Responsible investment and corporate governance

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The strategic rationale for holding different asset classes that help the Trustees to achieve the Plan's investment objectives and constraints remains the primary driver behind the Plan's investment strategy. However, within this context, the Trustees are increasingly considering how ESG, climate change and stewardship issues are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically. The investment consultant monitors the ESG capabilities of the investment managers and documents their views within the six monthly investment report. The Trustees consider this information as part of their review of these reports.

Non-financially material matters, such as member views, are not taken into account in the selection, retention and realisation of investments. However, if the Trustees were formally approached by members expressing such views, these would be considered on their merits.

The Trustees will review the investment managers' policies and engagement activities (where applicable) periodically.

Equity managers who are registered by the UK's Financial Conduct Authority are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Employer-related investments

The Trustees are satisfied that the proportion of the Plan's assets in employer-related investments does not exceed 5% of the market value of the Plan's assets as at 5 April 2023.

PGIM UK Retirement Savings Plan – Defined Benefit section Implementation Statement

Introduction

The Trustees want to let the members of the PGIM UK Retirement Savings Plan ('the Plan') know that new regulations now require certain additional information to be given to you on strategic investment decisions. We now include how Plan investments are responsibly invested, considering environmental, social and governance factors ('ESG').

This Implementation Statement has been produced for the year to 5 April 2023 in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Plans (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The Plan has both a Defined Benefit ("DB") section and a Defined Contribution ("DC") section. This Statement covers only the DB section, and a separate statement has been prepared for the DC section.

Members should be aware that this Statement is part of a wider set of information available on the Plan's governance and investment responsibilities undertaken by the Trustees:

- Members can view the DB SIP (mentioned above) on the company's website which discloses, in detail, the investment principles, policies, objectives, and strategy followed. (https://www.pgim.com/disclaimer/uk-regulatory-disclosures).
- Members can request a copy of the Annual Report and Financial Statements of the Plan, which contains certain information on the management of the Plan, its governance, investment risks management and level of Trustees' knowledge and understanding.

Investment Objectives of the Fund

The Trustees believe that it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Plan included in the SIP are as follows:

1. To make sure that the obligations to the beneficiaries of the Plan are met.
2. To ensure that the investment of the Plan's assets is consistent with the funding approach recommended by the Plan's Actuary.
3. To pay due regard to the Principal Employer, PGIM European Services Limited's interests on the size and incidence of the employers' contribution payments.

The Trustees' investment policy is guided by their aim to generate an investment return, over the long term, which is consistent with the long-term actuarial assumptions under which the funding plan has been agreed. The Trustees are prepared to take some risk in order to achieve this objective, including investing in equities and non-government bonds, and by using active fund managers to manage some of the Plan's assets. The Trustees' ability and willingness to take such risk is subject to the principles outlined in Section 5 of the SIP.

The SIP includes the Trustees' policies on ESG, Stewardship and Climate Change, as well as the Trustees' position on member views relating to the Plan's investments.

Securing compliance with the legal requirements about choosing investments

Trustees obtain advice from their investment adviser, who can provide expert advice enabling the Trustees to choose investment vehicles that can fulfil the Plan's investment objectives. In the Trustees' opinion this is consistent with the requirements of Section 36 of the Pensions Act 1995.

Policies in relation to the Plan's investment strategy, day-to-day management of the assets, and associated risks

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors. The target allocation serves to reduce risk as well as better match the interest rate and inflation sensitivities of the Plan's liabilities.

Please refer to Sections 5, 6 and 7 of the SIP for the Plan's policies around its investment strategy, the day to day management of the assets, and the associated risks.

The basis of the Trustees' strategy for the DB section of the Plan, is to divide the Plan's assets between a "growth" portfolio, comprising equities and a "stabilising" portfolio, comprising of corporate bonds and liability driven investments ("LDI"). The Trustees regard the basic distribution of the assets to be appropriate for the Plan's objectives and liability profile, and the funds in which the Plan invests are expected to provide an investment return commensurate with the level of risk being taken.

The Plan's investment advisor supplies the Trustees with the following on a six-monthly basis for each of the Plan's investments:

- Investment returns and performance commentary
- Updates and developments, if applicable, for each manager and fund
- A Manager Research rating
- An ESG rating

The Trustees use Trustee meetings to ask further questions of the investment advisor, should any material concerns arise from the reporting and also will invite managers to present directly to the Trustees from time to time.

The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the investments held within the DB Section. As detailed in Section 6 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, and the choice of fund managers.

Where the Plan invests in pooled investment vehicles, the Trustees accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. For the Plan's segregated mandate (corporate bonds), the investment restrictions and guidelines have been structured in line with the Trustees' investment policies and objectives. There have been no changes to the segregated mandate over the reporting period.

The Trustees recognise the need to hold investment managers and advisers to account. Whilst the day-to-day management of the Plan's assets is delegated to the investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from Mercer Limited.

In November 2019, the Trustees put in place investment objectives for its Investment Consultancy Provider, Mercer, and its performance is be reviewed on a regular basis. The objectives may be revised at any time but will be reviewed at least every three years, and after any significant change to the Plan's investment strategy and objectives. The Trustees reviewed the objectives in December 2022 and concluded no changes were required.

The intention of these objectives is to ensure the Trustees are receiving the support and advice they need to meet its investment objectives. The objectives set covered both short and long term objectives across strategy, monitoring, compliance and regulation, client servicing and relationship management and member engagement and communications.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustees' policy on Environmental, Social and Governance ('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. This was last reviewed in August 2022.

Section 3 of the Plan's SIP includes the Responsible Investment policy on Environmental, Social and Governance ('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. This was reviewed and updated in August 2022. The Trustees keep their policies under regular review with the SIP subject to review at least triennially. The following section sets out the work that was undertaken during the year to 5 April 2023 relating to the Trustees' policy on ESG factors, stewardship, and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

It should be noted that non-financial matters, such as member views, are not taken into consideration. The Trustees have not seen significant member demand and has therefore not revisited its non-financial matters policy.

Engagement

The Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustees review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The strategic rationale of different asset classes that help the Trustees to achieve the Plan's DB investment objectives and constraints remains the primary driver behind the Plan's investment strategy. However, within this context, the Trustees are increasingly considering how ESG, climate change and stewardship issues are integrated within investment processes in appointing new investment managers and monitoring existing investment managers.

Monitoring is undertaken on a regular basis and is documented periodically. In addition, the Plan has strategic objectives against which to monitor the performance of the services provided by its investment advisor, which includes helping the Trustees implement an investment strategy that integrates ESG, climate change and stewardship considerations in their investment managers' engagement.

As explained above, the Plan's investment performance report is reviewed by the Trustees on a semi-annual basis – this includes ratings (both general and specific to ESG) from the investment consultant. The Trustees continue to monitor and engage with investment managers. The investment performance reports include analysis of how each investment manager is delivering against their specific mandates.

The Trustees will invest in investment managers that are signatories to the UN Principles for Responsible Investment wherever this is possible to implement the desired strategy.

The Trustees requested that the investment managers in place during the year (Legal & General Investment Management, Columbia Threadneedle and PGIM Fixed Income) confirm compliance with the principles of the UK Stewardship Code. All managers have confirmed that they are signatories of the current UK Stewardship Code and have submitted the required reporting to the Financial Reporting Council in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect in January 2020.

Voting and Engagement Activity

The Trustees have delegated their voting rights to the investment managers, of whom only LGIM (as the Plan's equity manager) has the ability to vote on the Trustees' behalf.

For the purposes of this statement, the Trustees have considered their own stewardship priorities as they relate to defining the "most significant" issues subject to voting activity during the year. The Trustees have elected to consider "most significant votes" to be those in the following areas, where the subject company of the vote constitutes one of the top 10 holdings within the relevant pooled fund:

- **Good corporate governance**: in particular board diversity and independence
- **Climate change**: for example, votes relating to low-carbon transition plans consistent with the Paris Agreement goals

Below are examples of votes classified as "most significant" over the year to 31 March 2023 (latest information available prior to the Plan year end of 5 April 2023), based on the criteria as set out above.

LGIM is expected to provide voting summary reporting on a regular basis, at least annually. The reports can be reviewed by the Trustees to ensure that they align with the Trustees' policy.

Over the year to date, the Trustees did not consider the voting activity in detail but may do so going forwards.

When the investment managers present to the Trustees, the Trustees may ask the investment managers to highlight key voting and engagement activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter.

Over the last 12 months, the key voting activity on behalf of the Trustees is as follows:

LGIM

LGIM note that they have established a fully integrated framework for responsible investing to strengthen long-term returns. Their framework for responsible investing is based on stewardship with impact and active research across asset classes. These activities enable LGIM to deliver responsible investment solutions to their clients and conduct engagement with the aim of driving positive change.

LGIM describe their core responsible investment beliefs as follows:

"Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes.

Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns.

Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole."

In partnership with, and on behalf of, their clients, LGIM target a broad range of ESG objectives. These include:

Reaching net-zero greenhouse gas emissions by 2050 or sooner across all assets under management

Setting an interim target of 70% of eligible AUM to be managed in alignment with this net-zero ambition by 2030

Achieving net-zero carbon across their real estate portfolio by 2050

In 2022, LGIM's campaigns involved expanding their work on diversity to emerging markets; efforts to tackle commodity-driven deforestation; and fighting for equal voting rights, particularly in the US.

In 2022, LGIM launched 19 new responsible investment strategies and, as at year end, managed £332.2 billion of assets in responsible investment strategies.

There are 90 LGIM employees with roles dedicated to ESG activity. In addition, there are a further 65 colleagues whose roles involve a very substantial contribution to their responsible investing capabilities and whose objectives reflect this, although their responsibilities are broader than solely ESG.

As a major long-term investor with global coverage, LGIM engages with policymakers at an early stage to help them identify and address emerging risks, so they can take transformative steps to tackle systemic market issues and accelerate progress against complex global sustainability challenges.

LGIM's policy dialogue aims to produce real tangible change by designing, implementing and monitoring an effective and coherent policy, including a regulatory and legislative system that governs society, the environment and the economy.

In 2022, LGIM cast over 171,000 votes at over 15,750 meetings.

There were 3,736 votable meetings over the year. In these meetings, there were a total of 47,007 votable proposals. The investment manager participated in the vote for 99.9% of the total votable proposals. In votes where the investment manager participated, they voted with management in 81.5% of proposals and against management in 18.0% of proposals. The manager abstained in 0.6% of the proposals.

A summary of the significant voting activity undertaken by LGIM on behalf of the Trustees over the last 12 months is set out below. This in relation to the Plan's holdings in the Global Equity Market Weights (50:50) Index Fund.

Significant vote #1

Company name	BP PLC
Date of vote	12 May 2022
Approximate holding size at date of vote	1.54%
Summary of the resolution	Net Zero - From Ambition to Action Report
How LGIM voted	Voted 'For' this resolution
Was voting intention communicated ahead of the vote?	Voted in line with management
Rationale for voting decision	While LGIM note the inherent challenges in the decarbonisation efforts of the Oil & Gas sector, LGIM expects companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. It is LGIM's view that the company has taken significant steps to progress towards a net zero pathway, as demonstrated by its most recent strategic update where key outstanding elements were strengthened. Nevertheless, LGIM remain committed to continuing our constructive engagements with the company on its net zero strategy and implementation, with particular focus on its downstream ambition and approach to exploration.
Outcome of vote	Resolution passed.
Implications and next steps	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
Reason considered most significant by the Trustees	Climate Change.

Significant vote #2

Company name	Rio Tinto Plc
Date of vote	8 April 2022
Approximate holding size at date of vote	1.32%
Summary of the resolution	Approval for Climate Action Plan
How LGIM voted	Voted 'Against' this resolution
Was voting intention communicated ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics.
Rationale for voting decision	We recognise the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while we acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, we remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.
Outcome of vote	Resolution passed.
Implications and next steps	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
Reason considered most significant by the Trustees	Climate Change.

PGIM Fixed Income

PGIM confirmed that over the year to 5 April 2023, there were no instances where either a vote or engagement activity in respect to the fund in which the Plan invests was different to their firm wide voting and engagement policy.

As a manager of primarily fixed income investments, PGIM generally do not have ownership rights and, therefore, are not able to use proxy voting, which is considered to be one of the most effective escalation mechanisms available to equity holders. As a bondholder, the engagement escalation mechanisms available to PGIM include: 1) seeking engagement at a more senior level within the issuer (e.g., CEO, Chair or Board members of a corporate issuer); 2) collaborating with industry groups and other institutional investors; and 3) reducing or exiting their investment position, or foregoing an opportunity to participate in a new issue (any decision with respect to investment positions will be taken at a portfolio level). Where PGIM's decision to not buy/hold the issuer's bonds is linked to ESG concerns, they will strive to inform the issuer of the decision.

PGIM's ESG engagement activities are focused on issuers that have credit material ESG risks, generate significant adverse impacts on the environment or society, or lag their peers in ESG practices. Their engagements are prioritised on the basis of the materiality of ESG factors on financial and/or operational performance, their proprietary ESG impact rating of the issuer, the quality of an issuer's ESG disclosures, the exposure to specific ESG factors and events that, in PGIM's view, require special attention, as well as the size of the overall exposure to the issuer. Most often, engagement discussions are catered to specific issuers based on what PGIM see as most material for them. PGIM generally aim for such engagements to be constructive and seek to provide issuers insights on their ESG performance and strategy that they will find useful.

PGIM did provide details of instances where they had engaged with issuers on the above, which the Trustees have received. These covered numerous topics including energy use and efficiency, green securities, product safety and quality, corporate governance, climate change, and human rights and social issues.

Columbia Threadneedle (CT)

As an LDI investor, CT have limited scope for engagement, as they have no voting rights, however CT have noted that they have a strong engagement programme with their counterparties. They point to their long and proud tradition of engagement, with a dedicated team of analysts in their Responsible Investment Team.

In regards to CT's LDI funds and the Sterling Liquidity Fund, there are two specific areas of work that they have communicated to the Plan: the first relates to the selection and monitoring process and the second relates to engagement. Their counterparty approval process includes input from their credit analysts, who produce explicit ESG scores for all the entities they research. CT's Responsible Investment team additionally engages with trading counterparties and clearing members on ESG topics to assess their ESG credentials and to foster improvement in areas of concern. This engagement work is structured in terms of prioritisation (both in terms of companies to whom CT have the greatest exposure and to companies whom they feel have the greatest ESG deficiencies) and in terms of progress, monitoring against predefined milestones.

In the first half of 2022 CT took part in 1,002 engagements and in the second half of the year they took part in 918. The engagements focused on a number variety of engagement themes including Corporate Governance, Climate Change, Business Conduct, Human Rights, Labour Standards, Public Health and Environmental Stewardship.