

**Element Six Limited Pension and  
Assurance Scheme**

**Statement of Investment Principles**

**August 2023**

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# 1. Introduction

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## Scheme Background

- This Statement of Investment Principles (the “Statement”) details the principles governing investment decisions for the Element Six Limited Pension and Assurance Scheme (the “Scheme”).
- The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries.
- The Scheme provides benefits calculated on a defined benefit basis.
- Buck Consultants (Administration & Investment Limited) (“Buck”) are investment consultants to the Trustees.

## Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Scheme's compliance with the provisions of the Pensions Act 1995 and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005 (as amended).
- **Appointments and Responsibilities Section:** This section includes additional non-statutory information on the key appointments and responsibilities with respect to the investment aspects of the Scheme.

## 2. Statutory Information

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### Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from their investment consultant prior to the preparation of this Statement and have consulted the sponsoring employer, Element Six Limited (“the Company”) before agreeing with the investment managers the investment strategy outlined in this document.
- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The day-to-day management of the Scheme’s assets has been delegated to investment managers which are authorised and regulated by the Financial Conduct Authority. The investment managers will prepare detailed quarterly reports on their activities and custodianship and the Trustees may meet with them periodically.
- This Statement will be reviewed periodically or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken on the advice of the Trustees’ investment consultant, as will any appointment or review of the investment manager. The Trustees’ investment consultant, Buck, is authorised and regulated by the Financial Conduct Authority.
- All investment decisions of the Scheme are under the control of the Trustees, with no constraint by the Company. All investment decisions are taken by the Trustee board as a whole. The Trustees participate in a Joint Investment Committee (“JIC”) which includes representatives from the Company. The purpose of the JIC is to ensure that efficient decision making takes place. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.

### Statutory Requirements

- This part of the Statement details the Trustees’ policy to secure compliance with the requirements of the Pensions Act 1995 and subsequent legislation.

### Investment Objective and Suitability of Investments

- The Trustees’ agreed investment strategy is based on an analysis of the liability profile of the Scheme, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from illiquid credit are expected to exceed the returns from bonds, gilts, LDI and cash, although returns and capital values

can demonstrate higher volatility. The Trustees are prepared to accept this higher volatility to some extent in order to aim to achieve the overall investment objective.

- The primary objective of the Trustees is to operate an investment strategy that provides sound long term growth and appropriate security for all beneficiaries.
- The Trustees seek to meet their primary objective by allocating assets between two portfolios. The strategic asset allocation consists of a Growth portfolio with an allocation to illiquid credit assets, and a Hedging and Income portfolio which hedges the majority of interest rate and inflation risk of the Scheme's liabilities and provides an income to the Scheme. There is no target split or control ranges between these two portfolios given the illiquid nature of the Growth portfolio.
- In accordance with the Financial Services & Markets Act 2000 ("the Act"), the Trustees are responsible for setting the general investment policy, but the responsibility for all day-to day investment management decisions has been delegated to investment managers authorised under the Act.
- The Trustees consider their current strategic asset allocation to be consistent with the current financial position of the Scheme. This judgement is made with reference to the technical provisions set out in the Scheme's 'Statement of Funding Principles'.

### **Diversification**

- The Trustees, after seeking appropriate investment advice, have selected a range of funds to be used by the Scheme.
- Subject to their respective benchmarks and guidelines the investment managers are given full discretion over the choice of stocks and are expected to maintain diversified portfolios.
- The Trustees are satisfied that the investments selected are consistent with their investment objectives, particularly in relation to diversification, risk, expected return and liquidity.
- Given the size and nature of the Scheme, the Trustees have decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.
- The Trustees are satisfied that the range of pooled vehicles in which the Scheme's assets are invested provides adequate diversification.

## **Balance between different kinds of investments**

- The appointed investment managers will hold a mix of investments that correspond to the pooled funds selected by the Trustees. Within each major market the investment managers will maintain a diversified portfolio of stocks.

## **Risk**

- Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's technical provisions, subject to an acceptable level of contribution rate volatility.
- In determining their investment strategy, the Trustees considered the investment risk relative to the Scheme's liabilities. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the current investment strategy outlined earlier in this Statement has been adopted.
- Each fund in which the Scheme invests has a stated performance objective by which investment performance will be measured. Within each asset class, investment managers are expected to maintain a portfolio of securities, which ensures that the risk being accepted in each market is broadly diversified.
- The Trustees will monitor, with the Scheme Actuary, the statutory funding position and will aim, in line with the agreed Recovery Plan, to have sufficient assets to meet the liabilities and ensure that the actual distribution of investments is appropriate in relation to the nature of the Scheme's liabilities.
- Risks associated with changes in the Company's covenant, and that of Element Six Holdings Limited as guarantor to the Scheme ("the Guarantor") are monitored by the Trustees. The Trustees' willingness to take investment risks is dependent on the continuing financial strength of the Company/Guarantor and its willingness to continue to contribute appropriately to the Scheme. The financial strength of the Company/Guarantor and their perceived commitment to the Scheme is monitored at least triennially and the Trustees will review investment risk relative to the liabilities should either of these materially deteriorate.

## **Expected return on investments**

- Over the long term, the Trustees expect the return on the Scheme assets to be sufficient to meet their investment objective.

## **Kind of investments to be held**

- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index linked bonds, liability driven investment, cash, property, hedge funds or via pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Scheme.

## **Realisation of investments**

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers to be able to realise the Scheme's investments in a reasonable timescale, and at reasonable cost, by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme.
- The Scheme's growth portfolio is illiquid in nature and would not be able to be realised at short notice. The size of this portfolio will vary over time but at the date of this document comprised approximately 40% of total assets. The remaining assets are relatively liquid and are not expected to take an undue time to liquidate.

## **Financially material considerations**

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees have been provided with the investment managers' policies in respect of financially material considerations and are satisfied that these are consistent with the above approach.
- The Trustees will take into account the managers' ESG policies when appointing and reviewing investment managers.

## **Non-financial matters**

- The financial interests of the members is the Trustees' first priority when choosing investments. The Trustees will take members' preferences into account if they consider it appropriate to do so.

## **Stewardship in relation to the Scheme's assets**

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.
- The Trustees seek to appoint managers that have strong stewardship policies and processes and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

## Engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and the Trustees expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.
- The Trustees review each investment manager prior to appointment and monitor them on an ongoing basis by reviewing the managers' voting and engagement activity when preparing the Scheme's annual implementation statement.
- The Trustees will engage with an investment manager should they consider that manager's voting and engagement policy to be inadequate or if the voting and engagement undertaken is not aligned with the investment manager's own policies, or if the investment manager's policies diverge significantly from the views of the Trustees from time to time.
- The Trustees recognise that each investment manager's ability to influence the companies in which they invest will depend on the nature of the investment. The Trustees acknowledge that the concept of stewardship may be less applicable to some of their assets, particularly for cash and liability-driven investments.
- The Trustees have not set out their own stewardship priorities but follow that of the investment managers.
- As all of the investments are held in pooled vehicles, the Trustees do not envisage being directly involved with peer-to-peer engagement in investee companies.

## Voting Rights attaching to Investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing investment managers.
- The Trustees have not set out their own voting policy but follow that of the investment managers.



## **The Trustees' policy in relation to their investment managers**

In detailing below the policies on the investment manager arrangements, the over-riding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager meets the Trustees' policies and provides value for money over a suitable timeframe.

### **How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees' policies**

- The Trustees have delegated the day-to-day management of the Scheme's assets to investment managers. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment managers, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

### **How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term**

- The Trustees, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.
- The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

### **How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies**

- The Trustees expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. The Trustees review the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.
- If the Trustees determine that the investment managers are no longer managing the assets in line with the Trustees' policies, they will make their concerns known to the investment managers and may ultimately disinvest.

- The Trustees pay their investment managers a management fee which in most cases is a fixed percentage of assets under management. For the M&G mandate, the fee is variable depending on the exact assets invested in, but it is expected to fall within a pre-agreed range.
- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment managers.

### **How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range**

- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.
- The Trustees also do not explicitly monitor turnover costs. However, if they have any concerns over the net return being achieved, they will discuss the reasons for this with their manager and investment consultant, including considering the impact turnover costs may be having on returns achieved, and whether this is appropriate given the mandates invested in.

### **The duration of arrangements with investment managers**

- The Trustees do not in general enter into fixed long-term agreements with their investment managers and instead retain the ability to change investment managers should the performance and processes of the investment managers deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.
- Where the Trustees invest in illiquid assets, they recognise that these are long-term arrangements and that they more limited flexibility to change investment manager in respect of these assets. This restriction is taken into account when choosing the investment manager to use and the size of allocation to make to the asset class.

### 3. Appointments and Responsibilities

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#### Trustees

The Trustees' primary responsibilities include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Company, investment consultant and Scheme Actuary, at least every three years or more frequently if there has been a significant change in investment policy.
- Appointing investment managers, investment consultants and actuaries as necessary for the good stewardship of the Scheme.
- Reviewing the investment strategy following the results of each actuarial review, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, in consultation with the investment consultant and Scheme Actuary.
- Reviewing the investment strategy as part of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Scheme's liabilities, taking advice from the investment consultant.
- Reviewing the stewardship / voting policies of the investment managers and undertaking the ongoing monitoring and engagement with their investment managers as appropriate.
- Assessing the performance and processes of the investment manager by means of periodic, but not less than annual, reviews of investment performance and other information, in consultation with the investment consultant.
- Monitoring compliance of the investment arrangements with this Statement on a regular basis.
- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of any assets with voting rights.

#### Investment Consultant

The main responsibilities of the investment consultant include:

- To assist the Trustees in the preparation and periodic review of this Statement in consultation with the Company and the Scheme Actuary.
- Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees.
- Advising the Trustees on the selection and review of investment managers.
- Monitoring and advising upon where contributions should be invested on a periodic basis.

- Advising the Trustees regarding the fund source(s) for future working cash requirements.

## **Investment Manager**

The investment managers' main responsibilities include:

- To invest assets in a manner that is consistent with the objectives set.
- To ensure that investment of the Scheme's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.
- Providing the Trustees with quarterly reports including a review of the investment performance and any changes to their investment process.
- To attend meetings with the Trustees as and when required.
- To inform the Trustees of any changes in the internal performance objective and guidelines of any pooled fund used by the Scheme as and when they occur.
- To exercise any voting rights in accordance with their general policy.

## **Custodian**

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

## **Administrators**

- The Scheme's administration is carried out by Capita.

## **Scheme Actuary**

The Scheme Actuary's main responsibilities include:

- Commenting on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- Performing the triennial (or more frequently as required) valuations and advising on the appropriate level of contributions and the Scheme's funding level in order to aid the Trustees in balancing short-term and long-term objectives.
- Assessing the funding position of the Scheme and advising on the appropriate response to any shortfall.

The Scheme Actuary is employed by Capita.

**Signed on behalf of the Trustees of the Scheme:**

**Andrew Whitehead.....**

**29 August 2023.....**

**Signature**

**Date**

# Appendix

## Implementation Statement

### Engagement Policy Implementation Statement for the year ending 31 December 2023

#### **Introduction**

This implementation statement has been prepared by the Element Six Limited Pension and Assurance Scheme (the 'Scheme'). The Scheme provides benefits calculated on a defined benefit (DB) basis for members.

This statement sets out how, and the extent to which, in the opinion of the Trustees, the policies (set out in the Statement of Investment Principles (the 'SIP')) on the exercise of rights (including voting rights) attaching to the investments, and engagement activities have been followed during the year ending 31 December 2023. This statement also describes the voting behaviour by, or on behalf of, the Trustees including the most significant votes cast during the year, and whether a proxy voter has been used.

The Trustees, in conjunction with their investment consultant, appoints their investment managers and choose the specific pooled funds to use in order to meet specific policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

#### **Stewardship - monitoring and engagement**

The Trustees recognise that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustees acknowledge that the concept of stewardship may be less applicable to some of their assets, particularly for short-term money market instruments, gilt and liability-driven investments. As such the Scheme's investments in these asset classes are not covered by this engagement policy implementation statement.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing investment managers.

The Trustees seek to appoint managers that have strong stewardship policies and processes and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

## Trustees' Report (continued)

### Implementation Statement (continued)

#### Stewardship - monitoring and engagement (continued)

Details of the signatory status of each investment manager is shown below:

Investment Manager	UN PRI Signatory	UK Stewardship Code Signatory
LIGM	Yes	Yes
M&G	Yes	Yes

The Trustees have not set out its own stewardship priorities but follows that of the investment managers.

The Trustees will engage with a manager should they consider that manager's voting and engagement policy to be inadequate or if the voting and engagement undertaken is not aligned with the manager's own policies, or if the manager's policies diverge significantly from any stewardship policies identified by the Trustees from time to time.

If the Trustees find any manager's policies or behaviour unacceptable, it may agree an alternative mandate with the manager or decide to review or replace the manager.

As all of the investments are held in pooled vehicles, the Trustees do not envisage being directly involved with peer-to-peer engagement in investee companies.

#### Investment manager engagement policies

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustees with information on how each investment manager engages in dialogue with the companies it invests in and how it exercises voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

Links to each investment manager's engagement policy or suitable alternative is shown in the appendix.

The latest available information provided by the investment managers (for mandates that contain public equities or bonds) is as follows:

Engagement	LGIM Maturing Buy & Maintain Credit 2030-2034	LGIM Maturing Buy & Maintain Credit 2035-2039	LGIM Absolute Return Bond
Period	01/01/2023-31/12/2023		
Engagement definition	Purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). Regular communication to gain information as part of ongoing research should not be counted as engagement.		
Number of companies engaged with over the year	75	44	73
Number of engagements over the year	122	74	143

## Trustees' Report (continued)

### Implementation Statement (continued)

#### **Exercising rights and responsibilities**

The Trustees recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment managers are expected to disclose annually a general description of their voting behaviour, an explanation of the most significant votes cast and report on the use of proxy voting advisers.

The Trustees have been provided with details of what each investment manager considers to be the most significant votes. The Trustees have not influenced the manager's definitions of significant votes but have reviewed these and are satisfied that they are all reasonable and appropriate.

The Trustees have selected the three votes affecting the largest asset holdings for inclusion in this statement. The Trustees did not communicate with the manager in advance about the votes they considered to be the most significant.

The investment managers publish online the overall voting records of the firm on a regular basis.

All investment managers use proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

The Trustees do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour.

The Trustees consider the proportion of votes cast, and the proportion of votes against management to be an important (but not the only) consideration of investor behaviour.

#### **Trustees' assessment**

The Trustees have undertaken a review of each investment manager's engagement policy including their policies in relation to financially material considerations.

The Trustees have considered the environmental, social and governance rating for each fund/investment manager provided by the investment consultant, which includes consideration of voting and/or engagement activities. This also includes those funds that do not hold listed equities.

The Trustees may also consider reports provided by other external ratings providers.

Where an investment manager has received a relatively low rating from the investment consultant or from other external rating providers, the Trustees may consider whether to engage with the investment manager.

The Trustees have reviewed the investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Trustees recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.



## Trustees' Report (continued)

## Implementation Statement (continued)

### Appendix

Links to the engagement policies for each of the investment managers can be found here:

Investment manager	Engagement policy
Legal & General Investment Management	<a href="https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf">https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf</a>
M&G Investment Management	<a href="https://www.mandg.com/~media/Files/M/MandG-Plc/documents/mandg-investments-policies/mg-investments-engagement-policy-may-2022.pdf">https://www.mandg.com/~media/Files/M/MandG-Plc/documents/mandg-investments-policies/mg-investments-engagement-policy-may-2022.pdf</a>

Information on the most significant engagement case studies for each of the funds/managers containing public equities or bonds is shown below.

LGIM - Firm-level	Case Study 1	Case Study 2	Case Study 3
Name of entity engaged with	ExxonMobil	BP Plc	J Sainsbury Plc
Topic	Environment: Climate change (Climate Impact Pledge)	Environment: Climate change (Climate Impact Pledge)	Social: Income inequality - living wage (diversity, equity and inclusion)
Rationale	<p>As one of the world's largest public oil and gas companies in the world, LGIM believe that Exxon Mobil's climate policies, actions, disclosures and net zero transition plans have the potential for significant influence across the industry as a whole, and particularly in the US.</p> <p>LGIM believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under its Climate Impact Pledge, LGIM publish minimum expectations for companies in 20 climate-critical sectors. LGIM selects roughly 100 companies for 'in-depth' engagement - these companies are influential in their sectors, but in LGIM's view are not yet leaders on sustainability; by virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains.</p>	<p>As one of the largest integrated oil and gas producers in the world, BP has a significant role to play in the global transition to net zero, hence LGIM's focus on this company for in-depth engagements. As members of the CA100+ LGIM commit to engaging with a certain number of companies on their focus list and on account of a strong relationship with BP, LGIM lead the CA100+ engagements with them.</p> <p>LGIM believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under its Climate Impact Pledge, LGIM publish our minimum expectations for companies in 20 climate-critical sectors.</p>	<p>Ensuring companies take account of the 'employee voice' and that they are treating employees fairly in terms of pay and diversity and inclusion is an important aspect of LGIM's stewardship activities. As the cost of living ratchets up in the wake of the pandemic and amid soaring inflation in many parts of the world, LGIM's work on income inequality and its expectations of companies regarding the living wage have acquired a new level of urgency.</p> <p>LGIM's expectations of companies:</p> <p>i) As a responsible investor, LGIM advocates that all companies should ensure that they are paying their employees a living wage and that this requirement should also be extended to all firms with whom they do business across their supply chains.</p>

## Trustees' Report (continued)

## Implementation Statement (continued)

### Appendix (continued)

LGIM - Firm-level	Case Study 1	Case Study 2	Case Study 3
	<p>LGIM's in-depth engagement is focused on helping companies meet these minimum expectations, and understanding the hurdles they must overcome. For in-depth engagement companies, those which continue to lag LGIM's minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).</p>	<p>LGIM selects roughly 100 companies for 'in-depth' engagement - these companies are influential in their sectors, but in LGIM's view are not yet leaders on sustainability; by virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains. LGIM's in-depth engagement is focused on helping companies meet these minimum expectations, and understanding the hurdles they must overcome. For in-depth engagement companies, those which continue to lag LGIM's minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).</p>	<p>ii) LGIM expect the company board to challenge decisions to pay employees less than the living wage.</p> <p>iii) LGIM ask the remuneration committee, when considering remuneration for executive directors, to consider the remuneration policy adopted for all employees.</p> <p>iv) In the midst of the pandemic, LGIM went a step further by tightening its criteria of bonus payments to executives at companies where COVID-19 had resulted in mass employee lay-offs and the company had claimed financial assistance (such as participating in government-supported furlough schemes) in order to remain a going concern.</p> <p>With over 600 supermarkets, more than 800 convenience stores, and nearly 190,000 employees, Sainsbury's is one of the largest supermarkets in the UK. Although Sainsbury's is currently paying higher wages than many other listed supermarkets, the company has been selected because it is more likely than many of its peers to be able to meet the requirements to become living-wage accredited.</p>

## Trustees' Report (continued)

## Implementation Statement (continued)

### Appendix (continued)

LGIM - Firm-level	Case Study 1	Case Study 2	Case Study 3
What the investment manager has done	<p>LGIM has been engaging with Exxon Mobil since 2016 and they have participated willingly in discussions and meetings. Under its Climate Impact Pledge, LGIM identified a number of initial areas for concerns, namely: lack of Scope 3 emissions disclosures (embedded in sold products); lack of integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities. Regular engagements with Exxon Mobil have focused on LGIM's minimum expectations under the Climate Impact Pledge. The improvements made have not so far been sufficient in LGIM's opinion, which has resulted in escalations. The first escalation was to vote against the re-election of the Chair, from 2019, in line with the Climate Impact Pledge sanctions. Subsequently, in the absence of further improvements, LGIM placed Exxon Mobil on its Climate Impact Pledge divestment list (for applicable LGIM funds) in 2021, as LGIM considered the steps taken by the company so far to be insufficient for a firm of its scale and stature. Nevertheless, engagement with the company continues. In terms of further voting activity, in 2022 LGIM supported two climate-related shareholder resolutions (i.e. voted against management recommendation) at Exxon's AGM, reflecting LGIM's continued wish for the company to take sufficient action on climate change in line with minimum expectations. Levels of individual typically engaged with include lead independent director, investor relations, director and CFO.</p>	<p>LGIM has been engaging with BP on climate change or a number of years, during the course of which many actions have been taken regarding climate change mitigation.</p> <p>BP has made a series of announcements detailing their expansion into clean energy. These include projects to develop solar energy in the US, partnerships with Volkswagen (on fast electric vehicle charging) and Qantas Airways (on reducing emissions in aviation), and winning bids to develop major offshore wind projects in the UK and US. LGIM's recommendation for the oil and gas industry is to primarily focus on reducing its own emissions (and production) in line with global climate targets before considering any potential diversification into clean energy. BP has also announced that it would be reducing its oil and gas output by 40% over the next decade, with a view to reaching net-zero emissions by 2050.</p> <p>LGIM met with BP several times during 2022. In BP's 2022 AGM, LGIM were pleased to be able to support management's 'Net Zero – from ambition to action' report (Resolution 3). Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP has also expanded its scope 3 targets, committed to a substantial decline in oil and gas production, and announced an increase in capital expenditure to low-carbon growth segments.</p> <p>Levels of director typically engaged with include the chair, the CEO, head of sustainability, and investor relations.</p>	<p>Sainsbury's has recently come under scrutiny for not paying a real living wage. LGIM engaged initially with the company's [then] CEO in 2016 about this issue and by 2021, Sainsbury's was paying a real living wage to all employees, except those in outer London. LGIM joined forces with ShareAction to try to encourage the company to change its policy for outer London workers. As these engagements failed to deliver change, LGIM then joined ShareAction in filing a shareholder resolution in Q1 2022, asking the company to become a living wage accredited employer.</p> <p>This escalation succeeded insofar as, in April 2022, Sainsbury's moved all its London-based employees (inner and outer) to the real living wage. LGIM welcomed this development as it demonstrates Sainsbury's values as a responsible employer. However, the shareholder resolution was not withdrawn and remained on the 2022 AGM agenda because, despite this expansion of the real living wage to more employees, there are still some who are excluded. This group comprises contracted cleaners and security guards, who fulfil essential functions in helping the business to operate safely.</p> <p>Levels of individual typically engaged with include the Chair, the CEO, and head of investor relations.</p>

## Trustees' Report (continued)

## Implementation Statement (continued)

### Appendix (continued)

LGIM - Firm-level	Case Study 1	Case Study 2	Case Study 3
Outcomes and next steps	<p>Since 2021, LGIM has seen notable improvements from Exxon Mobil regarding key engagement requests, including disclosure of Scope 3 emissions, a 'net zero by 2050' commitment (for Scopes 1 and 2 emissions), the setting of interim operational emissions reduction targets, and improved disclosure of lobbying activities. However, there are still key areas where LGIM require further improvements, including inclusion of Scope 3 emissions in their targets, and improving the level of ambition regarding interim targets. LGIM are also seeking further transparency on their lobbying activities.</p> <p>The company remains on LGIM's divestment list (for relevant funds), but engagement with them continues.</p>	<p>LGIM will continue engaging with BP on climate change, strategy and related governance topics. Following the company's decision to revise their oil production targets, LGIM met with the company several times in early 2023 to discuss concerns.</p>	<p>Since filing the shareholder resolution, Sainsbury's has made three further pay increases to its directly employed workers, harmonising inner and outer London pay and is now paying the real living wage to its employees, as well as extending free food to workers well into 2023. LGIM welcome these actions which demonstrate the value the board places on its workforce. LGIM has asked the board to collaborate with other key industry stakeholders to bring about a living wage for contracted staff.</p>