Air France (UK) Pension Scheme for the year ending 31 March 2021

Welcome to the Trustees' Statement of how they implemented the policies and practices in the Scheme's Statement of Investment Principles (SIP) during the year ending 31 March 2021.

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Scheme's Statement of Investment Principles during the period from 1 April 2020 to 31 March 2021 (the 'Scheme Year').

In particular, the statement:

- Sets out the extent to which, in the opinion of the Trustees, the Trustees have followed the voting and engagement policies in the Scheme's SIP during the Scheme Year; and
- Describes the voting behaviour carried out by the Scheme's investment managers on the Trustees' behalf during the Scheme Year (including the most significant votes cast by the Trustees or on its behalf) and describes any use of the services of a proxy voter during the Scheme Year.

A copy of this implementation statement is available on the following website
https://wwws.airfrance.co.uk/information/legal/edito-sommaire

What is the Statement of Investment Principles ('SIP')?

The SIP sets out the investment principles and practices the Trustees follow when governing the Scheme's investments. It describes the rationale for selecting the investment strategy and explains the risks and expected returns of the funds used and the Trustees' approach to responsible investing (including climate change). The SIP is reviewed (and if necessary revised) at least every three years and following any significant changes in investment policy.

This implementation statement is in respect of the Scheme's SIP that was in place over the 12 months to 31 March 2021. The last review of the Scheme's SIP was completed in September 2020 and the next review will take place no later than September 2023.

The SIP dated 17 September 2019 applied from the start of the Scheme Year until the Trustees put in place a revised SIP dated 24 September 2020, which applied for the rest of the Scheme Year. The Trustees considered both of these SIPs when preparing this statement.

The main changes to the SIP made as part of the September 2020 update were as follows:

- Increased focus on approach to stewardship;
- Obligations to monitor portfolio turnover and related investment management costs;
- Ensure that the managers have suitable policies in place which address conflicts of interest.

These changes were made following a review which reflected the Department for Work and Pensions' (DWP) additional disclosure requirements.

If you want to find out more, you can find a copy of the Scheme's SIP at https://wwws.airfrance.co.uk/information/legal/edito-sommaire

Conclusion

The Trustees believe, following the review carried out as part of preparing this statement, that the relevant sections of the SIP have been followed during the Scheme Year. Where there are sections which require the Trustees to evidence alignment (e.g. with the Stewardship policy), the Trustees have agreed to maintain an action plan to demonstrate alignment within in the next reporting period. We explain the Trustees' reasoning for this conclusion below.

The Scheme

The Scheme provides you with benefits on a defined benefit ('DB') basis. This means that the size of the benefits paid to you when you retire will depend on your salary and service.

Up until 2017, members could pay Additional Voluntary Contributions ('AVCs') into the Scheme – these arrangements were closed to new contributions from 1 July 2017.

How the Scheme's investments are governed

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefit basis.

The Trustees have 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.

During the Scheme Year, the Scheme's governance processes remain unchanged and there has been one Trustee departure. The Trustees have delegated day-to-day investment decisions, such as which investments to buy and sell, to the Scheme's investment managers.

The Trustees undertook the following training / actions during the last year to ensure that their knowledge of investment matters remains up to date:

Date	Topic	Aim	Trainer
December 2020	Investment beliefs	Revisit the Trustees' investment beliefs in the context of the future strategy of the Scheme	Hymans Robertson LLP

The Trustees monitor how well their investment adviser meets the objectives agreed with them, which are designed to align with the Trustees' objectives and investment strategy set out in the SIP. During the last year, the investment adviser agreed the following objectives with the Trustees:

- Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Scheme's investments to progress towards the funding objective.
- Deliver an investment approach that reflects the Scheme's cashflow position and likely evolution and minimises the risk of forced disinvestment.

- Provide advice on cost efficient implementation of the Scheme's investment strategy, including but not limited to advice on the use of suitable benchmarks, active or passive management and selection of managers.
- Provide relevant and timely advice.
- Develop Trustees' knowledge and understanding of the Scheme's investment strategy, its implementation and investment matters.
- Advice is delivered concisely, and recommendations are clearly made with a compelling rationale.
- Provide suitable reporting for the Trustees to understand the Scheme's progress towards its investment objectives.
- Helping ensure the governance framework facilitates good and timely investment decision making.
- Ensure advice complies with the relevant pensions regulations, legislation and supporting guidance.
- Ensure the Trustees meet the relevant pensions regulations and legislation relating to investment, including the Scheme's Statement of Investment Principles and approach to Responsible Investment.

In January 2021, the Trustees carried out an evidence based review of the investment adviser's performance against these objectives and were satisfied that they had been achieved during the Scheme Year.

The Trustees are satisfied that during the Scheme Year:

- **The Scheme's governance structure was appropriate;**
- **The Trustees have maintained their understanding of investment matters; and**
- **Their investment advisers met the agreed objectives.**

How the investment strategy is managed

The objective and rationale for the investment strategy is set out in the Scheme's current SIP on pages 1 to 2. At the end of the Scheme Year, the Trustees were aware of the Scheme's overweight position in Gilts/LDI and the underweight holdings in the two buy-in policies held with Just and Aviva as a result of near record low gilt yields.

The Trustees have not carried out a formal investment strategy review during the Scheme Year, due to the fact that this has been deferred once further clarity is sought following the next triennial actuarial valuation. The Trustees therefore expect to review the strategy during the next reporting year.

How investments are chosen

The Trustees review the performance of the investment managers and mandates on a regular basis against a series of metrics, including, but not limited to, financial performance against the benchmark and objectives of the mandate and the management of risks. Material deviation from performance targets may result in the mandate being formally reviewed.

The Trustees monitor the performance of the funds used by the Scheme by:

- Reviewing quarterly investment reports;
- Meeting periodically with managers; and
- Engaging with the investment adviser.

Over the year, the Trustees monitored fund performance relative to the manager's respective benchmarks and targets on a quarterly basis. The deviations away from long-term targets for the majority of the funds were caused by the global pandemic's impact on markets. The Trustees subsequently undertook a review of the impact that Covid-19 had on all the Scheme's assets (with a focus on the actively managed Alcentra Multi-Credit Solutions Fund) and were satisfied with the analysis. As a result, the Trustees decided not to make any changes to the investment portfolio.

The Scheme has existing AVC arrangements with Aviva and Standard Life. The Trustees continue to monitor these arrangements by assessing:

- Whether members hold a material exposure to their AVC holdings;
- The expected pot sizes of members at retirement;
- The performance and fee structure of available funds; and
- Current market conditions and the viability of switching provider.

The Trustees are satisfied that during the Scheme Year:

- **The Scheme's overall investment strategy was appropriate;**
- **The actions taken by the managers to navigate market conditions were appropriate.**

The expected risks and returns in the DB Scheme

The investment risks relating to the DB Scheme are described in the SIP on page 4 and the expected return is described in the SIP on page 5.

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) and the style of management adopted by the Scheme.

The Trustees believe the main investment risks described in the SIP have not changed materially over the Scheme Year. The Trustees have reviewed each section of the risk register to ensure it remains up to date.

The Trustees were satisfied that the expected rates of investment return for the types of funds described in the SIP were reasonable relative to the risks, during the Scheme Year.

The Trustees were satisfied that through a diversified portfolio, systematic risks were mitigated during the Scheme Year. The Trustees accept that it is not possible to make specific provision for all possible eventualities.

Ability to invest / disinvest promptly

It is important that member benefits can be received promptly, and that the Scheme's investments can be realised quickly if required, as set out on page 5 of the SIP. The Trustees also ensure that the Scheme has a robust process for the administration team processing cash payments to/from the Scheme and to/from the investment funds.

The Trustees were satisfied that money was invested in and taken out of the majority of investments without delay, as set out in the SIP. In August 2020 the Trustees enhanced the Scheme's cash management process by implementing the LGIM Cash Fund, which provides a secondary cash source to the Trustee Bank Account.

Portfolio turnover within funds

During the Scheme Year, the Trustees monitored the performance of the assets (net of costs) on a quarterly basis. If any material deviation in performance relative to target returns or benchmarks had been identified, the Trustees would have further investigated the activity carried out by the fund manager, including the buying and selling of assets. In this way, the Trustees indirectly monitored portfolio turnover and the associated transaction costs.

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

Over the Scheme Year, the Trustees monitored performance for all the funds on a quarterly basis by reviewing Hymans' reporting, and discussed performance with the Scheme's investment advisors. The Trustees did not identify any instances of material deviations in performance, which warranted further investigation into portfolio turnover.

Conflicts of interest

During the Scheme Year, the Trustees did not explicitly review conflicts of interest in the management of the Scheme's assets. Over the year, the managers did not disclose any potential or actual conflict.

The Trustees will consider the appropriate means to review and monitor conflicts of interest over the next reporting period.

Responsible Investment

The Trustees believe that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme invests in.

The majority of the Scheme's assets are invested in liability-hedging assets, specifically in gilts, LDI, corporate bonds, multi-asset credit and buy-ins. A smaller portion is invested into equities and property. The Trustees recognise the importance of stewardship activity in relation to the voting activity of the Scheme's equity funds. Meanwhile, each of the Scheme's managers are separately monitored for their own engagement activity.

Over the Scheme Year, the Trustees updated the SIP document to include policies on stewardship, with more detail set out below. The Trustees' approach to sustainable investing has not changed during the last year. The Trustees are satisfied that during the year the Scheme's investments were invested in accordance with the policies on sustainable investing and consideration of financially material factors set out in the SIP.

Sustainable Investment

The Trustees believe that investing sustainably is important to control the risks that environmental factors (including climate change), social factors (such as the use of child labour) and corporate governance behaviour (called 'ESG' factors) can have on the value of the Scheme's investments.

In line with the SIP, no specific actions over the past year have been considered with respect to non-financially material factors in the development and implementation of the Scheme's investment strategy.

The Trustees have considered the duration of the Scheme's liabilities when choosing and reviewing the funds. The investment adviser provides quarterly updates on the Scheme's strategy relative to its future self-sufficiency target date, and liaises with the Scheme Actuary to ensure these remain appropriate.

The Trustees' approach to sustainable investing has not changed during the last year.

Policy Implementation

As outlined on page 7 of the SIP, the Trustees have delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment managers. The Trustees believe it is important that its investment managers 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 issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with the investment managers which is undertaken in conjunction with the investment adviser. The Trustees accept that investment managers will notify the Trustees about any particular stewardship activities. In the next reporting year, the Trustees will record any dialogue with the investment managers which pertain to changes in stewardship policy.

Stewardship policy

The Trustees Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Scheme's assets, which includes the Trustees approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on a periodic basis, in line with the Scheme's SIP review. The Trustees have committed to reviewing the managers' stewardship policies on a periodic basis, beginning from the next reporting year.

The Trustees and their investment advisers remain satisfied that the stewardship policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme. From the next reporting period, the Trustees will consider the appropriate means to review and monitor managers' voting policies.

Voting activity

The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, monitor managers' voting patterns. The Trustees have not discussed this issue in detail during the Scheme year but intend to monitor the investment managers' voting on particular companies or issues that affect more than one company, as part of the next reporting period.

The Trustees have invested in listed equity assets through several underlying mandates with LGIM, which comprise approximately 20% of Scheme assets. The Trustees' investment managers have reported on how votes were cast in each of these mandates as set out in the table below.

LGIM Equities

	UK Equity	North America Equity	Europe ex UK Equity	Japan Equity	Asia Pacific ex Japan Equity	Global Emerging Markets Equity
Proportion of Equity assets	48.3%	16.0%	15.0%	5.7%	6.5%	8.5%
No. of meetings eligible to vote at during year	943	794	686	551	534	5139

No. of resolutions eligible to vote on during year	12,574	9,495	11,412	6,518	3,774	44,755
% of resolutions voted	100.0%	100.0%	99.9%	100.0%	100.0%	99.8%
% of resolutions voted with management	92.9%	71.8%	84.2%	86.1%	74.2%	82.6%
% of resolutions voted against management	7.1%	28.2%	15.3%	13.9%	25.8%	16.1%
% of resolutions abstained	~0.0%	~0.0%	0.5%	0.0%	~0.0%	1.4%
% of meetings with at least one vote against management	3.3%	7.8%	4.4%	5.9%	10.1%	6.0%

Source: LGIM

The resolutions that LGIM voted against management the most on over the Scheme year were mainly in relation to executive remuneration, re-election of non-executive directors and shareholder proposals requesting greater reporting on Climate Change.

Significant votes

The Trustees have asked LGIM to report on the most significant votes cast within the portfolios they manage on behalf of the Scheme. Managers were asked to explain the reasons why votes identified were significant, the size of the position in the portfolio, how they voted, any engagement the manager had undertaken with the company and the outcome of the vote. The Trustees own understanding of what a "most significant" vote entails is aligned to the information which they have received from the managers.

From the managers' reports, the Trustees have identified the following votes as being among those of greater relevance to the Scheme:

Legal & General Investment Management

Date	Company	Subject (theme and summary)	Manager's vote and rationale	Relevant LGIM funds
5 May 2020	Lagardère	**Corporate Governance** – Activist Amber Capital, which owned 16% of the share capital at the time of engagement, proposed 8 new directors to the Supervisory Board of Lagardère, as well as to remove all the incumbent directors (apart from two 2019 appointments).	**For** – Proposals by Amber were due to the opinion that the company strategy was not creating value for shareholders, that board members were not sufficiently challenging management on strategic decisions, and for various governance failures.	LGIM Europe excluding UK Fund

7 May 2020	Barclays	**Climate Change** – approving Barclays' commitment to tackling climate change and ShareAction's Requisitioned Resolution	**For** – The resolution proposed by Barclays sets out its long-term plans for tackling climate change, and has the backing of ShareAction and co-filers.	LGIM UK Equity Fund
27 May 2020	ExxonMobil	**Corporate Governance** – Reappointment of Director Darren W.Woods proposed by the Chair of the Board.	**Against** – Due to concerns on climate change and the company's political lobbying, LGIM's voting policy has sanctioned the reappointment of directors responsible for nominations and renumeration.	LGIM North America Equity Fund
7 September 2020	International Consolidated Airlines	**Executive Remuneration** – approving the proposed Remuneration Report	**Against** – LGIM were concerned about the level of bonus payments, which are 80% to 90% of salary for current executives, and 100% of salary for the departing CEO. LGIM noted that they expected the remuneration committee to exercise greater discretion in light of the financial situation of the company given the COVID-19 crisis, and also to reflect the stakeholder experience.	LGIM UK Equity Fund
13 October 2020	Procter & Gamble	**Climate Change** – report on effort to eliminate deforestation	**For** – P&G use both forest pulp and palm oil as raw materials within its products, which are both considered leading drivers of deforestation and forest degradation. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020.	LGIM North America Equity Fund
22 November 2020	Whitehaven Coal	**Climate Change** – approving capital protection, by which 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.	**For** – LGIM advocates 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.	LGIM Asia Pacific excluding Japan Fund

26 November 2020	Fast Retailing Co. Limited	**Corporate Governance** – Election of Director Yanai Tadashi	**Against** – LGIM aspires to all boards comprising 30% women. Given Fast Retailing does not meet this standard, LGIM opposed the election to signal that the company should act on this issue.	LGIM Japan Equity Fund
11 February 2021	Tyson Foods	**Human rights** – report on Human Rights Due Diligence	**For** – A shareholder-led resolution requested that the company produce a report on Tyson's human rights due diligence process. LGIM believes that companies in which they invest their clients' capital should uphold their duty to ensure the health and safety of employees over profits.	LGIM North America Equity Fund
11 March 2021	Amerisource Bergen Corporation	**Executive remuneration** – Ratify named Executive Officers compensation	**Against** – To signal LGIM's concern over the overall increased compensation package during a year that the company recorded a $6.6 billion charge related to opioid lawsuits and a total operating loss of $5.1 billion.	LGIM North America Equity Fund

Source: LGIM

The Trustees and their investment advisers remain satisfied that the voting activities of the managers remain suitable for the Scheme. In the case of significant votes, the Trustees believe that the managers have taken the appropriate steps to pursue further engagement with the companies they hold, and that the outcomes have been satisfactory.

Engagement activity

The Trustees receive annual reporting on each manager's engagement activity. The following table summarises the key engagement activity for the 12 month period ending 31 March 2021.

Manager	Voting rights / engagements	Topics engaged on
LGIM Equities	Voting rights as these funds invest in equities. The team initiated 974 engagement with companies on an ongoing basis over the year.	Climate risk management, Remuneration, Diversity (gender and ethnicity), Board composition & Effectiveness, Strategy
LGIM Corporate Bonds	No voting rights, as this is a fixed income portfolio.	Climate change, Social housing, Environmental issues, Corporate governance

Alcentra	No voting rights as this fund invests in corporate debt. The team did not track the number of engagements on an ongoing basis over the year.	Employee welfare, Corporate governance (capital structure refinancing), Supply chain management
CBRE	Voting rights exist, as this fund invests in indirect real estate strategies, however these are limited to an administrative nature only. The team initiated 25 engagements with underlying managers an ongoing basis over the year.	Climate change, Labour standards, Environmental stewardship, Re-election of directors, Corporate governance

Source: LGIM

The Trustees and their investment advisers remain satisfied that the level of engagement activity of the managers remain suitable for the Scheme, and cover a broad range of topics, including but not limited to climate change.

Use of a proxy adviser

The Trustees' investment manager LGIM has made use of the services of Institutional Shareholder Services ("ISS"), a proxy voting advisor, over the Scheme year.

While the services of ISS have been used by LGIM, the Trustees have also sought to compare the extent of the manager's alignment with their proxy advisor, ISS, in order to judge the independence of their voting processes. Below is a summary of the voting activity of LGIM relative to the proxy advisor.

Manager	No. meetings voted at	Of which they voted against ISS recommendation (%)
LGIM UK Equity	943	0.8%
LGIM North America Equity	794	0.3%
LGIM Europe ex UK Equity	686	0.4%
LGIM Japan Equity	551	0.2%
LGIM Asia Pacific ex Japan Equity	534	0.2%
LGIM Global Emerging Markets Equity	5139	~0%

Source: LGIM

From the above we note that LGIM votes on a significant majority of occasions with the proxy advisor, but maintains further independence on voting against resolutions.

Review of policies

The Trustees have committed to reviewing the managers' RI policies on an annual basis. Although the Trustees did not review these in the Scheme year, future reviews will consider managers' broader approach to responsible investment issues and any change in approach by the managers over the year. The Trustees will also consider changes to their managers' voting policies.

The Trustees will consider the appropriate means to review and monitor managers' RI policies over the next reporting period.