, reviews of the investment results and other information	2.2 / 5.4	<p>As the funds are entirely invested on a passive basis, the Trustees monitor performance by assessing the extent to which the returns on the funds in which they invest track the index relevant for each fund. The annual review in 2020 showed that the returns on all of the funds in which the Trustees invest were within 1% pa of the benchmark returns over both 2019 and since inception.</p> <p>At the annual review the investment consultant also reported that under Willis Towers Watson's manager rating system State Street remained rated as a "preferred" passive investment manager.</p>
Monitoring compliance with the SIP on an ongoing basis	2.2	This is one of the purposes of the annual review.

<p>Monitor, from time to time:</p> <ul style="list-style-type: none"> ▪ The extent to which the investment managers consider financially material environmental, social and governance issues in investment decision making ▪ The extent to which the investment managers practice good stewardship, including engagement with firms and exercise of voting rights 	3.8 / 3.9	The annual review in 2020 noted that the investment consultant's view was that the investment manager's ESG approach remained good, noting that as a passive manager they are restricted to the construction rules of the benchmark index.
Obtain ongoing and regular advice on whether the investments are satisfactory as required by the Pensions Act	5.1	As part of the annual review in 2020, the investment consultant confirmed that in their view the investments were satisfactory for the purpose of section 36 of the Pensions Act 1995.

Review of, and changes to the SIP

The SIP was reviewed and subsequently updated during the Plan year to reflect new regulatory requirements to describe the Trustees' arrangements with any asset managers, and came into force on 7 July 2020. No changes were made to the Plan's target asset allocations.

Later that year State Street announced changes to the equity funds the Plan invests in to track new FTSE indices, which are the same as the previous benchmarks but exclude securities that breach the FTSE definitions of controversies/UN Global Compact Violations and Controversial Weapons. In addition, while the bond funds retain their existing benchmarks, they no longer hold securities that breach State Street's definitions of UN Global Compact Violations and Controversial Weapons. Some of the fund names were updated accordingly. These changes were reflected in a new SIP and came in force from 18 November 2020. No changes were made to the Plan's target asset allocations.

The Trustees will review the Plan's asset allocation in early 2021, in consultation with the investment consultant and Scheme Actuary, following completion of the 31 December 2019 actuarial valuation of the Plan.

Summary of voting over the year to 31 December 2020

The Plan's equity investments are managed by State Street via a number of pooled funds on an index-tracking basis. Given the indexed nature of the mandates, State Street are limited by the equities they must hold in the portfolio.

A summary of the voting on behalf of the Plan over the year to 31 December 2020 is provided in the table below:

Fund	Number of voteable proposals	% of votes exercised	% of votes with management	% of votes against management
UK ESG Screened Index Equity Sub-Fund (HKEG)	10,813	100.0%	91.7%	8.3%
International ESG Screened Index Equity Sub-Fund (HKJU)	32,774	99.5%	89.0%	10.5%
International (Developed 100% Hedged) ESG Screened Index Equity Sub-Fund (RNCZ)	56,329	99.1%	85.8%	13.3%
Sterling Non-Gilts Bond All Stocks ESG Screened Index Sub-Fund (HKKM)	9	100.0%	100.0%	-

Voting information on the Plan's gilt funds is not provided since the vast majority of loan and debt securities do not come with voting rights.

The Trustees of the Knowles Europe Pension Plan

20 July 2021