

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

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 Commonwealth Bank of Australia (UK) Staff Benefits Scheme ("the Scheme") on behalf of Scheme members during the year ending 30 June 2022.

1. Introduction

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.

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 last full review of the Scheme's SIP was completed in January 2022. It was subsequently reviewed in December 2022, following the implementation in June 2022 of the recommendations made in the investment strategy review completed on 28 September 2021. Whilst this update is outside the period covered by this Statement, the Trustee have included it to aid consistency between this and the Chair's Statement, where details of the new investment strategy have been included. 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 Trustee's policies on:

- **Scheme objective and investment strategy** – to reflect the implementation of a lifestyle strategy for the default arrangement to manage the principal investment risks members face during their membership of the DC Section, as well as recognising situations where 'inadvertent' default arrangements may arise.
- **Risk** – expanded to define how the Trustee measures and manages relevant risks (including liquidity risk, manager risk, market risk and ESG risk);
- **Expected return on investments** – expanded to include further details of the expected returns on various major asset classes;
- **Realisation of investments** – to recognise that there may be situations where investment managers may need to restrict the timing of purchases and sales of funds; and
- **Social, Environmental and Governance Considerations** – to reflect new funds now offered to members in the default arrangement and Freestyle range which make explicit allowance for ESG issues.

The Trustee took the opportunity to clarify the language within other policies without changing the underlying objectives.

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 Trustees are also satisfied that during the last year:

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

3. Investment governance for the 2021/22 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 (Standard Life – ceasing in June 2022, 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:
 - Green, social and sustainable bonds;
 - Illiquid investments in DC Schemes - what they are, the benefits and the barriers to implementing them in a DC Scheme;
 - The implications of the cost-of-living crisis on different cohorts of members within the Scheme and mitigating actions the Trustee could take; and
 - Implications of the recent market falls on DC investment strategies.
- **Changed the investment strategy of the default arrangement and updated the Freestyle range** – the Trustee no longer believed the use of a multi asset fund for the default arrangement throughout a member's career was suitable and, following advice from the Scheme's DC investment adviser, changed the default arrangement to a lifestyle strategy which manages risk and return through the different "phases" (i.e. growth, consolidation and pre-retirement) of a member's career. The Trustee also removed underperforming funds within the Freestyle fund range; and
- **Fulfilled 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. These 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 their CMA objectives and the Trustee was satisfied that their objectives were being met.

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 Trustee commissioned an interim investment update in September 2021 to supplement their in-depth three-yearly review from 2019 (given the passage of time). This covered the default arrangement and other investment options to ensure they remained suitable for most members. This 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.

The Trustee decided to make the following changes to ensure that the default arrangement meets the needs of most members going forward:

- Implemented a lifestyle strategy whereby members' investments are gradually moved from higher risk/higher return seeking funds to lower risk/lower return seeking funds as they approach retirement.
- When members are more than 15 years from their target retirement age (TRA), their savings are now 100% invested in the LGIM Future World Global Equity Index Fund. This is a passive fund that invests in equities from across the world while factoring environmental, social and governance (ESG) factors into the investment process. The aim of the lifestyle strategy at this stage is to maximise exposure to high growth investments and produce returns well in excess of inflation over the longer term.
- Once a member is 15 years from their TRA, their savings and contributions start to move gradually into the LGIM Future World Multi-Asset Fund (MAF) and the Baillie Gifford Multi-Asset Growth Fund (MAGF). These are both multi-asset funds which invest in a broad range of assets including equities, corporate bonds, government bonds and property. Between 10 and 3 years to TRA, members will hold a 50:50 split between these two funds. The aim of the lifestyle

at this stage is to reduce the volatility of the investments while still providing opportunities for investment growth.

- In the final 3 years before TRA, a small portion of a member's holdings are moved into the LGIM Cash Fund, a cash fund which holds low-risk short duration securities and deposits. This fund has a low expected level of volatility as well as a low level of return and therefore will reduce volatility further as members prepare to access their savings.
- Upon reaching TRA, members will be invested 37.5% in LGIM Future World MAF, 37.5% in Baillie Gifford MAGF and 25% in LGIM Cash Fund. The strategy is therefore tailored towards members who will take their 25% tax-free cash lump sum and then use the remainder of their savings for income drawdown. The Trustee believes this will be the most likely outcome for the Scheme's members based on the membership demographics of the Scheme and the projected size of pension pots at retirement.

As members cannot be invested in a lifestyle strategy and the Freestyle range simultaneously, the Trustee created an additional 'inadvertent' default arrangement (the L&G Future World Multi Asset fund) to enable members who were invested in both the Freestyle range and the previous default arrangement to remain invested in the Freestyle range and a single fund default (rather than a lifestyle). It also served as the location of member contributions following the closure of two Standard Life funds where members did not make an alternative investment decision. The Stewart Investors Worldwide Sustainability is also an 'inadvertent' default arrangement as explained last year.

The Trustee decided to make the following changes to ensure that the other investment options meet the needs of members:

- Removed both the Aberdeen Standard Life Dynamic Multi Asset Growth Pension Fund (the previous default arrangement) and the Standard Life Global Absolute Return Strategies Fund due to continued underperformance and failure to meet their specified objective;
- Added the LGIM Future World Global Equity Index Fund and the LGIM Future World Multi-Asset Fund (both utilised in the default arrangement) to provide members with access to funds that incorporate ESG factors.
- Added the Baillie Gifford Multi Asset Growth Fund (utilised in the default arrangement) to provide an additional multi-asset fund for members which differs in style and management from the LGIM Future World Multi Asset Fund.

During the 2021/22 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.

Two of the First Sentier funds within the Freestyle range were downgraded to a negative rating by the Scheme's DC Investment Adviser during the year. Whilst the Trustee were initially recommended to

soft close these funds, subsequent discussions around the future of the Scheme has meant that this recommendation was removed after weighing up the additional costs and administrative resource against the benefit to members.

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 implemented the recommendations of the investment strategy review to better reflect their 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 Scheme's previous default arrangement (which was in place for the majority of the Scheme year). The poor performance, as well as high transaction costs (and high portfolio turnover), led the Trustee to replace it as the default arrangement, as well as remove both Standard Life funds from the Freestyle range.

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

- Standard Life ASI Dynamic Multi Asset Growth (ceasing June 2022)
- Baillie Gifford – Multi Asset Growth (effective from 30 June 2022)
- L&G – Future World Global Equity (effective from 30 June 2022)
- L&G – Future World Multi Asset (effective from 30 June 2022)

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

- Baillie Gifford – Global Alpha

- **Baillie Gifford – Multi Asset Growth**
- First Sentier – Global Listed Infrastructure
- First Sentier – Global Property Securities
- First Sentier – Greater China Growth
- L&G – Global Equity Fixed Weights (50:50) Index
- L&G – UK Equity Index
- L&G – Ethical UK Equity Index
- **L&G – Future World Global Equity**
- **L&G – Future World Multi Asset**
- Standard Life – Global Absolute Return Strategies (ceasing June 2022)
- Standard Life – ASI Dynamic Multi Asset Growth (previously the Scheme’s default arrangement - ceasing June 2022)
- Stewart Investors – Asia Pacific Leaders
- Stewart Investors – Global Emerging Markets Leaders
- Stewart Investors – Worldwide Sustainability

Voting Summary Information for the default and 'freestyle' funds

	No. of resolutions eligible to vote	% resolutions voted	Of the resolutions voted, the % voted for management	Of the resolutions voted, the % against management	Of the resolutions voted, the % abstained
Baillie Gifford Global Alpha	1,231	96.4%	97.3%	2.4%	0.3%
Baillie Gifford Multi Asset Growth	1,164	83.9%	96.2%	3.1%	0.7%
First Sentier Global Listed Infrastructure	687	100%	82.0%	9.0%	9.0%
First Sentier Global Property Securities	874	100%	95.1%	4.7%	0.2%
First Sentier Greater China Growth	738	100%	93.4%	6.5%	0.1%
L&G Global Equity Fixed Weights (50:50) Index	41,040	99.8%	82.0%	17.9%	0.1%
L&G UK Equity Index	10,901	100%	93.9%	6.1%	0.0%
L&G Ethical UK Equity Index	4,418	100%	94.1%	5.9%	0.0%
L&G Future World Global Equity	51,471	99.8%	80.5%	18.6%	0.9%
L&G Future World Multi Asset	90,363	99.8%	77.7%	21.7%	0.6%
Standard Life Global Absolute Return Strategies	162	72.2%	83.7%	15.4%	0.9%
Standard Life ASI Dynamic Multi Asset Growth	9,382	97.9%	84.9%	13.9%	1.2%
Stewart Investors Asia Pacific Leaders	514	100%	97.1%	2.9%	0.0%
Stewart Investors Global Emerging Markets Leaders	954	100%	94.6%	2.0%	3.4%
Stewart Investors Worldwide Sustainability	633	97.3%	93.7%	5.7%	0.6%

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 members are expected to have an interest. The votes within Exelon and Edison International represent top holdings within the default strategy (in place for the majority of the Scheme year) and the other votes within Apple and Microsoft represent significant holdings within some of the 'freestyle' fund options.

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

	Exelon	Edison International	Microsoft	Apple Inc
Resolution	26 April 2022 Ratification of Auditor	28 April 2022 Advisory note on Executive compensation	30 Nov 2021 Report on effectiveness of workplace sexual harassment policies	04 March 2022 Report on forced labour
LGIM	Against	Against	For	For
Stewart Investors	-	-	-	-
First Sentier Investors	Against	For	-	-
Baillie Gifford	-	-	Against	Against
Abrdn	Against	Against	Against	Against
Comments	<p>The resolution was supported by 95.3% of shareholders, in line with Management's recommendation.</p> <p>LGIM, First Sentier and Abrdn all voted against the resolution to appoint PWC LLP as Exelon's independent auditor for 2022, citing concern at the length of the auditor's tenure which could impede independence.</p>	<p>The resolution was supported by 93.6% of shareholders, in line with Management's recommendation.</p> <p>LGIM and Abrdn voted against the resolution citing concerns regarding the link between pay and performance.</p>	<p>The resolution was supported by 78% of shareholders, against Management's recommendation.</p> <p>LGIM supported the proposal citing greater disclosure is beneficial to shareholders to determine the risks.. Abrdn and Baillie Gifford voted against noting during recent engagement Microsoft told them they had</p>	<p>The resolution was opposed by 66.3% of shareholders, in line with Management's recommendation.</p> <p>Management had initially tried to exclude the proposal believing it had been substantially implemented. The SEC rejected this claim noting the information was not publicly available nor did the level of board engagement compare favourably with the requests of the proposal.</p>

			already publicly committed to disclose this information.	L&G voted for the proposal as they support proposals that are set to improve human rights standards and consider this issue to be a material risk to the company. Baillie Gifford and Abrdn believe that Apple have made sufficient progress already and the additional requirements are overly burdensome at this time.
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Source: Insightia

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

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
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.
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 do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.
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 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.
Standard Life	Utilise the services of ISS for all voting requirements.

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.