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 2020.

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 where their contributions are invested grow 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. It describes the rationale for the investment options which 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 the Trustee's approach to financially material considerations including their approach to responsible investment and Environmental, Social and Governance (ESG) considerations (including climate change considerations).

At the time of writing, a review of the SIP is being completed to incorporate the latest regulatory requirements that come into effect from 1 October 2020.

Changes made to the SIP in the past year

During the last Scheme year, the SIP was updated to reflect the Trustee's policies on how they take into account financially material considerations in the design of the Scheme's investment strategy. This includes ESG considerations and climate change considerations.

You can find a copy of the Scheme's SIP at:
https://www.commbank.com.au/content/dam/commbank-assets/about-us/docs/statement-of-investment-principles-UK-pension-scheme-DC.pdf.

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 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 remains appropriate; and
- The Trustee has maintained an understanding of investment matters.

3. Investment governance for the 2019/20 Scheme year

The Trustee has 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 Trustee's governance process during the last year.

The Trustee has delegated day-to-day investment decisions, such as which investments / fund units to buy and sell, to each underlying fund manager (Standard Life, Stewart Investors, First State, L&G, M&G and Baillie Gifford).

The Trustee undertook certain actions during the last year to:

- Ensure that their knowledge of investment matters remains current.
- Ensure that their investment beliefs remained relevant.
- Test that the aims and objectives for the Scheme's default and self-select fund arrangements remained appropriate.
- Fulfil their monitoring and risk management obligations with regard to the investment governance of the Scheme.

This culminated in the triennial investment strategy review for the Scheme that was presented by the Scheme's DC investment advisers to the Trustee in November 2019. The following recommendations were put forward:

<u>Structure of the default glide path</u>

The introduction of a glide path (consisting of a fund with a significant level of growth assets at the beginning and then de-risking as a member approaches retirement) for the Scheme's default investment strategy was recommended. The Scheme's investment advisers considered that the design framework for the current default of the Scheme, with 100% in a multi-asset fund throughout the savings period, was not appropriate.

<u>Growth phase – first phase of the proposed glidepath</u>

The Scheme's investment advisers recommended a 100% allocation to passively managed global equities (including emerging markets) in the early stages of the investment period (defined as being more than 15 years away from retirement). As part of this allocation, it was also recommended that the Trustee considers an Environmental, Social and Governance ("ESG") overlay to the fund by using a passively managed fund that tracks an ESG-tilted benchmark.

The proposed growth phase will provide an additional expected return of 1.2% per annum, while the ESG overlay meets the members' and the company's preference to invest sustainably and with reference to long-term financially material factors (such as environmental factors). These have been given a higher profile as a result of regulatory developments. Such an approach is consistent with the Scheme's Responsible Investment beliefs and philosophy as outlined in the SIP for the year ending 30 June 2020.

<u>Consolidation phase – second phase of the proposed glidepath</u>

The Scheme's investment advisers recommended introducing diversification by adding other asset classes when a default member is less than 15 years away from retirement. This reduces risk (measured by volatility in absolute terms) and offers some downside protection when equity markets fall. Using multi-asset funds would provide the downside protection at this stage. However, it was decided that the current fund used by the Scheme would be replaced by two other multi-asset funds – these are funds in which our Scheme's investment advisers have higher conviction in meeting the long-term DC return and risk objectives.

Pre-retirement phase – final phase of the proposed glidepath

At the point of retirement, the Trustee believes that the majority of people retiring will have relatively large DC pots (compared to the industry average) which means they are more likely to access their pots via a flexible drawdown approach (as opposed to taking their pot entirely as cash or purchasing an annuity at the point of retirement). This was confirmed by market research and projections shown in the strategy review. Therefore, staying invested in the multi-asset funds and introducing cash close to retirement (within the final three years of the glidepath) was seen as appropriate for this stage of the glidepath.

Self-select fund range

The self-select fund range was reviewed and it was concluded that the majority of funds offered were suitable for members' needs. To increase the diversification of the fund range, it was recommended that two funds be replaced with similar funds that are their global equivalents. These were the LGIM Global Equity Fixed Weights (50:50) Index Fund and the LGIM Ethical UK Equity Index Fund. There were two funds that our investment advisers had a negative / sell rating for and these were also recommended to be replaced.

The Trustee accepted all of these recommendations and is working through the transition with support from the Scheme's investment advisers during the 2020/21 Scheme year.

4. Other monitoring outside the triennial review

The Trustee also receives DC Current Issues / Hot Topics within their regular investment monitoring reports. Many of these topics relate back to how the Scheme's default investment strategy and self-select fund range are managed on an ongoing basis. During the year, examples of topics included:

- The performance of DGFs across different manager styles
- The types of ESG equity funds that are currently available in the DC marketplace
- The case for including multi-asset credit within a DC arrangement
- Design considerations for the FCA's Investment Pathways, which are aimed at retirees going into non-advised drawdown
- A discussion on UK daily-dealt property funds

The impact of COVID-19 on DC strategies is currently an ongoing topic that is being monitored by the Scheme's investment advisers and the Trustee. This has been and will be taken into account in the transition to the newly-recommended investment strategy.

5. 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 will be reviewed on an annual basis with some of the objectives directly linked to wording in the Statement of Investment Principles. Therefore, the Scheme's Implementation Statement for the 2020/21 Scheme year will also be related to the annual review of the investment adviser against these CMA objectives.

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

The objectives and rationale for the default arrangement are set out in the SIP. However, given the outcomes and recommendations from the triennial strategy review, this section will be rewritten to reflect the themes from Section 3 above.

During the 2019/20 Scheme year, the Trustee also:

- Monitored Value for Members including ensuring that the default arrangement complies 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 investment strategy and the self-select fund range and ensuring that these remain suitable;
- Monitored regulations pertaining to DC pensions and links to the suitability of investment strategy.

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

The investment risks relating to members' benefits are described in the SIP.

The expected returns from each type of investment / asset class used by the Scheme are set out in the SIP.

The Trustee believes that the main investment risks members face described in the SIP have not changed over the last year.

The Trustee is satisfied that the current expected rates of investment return for the main types of funds described in the SIP are still appropriate.

The Trustee's views on expected levels of investment risks and returns (as outlined by the Scheme's investment adviser) inform decisions on the design (i.e. what types of assets and areas of the world funds invest in) of the Scheme's default lifestyle strategy.

The Trustee's views on the strategic asset allocation of the Scheme's default strategy changed during the last year, as per Section 3 above.

8. Platform providers and fund managers

Choice of platform providers and funds

There have been no changes to the underlying fund managers and the investment platforms they sit in over the last Scheme year.

The Trustee has reviewed the fund managers and investment platforms used and will be making changes in the 2020/21 Scheme year.

Ability to invest/disinvest promptly

Contributions need to be invested promptly in the default arrangement 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 the Scheme's funds without delay as per the realisation of investments section set out in the SIP.

9. Conflicts of interest

As described in the SIP, the Trustee is mindful of potential conflicts of interest:

- When choosing fund managers;
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

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.

10. Responsible Investment and stewardship

Following the triennial investment strategy review, the Trustee has agreed to incorporate an ESG-tilted passive tracker fund within the Scheme's default investment strategy.

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 funding and investment strategies. Accordingly, the Trustee integrates the consideration of ESG issues throughout the funding and 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 offering a self-select ESG-tilted equity fund which excludes companies scoring poorly on various ESG factors. As a result of the strategy review, this self-select fund will be replaced by a global / more diversified version (previously, the fund only included UK stocks). This fund is also 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 non-financial considerations in other self-select funds or the default strategy.

Monitoring

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 a way which enhances the long-term financial value of the funds in which the Scheme invests.

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.

The Trustee has made 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 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 its 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
- Confirmation of adherence to the UK Stewardship Code

The Trustee has considered its approach to Responsible Investing during the last Scheme year.

The Trustee is satisfied that during the last year, the Scheme's investments were invested in accordance with the policies on responsible investing set out in the SIP.

11. Main actions for next year

In the next Scheme year (year ending 30 June 2021), which will be covered by next year's Implementation Statement, the Trustee will implement all recommendations that were proposed by the Scheme's investment adviser during the most recent triennial investment strategy review.

12. 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.