

Annual Implementation Statement – For Scheme Year Ending 31 December 2020

Army and Air Force Exchange Service United Kingdom Area Exchange Managed Pension Plan

Introduction

This document is the Annual Implementation Statement, as required by the UK Government, under the Occupational and Personal Pension Schemes (Disclosure of Information) Regulation 2013, as amended and guidance published by The Pensions Regulator (TPR).

The regulations require that the Trustees of the Exchange Pension Scheme disclose any actions taken by the Trustees and how these actions adhere to the Exchange's Statement of Investment Principles (SIP) for the benefit of the Exchange's UK employees.

This is the Exchange's first Implementation Statement the Trustee has prepared and covers the year ending 31 December 2020. With this being the first year, this Statement is expected to evolve over time as operational practices are updated and principles are established.

A copy of this Implementation Statement can be found at <https://publicaffairs-sme.com/applymyexchange/in-application-uk/>

Review of SIP Objectives and Disclosure of Changes

The SIP was prepared in August 2019 following the last review of the default investment strategy agreed at the Trustee meeting on 29 May 2019. As a result of the demographics of the UK employees, the Exchange has developed a clear investment strategy which emphasizes a passive and a risk adverse posture on the Scheme's investments. The Trustees have selected an asset allocation benchmark that is expected to provide the level of returns required to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Exchange.

The Plan's investment manager is authorized and regulated by the Financial Conduct Authority (FCA). The Trustees will continue to monitor the activities of its investment manager and performance of these investments.

The Trustees receive quarterly performance reports on investments and evaluate the investment performance against their benchmark.

Trustees expect the Scheme investment manager to engage and seek activities, to include ESG factors, as with their own corporate governance policies and utilize current best practices outlined in the UK Corporate Governance Code and the UK Stewardship Code.

Trustee membership changed with the retirements of Mr. James A. Jordan (January 2021) and Mr. Brian Poss (November 2019). New replacement Trustees are Mr. Brad Bingham and Mr. Ken Jacquin. Both Trustees are receiving ongoing pension investment training provided by the Texas Association of Public

Employee Retirement Systems (TEXPERS) and possess the financial background to meet all fiduciary requirements.

As of 31 December 2020, there are no changes to the SIP which can be found at: <https://publicaffairs-sme.com/applymyexchange/ln-application-uk/>

Summary of Voting Behavior and Engagement for the fiscal year ending 31 December 2020

The Scheme's investments are comprised of the following BlackRock funds:

- Aquila Life UK Equity Index Fund
- Aquila Life World (excl. UK) Equity Index Fund
- Aquila Life Currency Hedged World (excl. UK) Equity Index Fund
- iShares Emerging Markets Index Fund (IE) Aggregate
- Aquila Life All Stocks UK Index-Linked Gilt Index Fund
- Aquila Life Over 25 Years Gilt Index Fund

Given the nature of the investment portfolio, pooled funds, the Trustees do not have any legal right to votes (no proxy votes) under the arrangements nor does BlackRock authorize or ask clients to provide feedback and/or direction on the voting of pooled funds. The Trustees accept it has limited influence on the investment managers and are satisfied that the investment manager has an explicit strategy clarifying the circumstances in which they will intervene in a company.

There are over 16,000 shareholder meetings in 85 markets each year with targeted 100% voting to take place on behalf of their clients by BlackRock Investment Stewardship (BIS). The BIS team confers regularly with their equity and credit analysts/portfolio managers to share insight to their pre-vote engagements, research and set of circumstances surrounding a particular company.

As fiduciary manager, BlackRock exercises their duty and responsibility to protect and enhance the value of their clients' assets and vote in alignment of the clients' long-term interest. BlackRock's governance and voting guidelines help assist in the decision-making process, however, on occasions, there may be a compelling reason to divert from those guidelines. If there are any concerns with a company's approach to corporate governance and/or business practice(s), to include ESG (and climate change) related, voting against company management or with a shareholder proposal may occur. Maintaining shareholder interests and engagement with company's management on governance or business practices is a critical function to ensuring company's directors are held accountable when shareholder interests are not in alignment.

The Trustees believe that the Scheme has adhered to the policies set forth in its SIP over the course of the year ending 31 December 2020. The Trustees will continue to work closely with their investment consultant and investment manager, Wilshire and BlackRock, respectively, in providing annual status updates to the Scheme, reporting on stewardship and voting behavior.