

Commonwealth Bank of Australia (UK) Staff Benefits Scheme – Implementation Statement (DC Section)

Welcome to the Trustee’s annual Implementation Statement outlining how the Trustee implemented the policies and practices contained in the Statement of Investment Principles (SIP) for the DC Section of the Commonwealth Bank of Australia (UK) Staff Benefits Scheme (“the Scheme”) on behalf of Scheme members during the year ending 30 June 2023.

1. Introduction

The DC section of the Scheme provides members with benefits on a Defined Contribution (“DC”) basis (sometimes called money purchase benefits). This means that the size of the benefits paid when members retire will depend on how the funds perform and members’ contributions over the years. During the Scheme year, the sponsoring employer notified the Trustee of its intention to implement a new master trust arrangement for the DC benefits of members and the Trustee agreed that the benefits held within the existing Scheme would be transferred to the new arrangement. On this basis, no major changes were made to the Scheme’s investments during the year but the Trustee took advice from its DC advisers on the proposed transition to a master trust arrangement.

What is the Statement of Investment Principles (SIP)?

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme’s investments. The DC Section of the SIP describes the rationale for the investment options which DC members can choose (including the default arrangement if they don’t make a choice), explains the risks and expected returns of the funds used and outlines the Trustee’s approach to financially material considerations including their approach to responsible investment and Environmental, Social and Governance (“ESG”) considerations (including climate risk considerations).

The Scheme’s current SIP is dated December 2022. The next review will take place no later than December 2025.

Changes made to the SIP in the past year

During the last Scheme year, the DC Section of the SIP was updated to reflect the changes to the investment strategy of the default arrangement which took place in June 2022. These included the introduction of an ESG tilt within the investments in the growth phase of the investment strategy and a removal of the previous Standard Life fund which previously formed part of the default strategy.

You can find a copy of the Scheme’s SIP at:

<https://www.commbank.com.au/about-us/our-company/international-branches/europe.html>

2. Overall summary and conclusion

This Implementation Statement sets out how the Trustee has complied with the provisions in the Scheme's SIP during the last year.

Overall, the Trustee is satisfied that:

- **The Scheme's investments have been broadly managed in accordance with the SIP; and**
- **The provisions of the SIP remain suitable for the needs of the Scheme's members.**

The Trustee is also satisfied that during the last year:

- The Scheme's DC investment governance structure remained appropriate; and
- The Trustee maintained an understanding of investment matters.

3. Investment governance for the 2022/23 Scheme year

The Trustee has overall responsibility for the way in which the Scheme's investments are governed and managed in accordance with the Scheme's governing Trust Deed and Rules as well as trust law, pensions law and pension regulations.

There have been no changes to the Trustee's governance process during the last year.

The Trustee has delegated day-to-day investment decisions, such as which underlying investments to buy and sell, to the individual underlying fund managers (Stewart Investors, First State, LGIM, M&G and Baillie Gifford).

The Trustee undertook certain actions during the last year to:

- **Ensure that its knowledge of investment matters remained current** – DC current issues were provided quarterly to the Trustee. This year included topics on:
 - Rising inflation's direct impact on pensions and the effects of increased gilt yields on member pot sizes;
 - Implications of Mini Budget on energy price caps, DC charge caps, and their effects on investment strategies and member costs;
 - 2023 DC Market Outlook with focus on value amid the cost-of-living challenges and key topics for the year;
 - A decade review of auto enrolment and its relevance amidst the current cost-of-living crisis; and
 - Influence of Spring Budget on DC pensions, focusing on changes to Annual and Lifetime Allowances.
- **Monitored the performance and suitability of the Scheme's new default investment arrangements** – the Trustee has closely monitored the impact of the strategy changes which were made to the Scheme's default arrangement in June 2022.
- **Fulfil its monitoring and risk management obligations with regard to the investment governance of the Scheme** – the Trustee reviewed quarterly investment monitoring reports provided by the Scheme's DC investment advisor, as well as other investment advice as requested throughout the year.

4. Investment adviser objectives

Following the requirements from the Competition & Markets Authority (CMA) to establish investment adviser objectives for DC pension schemes, the Trustee formally agreed objectives for the Scheme's investment advisers in December 2019.

From 1 October 2022, the DWP has brought these requirements into pensions legislation, under The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the scheme administration regulations). These requirements are now being overseen by the Pensions Regulator (TPR).

The investment adviser objectives are reviewed on an annual basis with some of the objectives directly linked to wording in the Statement of Investment Principles. During the Scheme year the DC investment adviser was reviewed against these objectives and the Trustee was satisfied that their objectives were generally being met. No actions were recommended as the DC section was due to transfer out shortly after the Scheme year end.

5. How the default investment arrangement and other investment options are managed

The objectives and rationale for the default arrangement and other investment options (the Freestyle range) are set out on page 1 of the DC SIP.

The last full review of investment strategy took place over 2021 and 2022. This review involved:

- Considering market conditions and developments in investment thinking and products, as well as changes in regulations, since the 2019 review;
- Considering the time over which members will be invested in the investment options;
- Deciding whether any changes to the default arrangement and other investment options' objectives were necessary;
- Considering whether the design of the default arrangement and other investment options, as well as the funds they use, still met their investment objectives;
- Obtaining investment advice on any changes to the default arrangement and other investment options.

During the 2022/23 Scheme year, the Trustee also:

- Monitored Value for Members, ensuring that the default arrangements comply with the charge cap;
- Monitored the investment performance of each fund relative to corresponding benchmarks and objectives;
- Monitored the research ratings of each fund (provided by the investment adviser) within the default arrangement and the 'freestyle' range of funds and ensuring that these remain suitable; and
- Monitored regulations pertaining to DC pensions and links to the suitability of investment strategy.

In July 2023, Stewart Investors GEM Leaders Sustainability Fund of around £21m was merged with the Stewart Investors GEM Leaders Fund. The AMC for the merged fund has reduced to 0.65%.

6. The expected risks and returns on your savings in the Scheme

The investment risks relating to members' benefits, and the expected returns from each type of investment / asset class used by the Scheme, are described in the SIP.

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) for the Scheme's lifestyle default arrangement.

During the Scheme year and as noted in Section 5 above, the Trustee monitored the performance and suitability of the Scheme's default investment arrangements, which were introduced in June 2022. This action followed the implementation of recommendations from the investment strategy conducted in previous Scheme year. The changes aimed to better reflect the Trustee's views on the strategic asset allocation of the Scheme's default strategy and other investment options.

7. Fund managers

Choice of funds

The Trustee monitors the performance of the funds used by the DC Section of the Scheme by reviewing quarterly investment monitoring reports provided by the Scheme's DC Investment Adviser.

The Trustee implemented the recommendations of the investment strategy review during the year which included changes to the choice of funds during the Scheme year. The selection of the fund managers were based on recommendations made by the Scheme's DC Investment Adviser, who ensure that relevant criteria are met (e.g. suitability of the fund, Responsible Investment rating, alignment with Trustee objectives).

The Trustee is satisfied that the choice of funds, and balance between different kinds of investment, offered by the Scheme are appropriate.

Realisation of Investment

Contributions need to be invested promptly in the default arrangements or the investment options chosen by members. It is also important that these investments can be sold promptly when a member wants to change where they are invested, transfer their pension pot to another scheme or be paid out when they retire or qualify for accessing their DC pot.

The Trustee is satisfied that money can be invested in and taken out of/switched within the Scheme's funds without delay as per the realisation of investments section set out in the SIP.

Manager Incentives

The Trustee seeks to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives, by (i) conducting an annual Value for Members assessment, (ii) monitoring the investment managers' long-term and short-term performance against appropriate benchmarks on a risk and return basis, (iii) asking for explanations for any significant divergence from a fund's objectives and (iv) undertaking a review of the overall appropriateness of investment options at least every 3 years.

The Trustee is satisfied that the fund managers are suitably incentivised in line with their peers in terms of costs and charges to deliver good outcomes for the Scheme's members.

Portfolio Turnover

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund 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 fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

The Trustee has requested portfolio turnover for each of the Scheme's funds from the underlying funds' managers. The Trustee has considered this in the context of the investment performance and transaction costs of the fund, as well as requesting an explanation from the fund manager where the turnover appears particularly high. The Trustee is generally satisfied with the portfolio turnover rate of most of the funds with the exception of the Stewart Investors Global Emerging Market Leaders fund which was aligned with the sustainability approach taken by the Sustainable Funds Group in 2022. This resulted in a higher turnover than normal.

Legal & General provided portfolio turnover data but not in the format required and as such the Trustee were unable to make a judgement on the turnover rate of their funds.

8. Conflicts of interest

The Trustee is mindful of potential conflicts of interest, and it is expected that investment managers are required to disclose any potential or actual conflict of interest to the Trustee. The Trustee expects the fund managers to invest the Scheme's assets in the members' best financial interests having taken into account financially material considerations.

The Trustee is satisfied that there have been no material conflicts of interest during the year which might affect members' DC pots.

9. Responsible Investment and stewardship (including climate risk policy)

The Trustee believes that investing responsibly is important to control the risks that environmental factors (including climate change), social factors and corporate governance behaviour can have on the long-term value of the Scheme's investments and in turn the size of members' retirement benefits.

As stated in the SIP, the Trustee's fiduciary responsibility is to act in the best interest of its members. The Trustee recognises that environmental, social and governance (ESG) issues can both adversely and positively impact on the Scheme's financial performance and should be taken into account in the investment strategies. Accordingly, the Trustee integrates the consideration of ESG issues throughout the investment decision making process. This was one of the main considerations in the triennial strategy review.

The Trustee has made an explicit allowance for ESG issues in the Scheme's DC investment arrangements by including the LGIM Future World Global Equity Index Fund and the LGIM Future World MAF in the default arrangement; both of these funds integrate ESG factors into the investment process to overweight companies with a better ESG profile and underweight or exclude those with a poor ESG profile. These funds are also made available within the Freestyle range of funds. Additionally, a worldwide sustainability equity fund is available within the Freestyle range. This fund's objective is to invest globally in companies which are positioned to benefit from, and contribute to, the sustainable development of the countries in which they operate.

The Scheme also offers an ethical equity fund as a Freestyle option, which excludes companies scoring poorly on various ESG factors. The LGIM Ethical UK Equity fund excludes companies which manufacture or produce tobacco, weapons systems, components for controversial weapons and coal. This fund is the only fund that makes an explicit allowance for non-financially material factors (through the use of exclusions) and the Trustee remains comfortable not to use other specific non-financial considerations in other 'freestyle' funds or the default arrangement.

Investment stewardship

The Trustee believes it is important that the fund managers as shareholders or bond holders take 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 major issues which affect a company's financial performance (and in turn the value of the Scheme's investments).

As the Scheme's investments are held at arms-length from the Trustee and members, the Trustee is not able to instruct the fund managers on how they should vote on shareholder issues. The Trustee nevertheless:

- Delegates the research into managers' voting policies and the exercising of these voting rights to ensure consistency with the Scheme's objectives to their investment advisers;
- Expects fund managers to vote in line with their 'house' policy and in a way which enhances the long-term financial value of the funds in which the Scheme invests;
- Monitor how the fund managers exercise their voting rights.

How does the Trustee monitor this?

The Trustee will make arrangements to receive periodic monitoring reports from its investment adviser. These monitoring reports will focus on stewardship, climate-related disclosures, and voting and engagement information. Reports will be collated with exceptions-based commentary raised by the investment adviser if there has been a financially material outcome (either positive or negative) relative to the individual investment objectives of the underlying funds.

The periodic monitoring reports will contain the following (as per what is outlined in the SIP):

- Confirmation that the manager is a signatory to the Principles for Responsible Investment and that they have provided the Trustee with their annual assessment ratings and statements of compliance;
- Evidence that a fund has considered climate risk and opportunities in their investment strategies and made progress towards understanding and taking action on the climate risks;
- Evidence of engagement with regards to climate risk policy;
- Provision of proxy voting activity; and
- Confirmation of adherence to the UK Stewardship Code.

The funds with voting rights attached that are available to members are as follows:

Default Fund Range

- Baillie Gifford Multi Asset Growth Fund
- L&G Future World Global Equity Fund
- L&G Future World Multi Asset Fund

Freestyle Range (funds in bold are also part of the default fund range)

- Baillie Gifford Global Alpha Growth Fund
- **Baillie Gifford Multi Asset Growth Fund**
- First Sentier Global Listed Infrastructure Fund
- First Sentier Global Property Securities Fund
- First Sentier Greater China Growth Fund
- L&G Global Equity Fixed Weights (50:50) Index Fund
- L&G UK Equity Index Fund
- L&G Ethical UK Equity Index Fund
- **L&G Future World Global Equity Fund**
- **L&G Future World Multi Asset Fund**
- Stewart Investors Asia Pacific Leaders Fund
- Stewart Investors Global Emerging Markets Leaders Fund
- Stewart Investors Worldwide Sustainability Fund

Funds with No Voting Rights Attaching to them

The following funds do not have voting rights attached to them and the Trustee is exploring ways to engage with these managers:

- L&G Cash Fund
- L&G Over 5 Years Index-Linked Gilts Index Fund
- M&G All Stocks Corporate Bond Fund

Voting Summary Information for the Default Arrangement

	No. of resolutions eligible to vote	% resolutions voted	% resolutions voted for	% resolutions voted against	% resolutions abstained, did not vote etc.	For Of the resolutions voted, the % voted with management	Of the resolutions voted, the % against management
Baillie Gifford Multi Asset Growth Fund	594	96.3%	96.5%	2.5%	1.0%	97.3%	2.7%
L&G Future World Global Equity Fund	51,468	99.9%	80.8%	18.7%	0.5%	81.2%	18.8%
L&G Future World Multi Asset Fund	90,517	99.8%	77.0%	22.6%	0.4%	77.2%	22.8%

Voting Summary Information for the Freestyle Range

	No. of resolutions eligible to vote	% resolutions voted	% resolutions voted for	% resolutions voted against	% resolutions abstained, did not vote etc.	For Of the resolutions voted, the % voted with management	Of the resolutions voted, the % against management
Baillie Gifford Global Alpha Growth Fund	1,263	94.4%	95.2%	3.3%	1.5%	96.7%	3.3%

First Sentier Global Listed Infrastructure Fund	696	100.0%	83.0%	10.0%	7.0%	89.2%	10.8%
First Sentier Global Property Securities Fund	819	100.0%	96.0%	4.0%	0.0%	96.0%	4.0%
First Sentier Greater China Growth Fund	571	100.0%	93.5%	6.5%	0.0%	93.5%	6.5%
Legal & General Global Equity Fixed Weights (50:50) Index Fund	38,703	99.9%	81.8%	18.1%	0.1%	88.0%	12.0%
Legal & General UK Equity Index Fund	10,510	99.9%	94.4%	5.6%	0.0%	94.4%	5.6%
Legal & General Ethical UK Equity Index Fund	4,613	100.0%	94.3%	5.7%	0.0%	94.3%	5.7%
Legal & General Future World Global Equity Fund	51,468	99.9%	80.8%	18.7%	0.5%	81.2%	18.8%

Legal & General Future World Multi Asset Fund	90,517	99.8%	77.0%	22.6%	0.4%	77.2%	22.8%
Stewart Investors Asia Pacific Leaders Fund	376	100.0%	97.1%	2.9%	0.0%	97.1%	2.9%
Stewart Investors Global Emerging Markets Leaders Fund	518	100.0%	95.5%	3.7%	0.8%	95.5%	4.5%
Stewart Investors Worldwide Sustainability Fund	655	100.0%	93.4%	5.8%	0.8%	94.2%	5.8%

The Trustee also considers how the fund managers voted on specific issues. The Trustee considers 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that aligned with the priorities we identified at the start of the year.

The most significant shareholder votes and how the fund managers voted during the last year were:

	Apple Inc.	Microsoft Corporation	Taiwan Semiconductor Manufacturing Co	Unilever PLC
Resolution	10 March 2023 <i>Shareholder proposal regarding median gender and racial pay equity report</i>	13 December 2022 <i>Shareholder proposal regarding managing climate risk in employee retirement options.</i>	6 June 2023 <i>Approve issuance of restricted stocks</i>	3 May 2023 <i>Say on pay/remuneration report</i>
Baillie Gifford	For	Against	For	-
First Sentier Investors	For	Against	For	Against
Legal & General	For	Against	Against	Against
Stewart Investors	-	-	-	-
Comments	All managers have voted for as they believe the additional disclosure would allow shareholders to better assess the internal equity of pay and would also allow comparability over time and across organisations.	Managers opposed this resolution as they do not believe this is a material risk for the company and think they are doing enough by offering employees a range of investment options. Also the Department of Labor is finalising rules on how ESG factors should be considered by fiduciaries.	Majority of managers have voted for however LGIM expects remuneration to be measured over at least a 3-year performance period. They encourage a period longer than 3 years to be set, excluding any holding period to align with long-term value creation.	A vote against has been applied because the salary for the in-coming CEO is significantly higher than the previous CEO and the company has not provided sufficient justification to support the level of increase.

Source: Insightia

How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
Baillie Gifford	Whilst Baillie Gifford are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource any of their stewardship activities or follow or rely upon their recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers' policies. They also have specialist proxy advisors in the Chinese and Indian markets to provide them with more nuanced market specific information.
First Sentier Investors	First Sentier Investors utilise the proxy voting services of Glass Lewis. Their recommendations are considered as part of the team's decision-making process in relation to casting proxy votes. Glass Lewis maintains records of their proxy voting history.
Legal & General	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 we do not outsource any part of the strategic decisions. To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions.
Stewart Investors	Stewart Investors do not outsource voting decisions. However, they use Glass Lewis as a third-party provider to assist with proxy voting operations. Glass Lewis provide proxy research and voting solutions in a centralised online platform. Stewart Investor use them to collate all ballot information applicable to company meetings and we are notified accordingly via their platform. They also use the centralised platform to instruct Glass Lewis on how they wish to vote in particular company meetings. Glass Lewis then distributes how Stewart Investors have elected to vote to the relevant sub-custodians across all our eligible funds. Glass Lewis also provides a research service. This research accompanies all communications to the Portfolio Managers when notifying them of a meeting and seeking their voting instruction. This non-binding research advice helps them to flag potential weaknesses in governance.

The Trustee is satisfied that the fund managers' voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.

10. More information

We hope this Statement helps you understand how the Scheme's investment of your savings for retirement has been managed in the last year.

If you have any questions or feedback, please contact the Trustee.