

Implementation Statement

Stena Drilling Limited Money Purchase Scheme

Introduction

The Trustee of the Stena Drilling Limited Money Purchase Scheme ("the Scheme") has prepared this Implementation Statement and set out how the policies in the Trustee's Statement of Investment Principles (SIP), in particular those regarding the exercise of rights (including voting rights) and engagement, have been followed over the year to 31 March 2021.

The Trustee's SIP was last reviewed in August 2020 to comply with regulations that came into force on 1 October 2020.

The Trustee has set several key objectives and policies in the SIP. We have summarised these below and explained how the Trustee consider each to have been met over the period.

The full SIP can be found online at: [Statement-of-Investment-Principles-Eighth-Edition.pdf \(stenadrilling.s3.eu-west-2.amazonaws.com\)](https://stenadrilling.s3.eu-west-2.amazonaws.com/Statement-of-Investment-Principles-Eighth-Edition.pdf)

Policies on investment strategy

- *To offer a suitable default strategy for members, life styling arrangements and a selection of core funds for members to self-select.*

The Trustee reviewed the default strategy in April 2019, and concluded that the strategy remained suitable for the membership based on consideration of the membership profile of the Scheme and the communication to the members as they approached the commencement of the switching period. The Trustee also reviewed and added a new ESG focussed fund to the self-select fund range.

- *To review the investment strategy's suitability on an ongoing basis.*

As above the Trustee has reviewed the investment strategy regularly and this has been focussed on relevant areas for the membership.

Policies on monitoring manager performance

- *To review manager performance and appropriateness of the Scheme's investment options periodically.*

The Trustee monitors the performance of the manager funds quarterly to ensure that the funds are meeting their stated objectives. The Scheme's platform provider provides a quarterly Governance and Investment report. The report summarises key metrics for the Scheme including the underlying fund performance. The Scheme's Investment Consultant also provides a quarterly performance report which, highlights the key points from the platform provider's report as well as analysing the longer term trends of the funds and advises if any funds should be reviewed for appropriateness as part of the Scheme's offering. The reports are then discussed at the half-yearly Trustee meeting.

Policies on ESG

- *To consider if a further review of ESG factors is required when selecting new funds and managers.*

The Trustee added an ESG focussed fund as a self-select option over the year. The fund's investment process including the exclusion screen and Impact process were considered as part of this exercise.

- *To review the managers ESG policies periodically*

The Scheme receives ESG and Stewardship reports from Prudential and Baillie Gifford to discuss at Trustee meetings. The Trustee reviewed the available reports from Prudential and Baillie Gifford at the Trustee meeting in May 2021, and the Trustee was comfortable that the managers are undertaking their voting and engagement in line with the Trustee's policy as far as the reporting is available.

Policies on voting and engagement

- *To periodically review engagement activity undertaken by the Scheme's investment managers.*

The Trustee also reviews the voting data provided by Prudential as part of this Implementation Statement process. The Trustee's advisors requested voting and engagement data from each manager using the template provided by the PLSA. The managers have provided data as shown further in this Statement. Having reviewed the voting and engagement data provided by Prudential, the Trustee is comfortable with the actions of the fund managers held on the platform.

Policies on manager arrangements

- *Monitor total and portfolio turnover costs*

The Trustee consider total costs of the investments as part of the Value for member assessment annually.

- *Advisors to review fees when appointing new managers*

The fees for the new ESG focussed fund were considered as part of the advice from Barnett Waddingham. No other managers or funds have been added over the year.

- *To review the policy on non-financial matters annually.*

The Trustee reviewed the Statement of Investment principles in August 2020 and the policy on non-financial factors were considered as part of this process.

Investment manager and funds in use

The Scheme's funds are all invested via Prudential's Platform. Many of these funds are managed by Prudential Portfolio Managers America and M&G T&IO, but in some cases access is given to a fund managed by an external manager.

The investment funds used for the Scheme together with the underlying managers as at 31 March 2021 are set out in the table below:

Manager	Fund	Asset class
Baillie Gifford	Baillie Gifford Diversified Growth Fund*	Multi Asset
	Baillie Gifford Global Stewardship Fund	Global Equities
BlackRock Investment Management	BlackRock Aquila Emerging Markets Equity	UK Equities

Manager	Fund	Asset class
HSBC Global Asset Management (UK) Limited	Aviva Pension HSBC Islamic Global Equity Index FP	Global Equities
Legal and General Investment Managers	LGIM Ethical Global Equity Index	Global Equities
Threadneedle	Threadneedle Property	Property
M&G Treasury & Invest Office	Prudential Long Term Bond Fund*	Credit
	Prudential Cash Fund*	Cash
	Prudential UK Equity Fund**	UK Equities
	Prudential Discretionary Fund**	Multi Asset
	Prudential With Profits 90/10 Fund**	UK Equities
	Prudential North American Equity Passive	Global equities
	Prudential Europe Equity Passive	Global equities
	Prudential Pacific Basin ex-Japan Equity Passive	Global equities
	Prudential Japan Equity Passive	Global equities
	Prudential Dynamic Global Equity Passive Fund	Global equities
	Prudential Global Equity	Global equities
	Prudential International Equity	Global equities
	Prudential UK Smaller Companies	UK equities
	Prudential Fixed Interest	Credit
	Prudential All Stocks Corporate Bond	Credit
	Prudential Dynamic Growth II	Multi Asset
Prudential Dynamic Growth III	Multi Asset	
Prudential Dynamic Growth IV	Multi Asset	
Prudential Dynamic Growth V	Multi Asset	
Prudential UK Property	UK Property	

*Scheme's default strategies

**Funds with voting rights and with more than 20 members invested.

Voting activity over the year to 31 March 2021

Overview

The Scheme invests entirely in pooled funds, and as such delegates responsibility for carrying out voting and engagement activities to the Scheme's investment managers.

Over the period reporting, the Trustee has received voting and engagement data from Prudential on the default funds managed and also the funds with voting rights with more than 20 members i.e. the Prudential UK Equity Fund, Prudential Discretionary Fund and Prudential With Profits 90/10 Fund. These funds are responsible for the vast majority of the Scheme's assets (88%) therefore the Trustee has reviewed the voting and engagement of these funds only which is in line with PLSA guidance.

The table below summaries the voting data for each fund.

Summary of Voting Data

Manager	Baillie Gifford		Prudential	
Fund name	Baillie Gifford Diversified Growth Fund	Prudential UK Equity Fund	Prudential Discretionary Fund	Prudential With Profits 90/10 Fund
Structure	Pooled	Pooled	Pooled	Pooled
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustee to influence the manager's voting behaviour.			
Number of company meetings the manager was eligible to vote at over the year	103	564	1,830	2,125
Number of resolutions the manager was eligible to vote on over the year	925	8,053	23,360	29,590
Percentage of resolutions the manager voted on	96%	99%	74%	85%
Percentage of resolutions the manager abstained from	1%	1%	1%	1%
Percentage of resolutions voted <i>with</i> management, as a percentage of the total number of resolutions voted on	94%	97%	94%	93%
Percentage of resolutions voted <i>against</i> management, as a percentage of the total number of resolutions voted on	5%	2%	5%	6%
Proxy voting service employed	Baillie Gifford employ Institutional Shareholder Services, Inc. (ISS) and Glass Lewis to provide proxy voting recommendations. However, all voting decisions are ultimately made by an in-house team.		Prudential use the research services of ISS and IVIS. Their voting is instructed through the ISS voting platform, ProxyExchange. They use the ISS custom service to flag resolutions that may not meet their policy guidelines. Voting decisions are taken by the Sustainability and Stewardship at M&G often in consultation with Fund Managers. Some routine resolutions are voted by ISS on their behalf when clear criteria have not been met.	
Percentage of resolutions voted <i>contrary</i> to the recommendation of the proxy advisor	Not applicable - All client voting decisions are made in-house.	3%	3%	3%

Source: Baillie Gifford, Prudential and M&G T&IO

Voting activity over the year to 31 March 2021 | Significant votes

The Trustee is required to describe the voting undertaken on their behalf, including the most significant votes cast. The guidance does not currently define what constitutes a “significant” vote, so for this Implementation Statement the Trustee has asked the Scheme’s managers to determine what they believe to be a “significant vote”. Prudential have provided a selection of votes for each fund which they or the underlying managers believe to be significant, and their rationale for selecting that vote. In the interest of concise reporting only a summary of the significant votes provided by Prudential are shown here. We have shown three significant votes for the default strategy funds with voting rights, and three significant votes for funds with voting rights and with over 20 members invested, below.

Baillie Gifford Diversified Growth Fund

	Vote 1	Vote 2	Vote 3
Company name	Covivio REIT	Gecina	Ediston Property Investment Company PLC
Date of vote	22 April 2020	23 April 2020	23 February 2021
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.5%	0.3%	5.6%
Summary of the resolution	Remuneration Policy	Incentive Plan	Remuneration Policy
How the manager voted	Against	Against	Against
Rationale for the voting decision	Baillie Gifford opposed five resolutions regarding the in-flight and proposed long term incentive scheme because they believed it could lead to rewarding under-performance.	Baillie Gifford opposed three resolutions relating to remuneration as they did not believe there was sufficient alignment between pay and performance.	Baillie Gifford opposed the resolution to approve the remuneration policy because they were concerned that an additional fee proposed for the Senior Independent Director could impact his independence.
Outcome of the vote	Pass	Pass	Pass
Implications of the outcome	Following the AGM in 2020, Baillie Gifford informed the company of their voting decision and advised that they expect more stretching performance criteria to apply to long-term incentives going forward. They have yet to see improvements in the targets so will continue dialogue with the company and to take appropriate voting action.	Baillie Gifford have been opposing remuneration at the company since 2017 due to concerns with the targets applied to the restricted stock plan. They are yet to see improvements in the remuneration plan, however they continue to engage with the company to advise on areas for improvement.	Baillie Gifford engaged with the company on the issue and will continue to take voting action in relation to the vote if concerns remain.
Criteria on which the vote is considered “significant”	This resolutions are significant because they were all votes against management with respect to remuneration.		

Prudential UK Equity Fund

	Vote 1	Vote 2	Vote 3
Company name	Aggreko Plc	U&I Group Plc	Plus500 Ltd.
Date of vote	23/04/2020	10/09/2020	16/09/2020
Summary of the resolution	Approve Remuneration Report	Re-elect Peter Williams as Director	Approve Special Bonus Payment to Elad Even-Chen, CFO
How the manager voted	Against	Against	Against
Rationale for the voting decision	Opposition due to concern that remuneration is excessive given the dividend cut and current market conditions	Concern over number of directorships.	Concern that this payment is unnecessary in light of the explanation provided by the company
Outcome of the vote	Pass	Pass	Withdrawn
Implications of the outcome	This was a one-off COVID situation where the dividend was cut but management still received variable pay. The manager does not envisage this being repeated going forward.	Issue may be raised in any future engagements or contact with the company	Level of concern is decreased but the issue will be monitored closely going forward
Criteria on which the vote is considered "significant"	Vote is significant because they voted against remuneration.	Shareholder rights and Governance	High sensitivity to stakeholders

Prudential Discretionary Fund

	Vote 1	Vote 2	Vote 3
Company name	Total SA	Facebook, Inc. Class A	Advanced Micro Devices, Inc.
Date of vote	29/05/2020	07/05/2020	07/05/2020
Summary of the resolution	Instruct Company to Set and Publish Targets for Greenhouse Gas (GHG) Emissions Aligned with the Goal of the Paris Climate Agreement and Amend Article 19 of Bylaws Accordingly	Shareholder Proposal to Report on Political Advertising	Management Proposal to Ratify Executive Officers' Compensation
How the manager voted	Abstain	Against	Against
Rationale for the voting decision	Concern that resolution is unable to be implemented in a way that is not detrimental to shareholders' interests	The manager voted against management as shareholders would benefit from increased disclosures to better understand specific risks that Facebook may face as well as broader societal impact in terms of public discourse and democratic processes.	The manager believed that the magnitude of special performance-based equity award to chief executive officer was over twice the median total pay of peer company CEOs.
Outcome of the vote	Not available.	Not available.	Not available.
Implications of the outcome	Issue may be raised in any future engagements or contact with the company	While Facebook's view that a private company should not decide what political speech is one point of view, a more in-depth reporting of the broader societal and regulatory risks that a company's primary business may entail, will help shareholders better assess the business and management actions.	Despite strong share performance relative to the broader market over the prior couple of years, the magnitude of incentive compensation granted to named executive officers (NEOs) still warrants attention and monitoring.
Criteria on which the vote is considered "significant"	Environmental and social	The manager defines a significant votes as votes they believe may have a material impact on the financial performance of the investment.	

Prudential With Profits 90/10 Fund

	Vote 1	Vote 2	Vote 3
Company name	Royal Dutch Shell Plc	Siemens AG	Samsung Electronics Co., Ltd.
Date of vote	19/05/2020	03/02/2021	17/03/2021
Summary of the resolution	Shareholder resolution requesting Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions	Amend Articles Re: Allow Shareholder Questions during the Virtual Meeting	Elect directors
How the manager voted	For	Abstain	Against
Rationale for the voting decision	In the managers' view, the company should provide comprehensive disclosure to shareholders on its environmental impacts and risks.	Concerns over legal uncertainties.	The manager has concerns over corporate behaviour and insufficient shareholder engagement: Incumbent directors Byung-gook Park, Jeong Kim and Sun-uk Kim have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company.
Outcome of the vote	Fail	Fail	Pass
Implications of the outcome	After engaging directly with Shell and other investors via the IIGCC coalition, the manager supported the resolutions at Shell which ended up receiving 14% support. This shows that there is a growing number of shareholders which would like to see Shell disclose more on its alignment strategy going forward and has encouraged the company to be more progressive in its transition plans.	Our reservations regarding virtual only meetings is reflected in our policy	The manager engaged with the company on three occasions including a formal letter expressing our views on shareholder returns. The company did not comply with their views.
Criteria on which the vote is considered "significant"	Environmental and social	Shareholder rights and Governance	Shareholder rights and Governance

Engagement activity over the year to 31 March 2021

The Trustee has requested engagement data from the Scheme's investment managers, and the table below sets out a summary of the engagement carried out by Prudential and Baillie Gifford over the year. This is relevant for the Equity, multi-asset and fixed income funds in both the default and self-select strategies. Below are also some examples of engagement carried out over the year, which Prudential have provided.

Manager	Baillie Gifford		Prudential		
Fund name	Baillie Gifford Diversified Growth Fund	Prudential UK Equity Fund	Prudential Discretionary Fund	Prudential With Profits 90/10 Fund	Prudential Long Term Bond Fund
Does the manager perform engagement on behalf of the holdings of the fund	Yes	Yes	Yes	Yes	Yes
Has the manager engaged with companies to influence them in relation to ESG factors in the year?	Yes	Yes	Yes	Yes	Yes
Number of engagements undertaken on behalf of the holdings in this fund in the year	50	53	81	131	12
Number of engagements undertaken at a firm level in the year	Firm level engagement not provided as Baillie Gifford believe that fund level engagement is more relevant for these funds	101 - The system used to collate engagement data is relatively new, and while it has been back-filled, this will still not have captured all of the engagements across every fund.			
Examples of engagements undertaken with holdings in the fund	See below				

Engagement examples

Baillie Gifford Diversified Growth Fund

Hibernia REIT Plc - Corporate Governance

As part of Hibernia REIT's annual governance roadshow, Baillie Gifford spoke with the chairman, newly appointed non-executive director and company secretary. They discussed the process of onboarding three new directors over the year, board succession and the external roles of several directors, as well as the board's role in acquisitions and disposals. The manager took the opportunity to understand changes since the management team moved from being externally appointed to in-house. Alignment of pensions with the wider workforce was also discussed. Finally, they touched on the sustainability report. A full-time manager now implements the sustainability strategy. Baillie Gifford subsequently completed Hibernia's inaugural sustainability survey to help shape its future strategy.

Prudential UK Equity Fund

Rio Tinto – Social

In May and June, Anglo-Australian mining company Rio Tinto published three press releases relating to the destruction of caves in Western Australia's Juukan Gorge. The caves showed evidence of 46,000 years of human habitation, and this became the subject of high interest from the media. According to management, Rio had received legal consent for the iron ore mine in 2011, despite objections from the Puutu Kuntjirra and Pinikura ('PKKP') people. Archaeologists removed 7,000 items from the site in 2013. When it was due to be mined, the PKKP people protested but the mining still went ahead.

M&G met with the company, and this was the first item on the agenda. The company took this matter very seriously and apologised publicly. A report was subsequently published in August with suggested remuneration penalties for the executives responsible including the CEO. This was not deemed to be sufficient by shareholders and the press, so the CEO was forced to resign. M&G subsequently had a follow up meeting with the chairman, who has just returned from a visit to Western Australia. M&G believe it is clear that this was a terrible mistake by the company and they been promised that the new CEO will ensure increased sensitivity over cultural issues and better procedures have been put in place to prevent this type of situation happening again. M&G will make sure that Rio is kept under the microscope for the next few years.

Prudential Discretionary Fund

HSBC – Environmental

ShareAction proposed a shareholder resolution to phase out fossil fuels on a sector-based approach to be put to HSBC's AGM vote. The HSBC board proposed its own climate resolution, which HSBC believed to be better suited and more aligned to net zero than the ShareAction proposal. The HSBC resolution included net zero by 2050, with coal powered phase out by 2030 in the EU, and 2040 in other markets, as well as regular reporting on its progress.

M&G met with a number of members of HSBC's board (including the chair and chief executive and the head of sustainability) in a collective meeting arranged by the Investor Forum. They then met separately with ShareAction. M&G made it clear in both meetings that it did not see a large gap between the two resolutions, and that it would be better for shareholders if a single resolution could be negotiated.

As a result of the engagement, ShareAction and the board of HSBC agreed to a single resolution, and HSBC will in future put its climate transition plans to a shareholder vote.

Prudential With Profits 90/10 Fund

BAE – Social

M&G met with BAE to discuss why British aerospace and defence company BAE Systems' carbon figures, from a selection of ESG data providers, appear high compared to peers. The meeting was also to discuss the company's involvement in the production of white phosphorus. As a further discussion topic, having previously engaged with BAE on its graduate and apprenticeship scheme, we understood that the company relies on these schemes to develop future talent. We wanted to ensure it was still able to offer these, given the current COVID environment.

In relation to the company's carbon emissions, they appear high compared to peers because some of the US defence numbers are included within BAE's reported figures. This is unrepresentative of the company's own carbon emissions, and it is working to remove these from its total figure.

Finally, BAE is continuing to run its graduate schemes and apprenticeships programmes, although some of these have experienced a slightly delayed start date. The company stressed the importance of these schemes and ensured us they will continue to do all they can to allow these to continue.

Prudential Long Term Bond Fund

AB InBev - Environmental

M&G engaged with multi-national drinks company AB InBev, urging it to set medium-term scope 1-3 emissions reduction targets, post 2025, as well as a net zero target for 2050 or sooner. They met with the responsible investing and sustainability teams, who explained the company's main challenges to reducing emissions. These primarily focused on the heat required in the brewing process – which is currently two-thirds of its energy requirements – and product packaging, which represents 40% of its scope 3 emissions.

M&G believe the company is clearly aware of its challenges and is working on the solutions, which could include the increased use of returnable glass bottles and recycling plastic on the packaging side. M&G are now giving the company time to work through these solutions, and await its next ESG report, to be published in February 2021, to see if any new targets are published. They will then decide if further near-term engagement is necessary.

Prepared by the Trustee of the Stena Drilling Limited Money Purchase Scheme

August 2021