Implementation Statement

The Trustee of the Bayer Group Pension Plan (the "Plan") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed its Statement of Investment Principles ("SIP") during the Plan Year, as well as details of any review of the SIP during the Plan Year, subsequent changes made with the reasons for the changes, and the date of the last SIP review. The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf).

Information is provided on the last review of the SIP in Section 1 and on the implementation of the SIP in Sections 2-11 below. This Statement is based on the Plan's SIP which was in place during the Plan Year – dated November 2019. This Statement uses the same headings as, and should be read in conjunction with, the SIP which can be found here: https://www.4myplan.co.uk/ClientPage?Client=BAY.

1. Introduction

No review of the SIP was undertaken during the Plan Year. The last time the SIP was formally reviewed was in November 2019.

The Trustee has, in its opinion, followed the policies in the Plan's SIP during the Plan Year. The following Sections provide detail and commentary about how and the extent to which it has done so.

2. Investment objectives

Progress against the long-term journey plan is reviewed as part of monthly asset and liability reports as well as more detailed quarterly performance monitoring reports. The Trustee is also able to view the progress on an ongoing basis using LCP Visualise online (a tool provided by the Plan's investment adviser which shows key metrics and information on the Plan).

As at 31 March 2021 the Plan was on track to achieve full funding on the agreed "Termination Basis" by the target date.

The Plan holds a very small number of Defined Contribution ("DC") benefits as well as AVCs which are invested on a DC basis (collectively referred to as "DC benefits" in this Statement). As part of the performance and review of the Plan's DC benefits in January 2021, the Trustee considered the membership demographics for members with DC benefits, and the variety of ways that members may draw their DC benefits in retirement from the Plan.

Implementation Statement (continued)

2. Investment objectives (continued)

Based on the outcome of this analysis, the Trustee concluded that the range of DC investment options available to members remained appropriate given the demographic of those members with DC benefits in the Plan.

The Trustee is able to review the membership demographic and any material changes using administration reports. The Trustee reviewed the membership demographics as part of the last review of the DC benefits, which was carried out in January 2021.

3. Investment strategy

The Trustee did not review the DB strategy over the period, though made progress against its agreed de-risking plan (see below). The Trustee carried out a review of the Plan's DC benefits in January 2021 and it was concluded that the current strategy and range of fund options available to DC members remains appropriate.

The Trustee monitors the asset allocation quarterly and compares this to the strategic asset allocation. The Trustee's investment manager is expected to undertake rebalancing action, as and when required, and in accordance with the rebalancing policy stated within the SIP.

The Trustee de-risked twice in the reporting year in response to two funding level-based triggers being breached. The first trigger was breached in December 2020, instigating a reduction in equity allocation from 40% to 36% and an equivalent increase in allocation to UK government bonds. The second trigger was breached in February 2021, instigating a reduction in equity allocation from 36% to 30% and an equivalent increase in the allocation to UK government bonds.

The triggers put in place as part of the de-risking mechanism are monitored on a daily basis using LCP Visualise. If a trigger were to be hit, LCP Visualise would notify the Trustee automatically. The Trustee reviews the Plan's progress against the triggers as part of the monthly and quarterly performance monitoring reporting it receives. If one of the triggers is hit, the Trustee re-confirms the proposed de-risking action and consults with the employer before implementation occurs. In line with the guarantee in place with the employer, approval is needed from the employer ahead of implementation.

Implementation Statement (continued)

4. Considerations in setting the investment arrangements

When the Trustee reviewed the DB investment strategy during 2019, it considered the investment risks set out in Appendix 2 of the SIP. It also considered a wide range of asset classes for investment, taking into account the expected returns and risks associated with those asset classes as well as how these risks can be mitigated.

The Trustee reviewed its investment beliefs in April 2019. As part of this, the investment adviser held an Environmental, Social and Governance ("ESG") training session which gathered the opinions of the Trustee.

As a result, the Trustee updated the investment beliefs in the SIP. It added two new investment beliefs to the SIP:

- "environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors"; and
- "long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions".

The Trustee regularly reviews its investment manager mandates to understand the extent to which ESG factors are incorporated in the funds currently held by the DB Section and DC assets.

Following the addition of these beliefs, the Trustee reviewed its investment manager mandates to understand the extent to which ESG factors are incorporated in the funds currently held by the Plan.

During the relevant Plan year, the Trustee engaged with its two DB managers to consider further their ESG policies. This occurred during the investment managers' annual presentations to the Trustee.

5. Implementation of the investment arrangements

The Trustee has not made any changes to its manager arrangements over the period.

Implementation Statement (continued)

5. Implementation of the investment arrangements (continued)

The Plan's investment adviser, LCP, monitors the investment managers on an ongoing basis, through regular research meetings. LCP monitors any developments at managers and informs the Trustee promptly about any significant updates or events they become aware of with regard to the Plan's investment managers that may affect the managers' ability to achieve their investment objectives. This includes any significant change to the investment process or key staff for any of the funds the Plan invests in, or any material change in the level of diversification in the fund.

The Trustee regularly invites the Plan's investment managers to present at Trustee meetings, seeing each manager approximately once every year. Over the period, the Trustee met with CBRE and LGIM to discuss the Plan's investments. The Trustee was comfortable with all of its investment manager arrangements over the Plan Year.

The Trustee monitors the performance of the Plan's investment managers on a quarterly basis, using the quarterly performance monitoring report. The report shows the performance of each manager over the quarter and one year, in the context of the manager's benchmark and objectives. A longer-term record of performance since the last actuarial valuation date is also considered.

The most recent quarterly report shows that all managers have produced performance broadly in line with expectations over the long-term.

The Trustee undertook a value for members' assessment in September 2020 in respect of the DC benefits offered within the Plan. This assessed a range of factors, including the fees payable to managers in respect of the DC funds offered to members, which were found to be reasonable when compared against schemes with similar sizes mandates.

During the Plan Year the Trustee assessed the investment managers' fees in light of LCP's fee survey. Overall the Trustee believes the investment managers provide reasonable value for money.

6. Realisation of investments

The Trustee reviews the Plan's net current and future cashflow requirements on a regular basis. The Trustee's policy is to have access to sufficient liquid assets in order to meet any outflows whilst maintaining a portfolio which is appropriately diversified across a range of factors, including suitable exposure to both liquid and illiquid assets.

Implementation Statement (continued)

6. Realisation of investments (continued)

Over the Plan Year, the Trustee used cashflows to help rebalance the Plan's assets towards the strategic asset allocation. One significant cashflow into the Plan over the period was the deficit contribution that was received on 30 March 2021 and invested in line with the Plan's strategic allocation following Year end ie in accordance with this policy.

7. Financially material considerations and non-financial matters

As part of its advice on the selection and ongoing review of the investment managers, the Plan's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

In February 2020 the Trustee reviewed LCP's responsible investment (RI) scores for the Plan's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the manager's approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2020.

The Trustee was satisfied with the results of the review and no further action was taken.

When managers LGIM and CBRE presented to the Trustee during the Plan Year, the Trustee asked several questions about the managers' ESG, voting and engagement practices and were satisfied with the answers it received. The Trustee also reviewed reports from their managers on voting and engagement activities undertaken on its behalf.

8. Voting and engagement

This is covered in Section 7 above.

9. Investment governance, responsibilities, decision-making and fees (Appendix 1 of SIP)

As mentioned in Section 5, the Trustee assesses the performance of the Plan's investments on an ongoing basis as part of the quarterly monitoring reports it receives.

The performance of the professional advisers is considered on an ongoing basis by the Trustee.

Implementation Statement (continued)

9. Investment governance, responsibilities, decision-making and fees (Appendix 1 of SIP) (continued)

The Trustee has put in place formal objectives for its investment adviser and will review the adviser's performance against these objectives on a regular basis with the next review expected to take place by the end of the year.

10. Policy towards risk (Appendix 2 of SIP)

Risks are monitored on an ongoing basis with the help of the investment adviser.

The Trustee maintains a risk register and this is discussed at quarterly meetings.

The Trustee's policy for some risks, given their nature, is to understand them and to address them if they become necessary, based upon the advice of the Plan's investment adviser or information provided to the Trustee by the Plan's investment manager. These include credit risk, equity risk, currency risk and counterparty risk.

With regard to the risk of inadequate returns, Plan's required return, along with various other metrics such as expected return and risk, is monitored by the Trustee using an investment dashboard on a monthly basis.

Together, the investment and non-investment risks set out in Appendix 2 of the SIP give rise generally to funding risk. The Trustee formally review the Plan's funding position as part of its annual actuarial report to allow for changes in market conditions. On a triennial basis the Trustee reviews the funding position allowing for membership and other experience. The Trustee also informally monitors the funding position more regularly, on a quarterly basis at Trustee meetings and the Trustee Directors also have the ability to monitor this daily on LCP Visualise.

The following risks are covered earlier in this Statement: diversification risk in Sections 3 and 5, investment manager risk and excessive charges in Section 5, illiquidity/marketability risk in Section 6 and ESG risks in Section 7.

11. Description of voting behaviour during the Plan Year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Plan Year.

Implementation Statement (continued)

11. Description of voting behaviour during the Plan Year (continued)

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Plan's funds that hold equities as follows:

- ("LGIM") All World Equity Index Fund;
- Aviva Managed Fund; and
- Aviva Global Equity Fund.

The Trustee has sought to obtain the relevant voting data for Section 12.1, from all of the investment managers listed above, however were unable to include information on significant votes for the Aviva Managed Fund and Aviva Global Equity Fund (for which day-to-day investment portfolio management has been delegated by Aviva to Schroders). This is because Schroders is unable to identify significant votes or provide information to help the Trustee assess the significance of votes themselves.

The Trustee will continue to work with its advisers and investment managers with the aim of providing fuller voting information in future implementation statements.

In addition to the above, the Trustee contacted the Plan's other asset managers that don't hold listed equities, to ask if any of the assets held by the Plan had voting opportunities over the period. None of the other pooled funds that the Scheme invested in over the Scheme Year held any assets with voting opportunities.

11.1 Description of the voting processes

LGIM

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients. Their voting policies are reviewed annually and take into account feedback from clients. Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead.

All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant companies.

Implementation Statement (continued)

11.1 Description of the voting processes (continued)

LGIM (continued)

The Investment Stewardship team use third parties to augment their own research and proprietary ESG assessment tools when making specific voting decisions.

To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what they consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

LGIM retains the ability in all markets to override any vote decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows them to apply a qualitative overlay to their voting judgement. They have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform them of rejected votes which require further action.

Schroders

In order to maintain the necessary flexibility to meet client needs, local offices of Schroders may determine a voting policy regarding the securities for which they are responsible, subject to agreement with clients as appropriate, and/or addressing local market issues.

Schroders evaluates voting issues arising at their investee companies and, where it has the authority to do so, vote on them in line with their fiduciary responsibilities in what they deem to be the interests of their clients. Schroders utilises company engagement, internal research, investor views and governance expertise to confirm its intention.

Schroders receives research from both ISS and the Investment Association’s Institutional Voting Information Services (IVIS) for upcoming general meetings, however this is only one component that feeds into its voting decisions. In addition to relying on its policies it will also be informed by company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts.

Implementation Statement (continued)

11.1 Description of the voting processes (continued)

Schroders (continued)

Schroders stresses that its own research is integral to its final voting decision; which will be conducted by both its financial and ESG analysts. For contentious issues, Schroders' Corporate Governance specialists will be in deep dialogue with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

Schroders reviews its voting practices and policies during their ongoing dialogue with its portfolio managers. This has led it to raise the bar on what it considers 'good governance practice.'

Schroders considers "most significant" votes as those against company management. Schroders are not afraid to oppose management if they believe that doing so is in the best interests of shareholders and their clients. For example, if Schroders believes a proposal diminishes shareholder rights or if remuneration incentives are not aligned with the company's long-term performance and creation of shareholder value. Such votes against will typically follow an engagement and they will inform the company of their intention to vote against before the meeting, along with their rationale. Where there have been ongoing and significant areas of concerns with a company's performance Schroders may choose to vote against individuals on the board. However, as an active fund manager it usually looks to support the management of the companies that it invests in. Where it does not do this, Schroders classifies the vote as significant and will disclose the reason behind this to the company and the public.

It is Schroders' policy to disclose its voting activity publicly. On a monthly basis, it produces a voting report which details how votes were cast, including votes against management and abstentions. While Schroders implements an ESG policy, it does not have a "tick box" approach to voting. It relies on analysis and engagement to determine its voting intention.

Implementation Statement (continued)

12. Summary of voting behaviour over the Plan Year

A summary of voting behaviour over the period is provided in the table below.

	Fund 1	Fund 2	Fund 3
Manager name	LGIM	Schroders	Schroders
Fund name	All World Equity Index Fund	Aviva Managed Fund	Aviva Global Equity Fund
Total size of fund at end of reporting period	£4.3bn	£3.9bn	£0.3bn
Value of Plan assets at end of reporting period	£547.7m	£0.3m	£0.4m
Number of holdings at end of reporting period	4,077	3,357	141
Number of meetings eligible to vote	6,779	30	145
Number of resolutions eligible to vote	70,672	484	2,257
% of resolutions voted	99.9%	100%	98.1%
Of the resolutions on which voted, % voted with management	83.3%	95.0%	90.7%
Of the resolutions on which voted, % voted against management	16.0%	5.0%	9.3%
Of the resolutions on which voted, % abstained from voting	0.8%	0.4%	0.1%
Of the meetings in which the manager voted, % with at least one vote against management	5.6%	46.7%	61.4%
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	0.2%	3.5%	4.7%

12.1 Most significant votes over the Plan year

As discussed above, only LGIM has indicated to us what it considers to be the “most significant vote”. Commentary on some of the most significant votes over the period is set out below. Please note that this is not an exhaustive list. We have used our discretion to choose “most significant vote” resolutions from those provided by LGIM, aiming to provide a broad range of example resolutions that the Plan’s investment managers typically vote on.

Implementation Statement (continued)

12.1 Most significant votes over the Plan Year (continued)

LGIM

- **Qantas Airways Limited, Australia, October 2020.**
    - **Vote:** L&G voted against resolution 3 and supported resolution 4
    - **Summary of resolution:** Resolution 3: Approve participation of Alan Joyce in the Long-Term Incentive Plan; Resolution 4: Approve Remuneration Report.
    - **Rationale:** *The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from L&G as it wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. In collaboration with our Active Equities team, L&G's Investment Stewardship team engaged with the Head of Investor Relations of the company to express its concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team. L&G supported the remuneration report (resolution 4) given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, its concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice. L&G voted against resolution 3 to signal its concerns.*
- **Whitehaven Coal, Australia, October 2020.**
    - **Vote:** For
    - Summary of resolution: Resolution 6: Approve capital protection. Shareholders are asking the company for a report on the potential wind-down of the company's coal operations, with the potential to return increasing amounts of capital to shareholders.

Implementation Statement (continued)

12.1 Most significant votes over the Plan Year (continued)

- **Rationale:** *The role of coal in the future energy mix is increasingly uncertain, due to the competitiveness of renewable energy, as well as increased regulation: in Q4 2020 alone three of Australia's main export markets for coal - Japan, South Korea and China - have announced targets for carbon neutrality around 2050. L&G has publicly advocated for a 'managed decline' for fossil fuel companies, in line with global climate targets, with capital being returned to shareholders instead of spent on diversification and growth projects that risk becoming stranded assets. As the most polluting fossil fuel, the phase-out of coal will be key to reaching these global targets.*

- **Lagardere, France, May 2020.**
  - **Vote:** L&G voted in favour of five of the Amber-proposed candidates (resolutions H,J,K,L,M) and voted off five of the incumbent Lagardere SB directors (resolutions B,C,E,F,G).
  - **Summary of resolution:** Shareholder resolutions A to P. Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board (SB) of Lagardere, as well as to remove all the incumbent directors (apart from two 2019 appointments).
  - **Rationale:** *Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that the board members were not sufficiently challenging management on strategic decisions, and for various governance failures. The company continues to have a commandite structure; a limited partnership, which means that the managing partner has a tight grip on the company, despite only having 7 % share capital and 11% voting rights. L&G engages with companies on their strategies, any lack of challenge to these, and with governance concerns. The company strategy had not been value-enhancing and the governance structure of the company was not allowing the SB to challenge management on this. Where there is a proxy contest, L&G engages with both the activist and the company to understand both perspectives. L&G engaged with both Amber Capital, where it was able to speak to the proposed new SB Chair, and also Lagardere, where it spoke to the incumbent SB Chair. This allowed L&G to gain direct perspectives from the individual charged with ensuring their board includes the right individuals to challenge management.*

Implementation Statement (continued)

12.1 Most significant votes over the Plan Year (continued)

- **Pearson, United Kingdom, September 2020.**
  - **Vote:** Against
  - **Summary of resolution:** 'Resolution 1: Amend remuneration policy' was proposed at the company's special shareholder meeting, held on 18 September 2020.
  - **Rationale:** *Pearson issued a series of profit warnings under its previous CEO. Yet shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role. This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO. L&G spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. L&G also discussed the shortcomings of the company's current remuneration policy. L&G also spoke with the chair directly before the EGM, and relayed its concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO's award. L&G also asked that the post-exit shareholding requirements were reviewed to be brought into line with its expectations for UK companies. In the absence of any changes, L&G took the decision to vote against the amendment to the remuneration policy.*
- **Barclays, United Kingdom, May 2020.**
  - **Vote:** L&G voted for resolution 29, proposed by Barclays and for resolution 30, proposed by ShareAction.
  - **Summary of resolution:** Resolution 29: Approve Barclays' Commitment in Tackling Climate Change; Resolution 30: Approve ShareAction Requisitioned Resolution.

Implementation Statement (continued)

12.1 Most significant votes over the Plan Year (continued)

  - **Rationale:** *The resolution proposed by Barclays sets out its long-term plans and has the backing of ShareAction and co-filers. We are particularly grateful to the Investor Forum for the significant role it played in coordinating this outcome.*

- **Medtronic plc, US, December 2020.**
  - **Vote:** Against
  - **Summary of resolution:** Resolution 3: Advisory Vote to Ratify Named Executive Officers' Compensation.
  - **Rationale:** *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. L&G voted against the one-off payment as we 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 criterion/criteria were not met. Prior to the AGM L&G engaged with the company and clearly communicated its concerns over one-off payments.*

- **Plus 500 ltd., Israel, September 2020.**
  - **Vote:** L&G voted against the special bonus based on the belief that such transaction bonuses do not align with the achievement of pre-set targets. Separately, L&G also voted against an amendment to the company's remuneration policy, which continues to allow for the flexibility to make one-off awards and offers long-term incentives that remain outside best market practice in terms of long-term performance alignment.
  - **Summary of resolution:** 'Resolution 17: Approve Special Bonus Payment to CFO Elad Even-Chen' at the company's special shareholder meeting held on 16 September 2020.

Implementation Statement (continued)

12.1 Most significant votes over the Plan Year (continued)

- **Rationale:** *At its AGM on 16 September 2020, Plus500 proposed a number of pay-related proposals for shareholder approval. Amongst these, the board recommended the approval of a substantial discretionary bonus offered to the CFO of around $1.2 million, for his successful work with Israeli tax authorities over a number of years, resulting in a significant tax-saving for shareholders. The bonus is in addition to his annual variable pay and outside the normal bonus structure. L&G does not support one-off discretionary bonuses (or transaction bonuses) as these are not within the approved policy to reward the achievement of pre-set targets. Moreover, discussions with tax authorities and the obtaining of preferential tax structures for the company are seen as part of a CFO's day-to-day job and should not be remunerated separately. Instead, a preferential tax treatment will benefit future performance and will therefore be rewarded within annual bonus and long-term incentives in future performance years.*