

Annual Implementation Statement

Toyota (GB) Retirement Benefits Plan (1979) – Defined Benefit (“DB”) Section

1 April 2020 to 31 March 2021 (the “Plan Year”)

Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles (“SIP”) produced by the Trustees, has been followed during the year to 31 March 2021 (the “Plan Year”). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2019 and the guidance published by the Pensions Regulator.

The Trustees of the Scheme is required to produce an annual statement to set out:

- how and the extent to which, in the opinion of the Trustees of the Scheme, the Statement of Investment Principles (“SIP”) produced by the Trustees has been followed during the Scheme Year;
- details of any review of the SIP during the Scheme Year;
- subsequent changes made with the reasons for the change; and
- the dates of the last review of the SIP.

The Implementation Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, the Trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is set out in the appendix.

This Implementation Statement reports on the Plan’s DB Section. The statement flows directly from and should be read in conjunction with the Plan’s DB Section SIP (in place at the Scheme Year end and dated September 2020) which is available here: <https://www.toyota.co.uk/footer/legal>

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Investment Objectives of the Plan

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. As set out in the SIP, the Trustees' primary investment objective for the DB Section of the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees also aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees have also received confirmation from the Scheme Actuary during the process of revising the investment strategy that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective..

Review of the SIP

During the year to 31 March 2021, the Trustees reviewed the Plan's SIP and a revised SIP was signed on 16 September 2020. The SIP was updated to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How arrangements with the asset managers incentivise the asset managers to align their investment strategy and decisions with the Trustees' policies as set out in the SIP.
- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's' performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of arrangements with the asset managers.

Investment Strategy Review

The Plan's investment strategy was last reviewed in May 2020 and was implemented with effect from July 2020. The new strategy focused on increasing the level of interest rate and inflation by restructuring the bond portfolio. The Trustees continue to monitor the investment strategy on a periodic basis, and at least every three years, to ensure it remains fit for purpose.

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Assessment of how the policies in the SIP have been followed for the year to 31 March 2021

The information provided in the following table highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP, relating to the Plan as a whole.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the Scheme Year.

	Requirement	Summary of Trustee Policy	Summary of the Plan Year to 31 March 2021
1	Securing compliance with the legal requirement to obtain and consider proper advice on the question of whether an investment is satisfactory.	<p>An investment consultant has been appointed by the Trustees to provide relevant advice to the Trustees.</p> <p><i>SIP Introduction</i></p>	<p><i>The Trustees last received formal Section 36 advice from their Investment Consultant relating to the work undertaken in May/July 2020.</i></p>
2	The kinds of investments to be held.	<p>The Trustees have adopted investment arrangements to enable benefits to be paid as and when they fall due.</p> <p><i>SIP section 4.3</i></p>	<p><i>The Plan's growth portfolio is comprised of pooled passive equity funds and an actively managed Diversified Growth Fund ("DGF") (a multi-asset fund that invests across a diversified range of assets).</i></p> <p><i>The Trustees also invest in Liability Driven Investment ("LDI") funds, which react in a similar way to the Plan's liabilities in response to movements in interest rates and inflation. LDI reduces the volatility of the Plan's funding level.</i></p> <p><i>The Trustees have set out a policy of the types of investments that the Plan can hold. Additionally, the Trustees also receive a quarterly monitoring report from the investment consultant, in order to assess the Plan's investment performance.</i></p>
3	The balance between different kinds of investments	<p>Within the DB investments the Trustees have established a strategic benchmark for the Scheme assets.</p> <p>The Trustees monitor the asset allocation from time to time and may rebalance the Scheme's investments if necessary to bring them in line with the strategic benchmark.</p>	<p><i>As part of the quarterly performance reporting, at each Trustees meeting, the actual allocation has been (and will continue to be) compared to the strategic benchmark allocation. An under or overweight position acts as a trigger for discussion.</i></p>

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		<i>SIP section Appendix 1</i>	
4	Risks, including the ways in which risks are to be measured and managed	<p>The Trustees recognise risk from a number of perspectives. Detail on the risks considered and the approach taken to risk management and measurement is set out in section 5 of the SIP.</p> <p><i>SIP section 5</i></p>	<i>As detailed in Section 5 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, the choice of fund managers / funds / asset classes.</i>
5	Expected return on investments	<p>The Scheme's assets are expected to provide an investment return commensurate with the level of risk being taken.</p> <p><i>SIP section 2</i></p>	<i>The investment monitoring report is reviewed by the Trustees on a quarterly basis. The monitoring report includes how each investment manager is delivering against their specific mandates.</i>
6	Realisation of investments	<p>Ad hoc cashflow requirements are taken from the Scheme's assets in a manner consistent with the strategic asset allocation.</p> <p>The Trustees consider the liquidity of the investment in the context of the likely needs of members.</p> <p><i>SIP section Appendix 3</i></p>	<p><i>The Scheme's assets are a combination of daily and weekly dealt pooled investment vehicles.</i></p> <p><i>The disinvestment policy for meeting benefit payments consists of disinvesting in a structured approach to rebalance the actual allocation with the strategic allocation.</i></p>
7	Financially material considerations over the appropriate time horizon of	The Trustees consider financially material considerations in the selection, retention and realisation of investments. Within the	<i>The majority of funds within the Plan have been assigned an ESG rating by Mercer. These ratings are formally reviewed at least within the quarterly investment report. Where</i>

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	the investments, including how those considerations are taken into account in the selection, retention and realisation of investments	<p>funds consideration of such factors, including environmental, social and governance factors, is delegated to the investment manager.</p> <p>Investment managers are expected to evaluate these factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments in line with their own corporate governance policies and current best practice.</p> <p><i>SIP section 4.6</i></p>	<p><i>managers were not highly rated from an ESG perspective the Trustees continue to monitor these managers. When implementing a new manager the Trustees consider the ESG rating of the manager.</i></p> <p><i>The Trustees have not set any investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.</i></p> <p><i>The SIP includes the Trustees’ policy on ESG factors, stewardship and Climate Change. This policy sets out the Trustees’ beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. The Trustees keep their policies under regular review with the SIP subject to review at least triennially.</i></p>
8	The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments	<p><i>The Trustees have decided not to consider non-financial considerations, such as ethical views, or to take members’ preferences into account when setting the investment strategy.</i></p> <p><i>SIP section 4.5</i></p>	<i>Not applicable.</i>
9	The exercise of the rights (including voting rights) attaching to the investments	<i>As the Plan invests in pooled funds via an investment platform, the Trustees’ scope to vote on the Plan’s shares directly is currently limited. The Trustees’ policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment</i>	<i>The Trustees have delegated the exercise of voting rights to the underlying investment managers, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Trustees expect the investment managers to have produced written guidelines of their process and practice in this regard.</i>

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		<p><i>managers to use their discretion to act in the long term financial interests of investors.</i></p> <p><i>SIP section 4.4</i></p>	<p><i>Voting activity carried out over the last 12 months on behalf of the Trustees is shown in the Appendix of this Statement.</i></p> <p><i>Over the period covered by this Statement, the Trustees have not directly challenge managers on voting activity.</i></p> <p><i>The Trustees do not use the direct services of a proxy voter.</i></p>
10	Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, Trustees would monitor and engage with relevant persons about relevant matters)	<p>The Trustees consider how ESG, climate change and stewardship is integrated within investment processes, in appointing new investment managers and monitoring existing investment managers. This includes the investment managers' policy on voting and engagement.</p> <p>Outside of those exercised by investment managers on behalf of the Trustees, no other engagement activities are undertaken.</p> <p><i>SIP section 4.4</i></p>	<p><i>As the Plan invests solely in pooled funds, the Trustees require their investment managers to engage with the investee companies on their behalf.</i></p> <p><i>The Trustees wish to encourage best practice in terms of corporate activism. They therefore encourage their investment managers to discharge their responsibilities in respect of investee companies in accordance with relevant legislation and codes.</i></p> <p><i>Over the Plan Year, the Trustees did not directly carry out any engagement activities with investment managers or underlying investee companies.</i></p>
11	How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustees' policies required under sub-paragraph (b) of Regulation 2(3) of the Occupational Pension Schemes	<p><i>Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected to manage.</i></p> <p><i>SIP section 3.3</i></p>	<p><i>Over the period the Trustees believed that the appointments with its investment managers were consistent with its long-term objectives and no changes were made.</i></p>

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	(Investment) Regulations 2005		
12	How the arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.	<p>The investment manager is aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage.</p> <p><i>SIP sections 3.3 & 6.2</i></p>	<p><i>The Trustees review the performance of each manager with a long-term perspective.</i></p> <p><i>The Trustees are content that the current investment managers maintain a long-term perspective when managing the underlying investments, and are consistent with the Scheme's primary objective; particularly with regard to ESG factors that are considered in the investment processes of the underlying managers.</i></p> <p><i>ESG policies are made available from the investment managers, and are reviewed from time to time by the Trustees.</i></p>
13	How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies required under sub-paragraph (b) of Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005 [concerning the matters described in rows 2-8 of this Statement].	<p>The Trustees are a long term investor and is not looking to change the investment arrangements on a frequent basis.</p> <p>The Trustees receive performance reports from Mercer on a semi-annual basis, which present performance over a variety of periods. Individual investment manager reports are also available to the Trustees on a quarterly basis.</p> <p><i>SIP sections 3.3 & 6.2</i></p>	<p><i>The Trustees have considered the long term investment performance of the manager as part of the semi-annual monitoring, as well as their investment consultant's views of the investment manager, and is comfortable that the longer term performance and forward-looking capabilities remained suitable.</i></p>

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14	How the Trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range.	<p>For the DB Section, the Trustees have not historically monitored the investment manager's ongoing transaction costs explicitly but measure these implicitly through ongoing performance assessments which are net of these costs. The Trustees seek explicit reporting on ongoing costs for the appointed investment manager.</p> <p><i>SIP section 6.3</i></p>	<i>At present, the Trustees do not monitor portfolio turnover costs in any detail, although that the performance monitoring which they receive is net of all charges, including such costs.</i>
15	The duration of the arrangement with the asset manager.	<p>There is typically no set duration for the manager appointment. However, appointments typically can be terminated at short notice.</p> <p><i>SIP sections 3.3</i></p>	<i>No action was taken in relation to investment manager appointments during the year.</i>

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Appendix: Investment Manager Voting Summary

The Trustee has delegated its voting rights to the investment managers. The SIP states “The Trustees’ policy is to delegate responsibility for engaging with, monitoring investee companies and exercising voting rights to the pooled fund investment managers and expects the investment managers to use their discretion to act in the long term financial interests of investors.” This includes giving appointed investment managers full discretion in evaluating ESG factors, including climate change considerations.

Voting Summary:

	How many votes were proposed across the underlying companies in the fund?	How many times did you vote in favour of management?	How many times did you vote against management?	How many votes did you abstain from?
Nordea Diversified Return Fund	3,344	89.5%	9.9%	0.6%
L&G UK Equity Index Fund	12,574	92.9%	7.1%	0.0%
L&G North American Equity Index Fund	TBC	TBC	TBC	TBC
L&G Europe (exUK) Equity Index Fund	TBC	TBC	TBC	TBC
L&G Japan Equity Index Fund	TBC	TBC	TBC	TBC
L&G Asia & Pacific (ex Japan) Equity Index Fund	3,774	74.2%	25.8%	0.0%
L&G World Emerging Market Equity Index Fund	36,036	85.2%	13.4%	1.4%

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Proxy voting services and Key Votes:

	LGIM – Passive Equity Mandates	Nordea
Do you conduct your own votes?	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with our position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.	ISS – for the technical expertise and voting platform, as well as their global reach, and second opinion NIS – small niche player which provides input and third opinion
Do you use a third party to vote on your behalf?	No –recommendations only.	Typically votes cast are considered individually on the background of Nordea's bespoke voting policy, (developed in-house) based on Nordea's own principles. However, more recently a scaling up of the voting practices, in order to cover a majority of all voting activities, for 2021 Nordea decided to contract ISS to vote on some of their minor holdings as per their policy. Nordea's Corporate Governance unit oversees all voting activity.
Significant Votes: Key Votes and outcomes from the last 12 months	<p>In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:</p> <ul style="list-style-type: none"> • High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny; • Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote; • Sanction vote as a result of a direct or collaborative engagement; 	<p>Significant votes are those that are severely against our principles, and where we feel we need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason.</p> <p>Vote Example 1</p> <p>Company: Nike Date: 17/09/20 Resolution: Advisory Vote to Ratify Named Executive Officers' Compensation. Vote: Against Rational: Nordea believe bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a large part of the incentive program performance targets is still lacking. Outcome: For</p>

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- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

Vote Example 1

Company: International Consolidated Airlines Group

Date: 07/09/2020

Resolution: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020.

Vote: Against

Rational: We noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year end to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders).

Outcome: Pass (28.4% of shareholders opposed the remuneration report). LGIM continue to monitor and closely engage with the board.

Vote Example 2

Company: Imperial Brands plc

Date: 03/02/21

Resolution: Resolutions 2 and 3, respectively, Approve Remuneration Report and Approve Remuneration Policy.

Vote: Against both resolutions

Rational: The company appointed a new CEO during 2020, who was granted a significantly higher base salary than his predecessor. A higher base salary has a consequential ripple effect on short- and long-term incentives, as well as pension contributions. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association.

Outcome: Resolution 2 (Approve Remuneration Report) received 40.26% votes against, and 59.73% votes of support. Resolution 3 (Approve Remuneration Policy) received 4.71% of votes against, and 95.28% support.

Vote Example 2

Company: Oracle

Date: 03/09/20

Resolution: Report on Gender Pay Gap (shareholder proposal).

Vote: For

Rational: Nordea believe Oracle is lagging other large IT companies when it comes to reporting on gender pay gap. Nordea continue to support shareholder proposals on this issue as long as the company is not showing substantial improvements.

Outcome: Against