

London International Group UK Pension Scheme (“the Scheme”)

Annual Engagement Policy Implementation Statement

Year Ending 31 March 2025

Introduction

This Statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles (“SIP”), produced by the Trustee, has been followed during the year to 31 March 2025. The SIP is a document drafted by the Trustee in order to help govern the Scheme’s investment strategy. It details a range of investment-related policies, a summary of which is included below alongside the relevant actions taken by the Trustee in connection with each of these policies.

This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

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

- Members can view the SIP (mentioned above) [here](#) which discloses, in detail, the investment principles, policies, objectives, and strategy followed.
- Members can request a copy of the Annual Report and Financial Statements of the Scheme, which contains certain information on the management of the Scheme, its governance and investment risk management.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set.

The Trustee’s objective is to invest the Scheme’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the Trustee has agreed a number of objectives to help guide it in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustee’s overall investment policy is guided by the following objective:

- To match the interest rate and inflation sensitivity of the Scheme’s expected liabilities on the self-sufficiency basis.

The investment objective noted above targets a 95% interest rate and inflation hedge level in order to better match movements in the present value of the Scheme’s liabilities on the self-sufficiency basis.

These objectives were unchanged over the 12 months to 31 March 2025.

Review of the SIP

The SIP was last reviewed in April 2024, the SIP was reviewed by the Trustee and updated to reflect the asset allocations, taking into account market movements.

The investment strategy is designed to target a level of return such that the funding level on the Scheme's self-sufficiency basis is expected to remain at or above 100% on a prudent assessment. The Trustee does not have a formal rebalancing policy for the asset allocation, and the actual allocation is expected to deviate from the benchmark due to market movements.

The investment objective the Trustee has in place targets a 95% interest rate and inflation hedge levels in order to better match movements in the present value of the Scheme's liabilities on the self-sufficiency basis.

When setting the investment strategy, the Trustee takes into consideration the risks and other factors that they consider to be financially material to the Scheme.

Assessment of how the policies in the SIP have been followed for the year to 31 March 2025

The information provided in the following section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP.

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 Trustee is satisfied that the SIP has been adhered to during the year.

Policies in relation to the Scheme's investment strategy and associated risks

Please refer to Sections 2, 4, 5, 7 and 9 of the SIP for the Scheme's policies around its investment strategy, the day to day management of the assets, and the associated risks.

When considering the Scheme's investment strategy, the Trustee takes in to account the requirements of the Statutory Funding Objective, their own appetite for risk (including financially material risks such as Environmental, Social and Governance risks, including climate change), the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant.

The basis of the Trustee's strategy for the Scheme is to divide the Scheme's assets between investment grade corporate bonds, gilts/index-linked gilts and cash. The Trustee regards the basic distribution of the assets to be appropriate for the Scheme's objectives and the funds in which the Scheme invests are expected to provide an investment return commensurate with the level of risk being taken.

The Trustee is able to ask the investment advisor any further questions, should any material concerns arise from the reporting.

The Trustee recognises risk (both investment and operational) from a number of perspectives in relation to the investments held. As detailed in Section 4 of the SIP, the Trustee considers both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, and the choice of fund managers.

As the Scheme invests in pooled investment vehicles, the Trustee accepts that they have no ability to specify the risk profile and return targets of the manager, but believe that appropriate mandates can be selected to align with the overall investment strategy.

The Trustee recognises the need to hold investment managers and advisers to account. Whilst the day-to-day management of the Scheme's assets is delegated to the Investment Manager, 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 Trustee put in place investment objectives for its Investment Consultancy Provider, Mercer, and its performance is 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 Scheme's investment strategy and objectives. The latest review was in October 2023.

The intention of these objectives is to ensure the Trustee is receiving the support and advice it needs to meet its investment objectives. The objectives set cover 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 Scheme's SIP includes the Trustee's policy on ESG factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation stewardship. This was last reviewed in March 2025. The Trustee keeps its policies under regular review with the SIP subject to review at least triennially.

The Trustee believes 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the appointed Investment Manager full discretion in evaluating ESG factors, including climate change considerations 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 Trustee will review the investment manager's policy and engagement activities (where applicable) on an annual basis.

Given the nature of the Additional Voluntary Contributions, the Trustee does not currently consider how ESG, climate change and stewardship is integrated within investment processes when monitoring existing Investment Managers in relation to the Scheme's Additional Voluntary Contributions. However, the Trustee keeps this under review and

would consider the extent to which these factors might be relevant in the event of any appointment of new investment managers.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a quarterly basis by receiving investment reports from the investment manager.

The Trustee requested that the investment manager (Legal & General Investment Management) confirms compliance with the principles of the UK Stewardship Code. LGIM have confirmed that they are signatories of the current UK Stewardship Code.

LGIM believe that they have fully applied each of the principles in its investment stewardship activity during 2024, and intend to provide a response to the Stewardship Code annually and expect to continue to a Signatory to the Code in 2025.

The Scheme's performance is reviewed by the Trustee on a quarterly basis, and any changes to investment manager ratings (both general and specific ESG) are communicated by the investment adviser. **LGIM remained generally highly rated during the year.** When implementing a new manager the Trustee would consider the ESG rating of the manager.

The Trustee met with the Investment Manager during the year and reviewed engagement activity carried out by the Investment Manager. A summary of engagements carried are provided in the section below.

Engagement Activity

The Scheme's investment strategy consists of investing in corporate bonds, gilts and index-linked gilt holdings and cash. There is little scope to engage the issuer of gilts and index-linked gilts. Similarly, for the corporate bond holdings, there is limited power as bond investors do not formally vote on engagement issues, however LGIM do formally engage with companies to get greater clarity and raise issues that concern them.

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote". The Trustee has decided that a policy is not required in this area given the Scheme does not hold voteable assets.

A summary of LGIM's engagement policy and actions taken during the year is provided below:

LGIM 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 conduct engagement with the aim of driving positive change.

LGIM's core investment beliefs are 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.”

There are 66 LGIM employees with roles dedicated to responsible investment. In addition, LGIM’s Stewardship team at the end of 2024 was comprised of 24 professionals with an average of 11.5 years’ experience in areas including responsible investment, investment stewardship, accounting and audit, impact investment and public policy. The team includes sector specialists and experts on themes, such as nature and climate change, diversity, and governance. It covers many geographies, including both emerging and developed markets, and has a global remit, with members in the UK, the US, Japan, and Singapore.

In 2024 LGIM’s responsible investing strategy activities included:

- Launching Index funds with ESG tilting based on LGIM’s Sovereign Risk ESG scoring framework.
- Bringing more funds in line with LGIM’s Net Zero Framework with the Future World Protection List exclusionary criteria, by adding exclusions of companies which invest in new thermal coal capacity and companies which derive more than 5% of revenue from oil sands.
- Applying their Climate Action strategy to pooled fund structures.

The Scheme is invested in the LGIM over 15 year investment grade corporate bond index fund, and within this fund, LGIM has engaged with 45 different companies in which the fund has holdings. In total there were 107 different engagements, with the top 5 engagement topics being:

- Corporate Strategy
- Climate Impact Pledge
- Climate Change
- Remuneration
- Energy

Examples of engagement carried out by LGIM during the year under review are provided below:

Engagement – BHP Group Ltd

Engagement Topic: Climate Change

The mining and diversified metals sector is an essential part of the energy transition. In order to support its transition plans, LGIM want companies within the sector to meet their minimum expectations. BHP Group is the world’s largest mining company.

LGIM’s expectations are centered around setting robust decarbonisation strategies, with

tangible milestones and appropriate allocation of capital, emissions disclosure and targets, meaningful actions across the company's value chain to support decarbonization levers, as well as disclosure of approach to 'just transition' and lobbying activities.

For LGIM's engagements with BHP Group, the focus was on BHP's Climate Action Transition Plan and what LGIM expect company transition plans to demonstrate.

BHP Group is one of the biggest mining companies in the world. In 2021, the company put its first Climate Transition Action Plan (CTAP) to the vote. LGIM voted against the approval of this plan, as it did not meet their expectations. However, since then, LGIM have met with BHP several times (six times in 2024). The aim of the engagements was to provide feedback on BHP's 2024 CTAP and ensure that it met the requirements of LGIM's assessment framework.

LGIM have welcomed the robust and constructive engagement they have enjoyed with BHP this year, noting BHP had made significant strides in improving its CTAP since 2021.

Going forwards, LGIM will assess the disclosure of progress on BHP's plans for development of a more targeted methane measurement, management and mitigation strategy, as well as plans to support the decarbonisation of steelmaking. LGIM will also continue to engage with BHP to ensure resilience whilst navigating the dynamic market for metallurgical coal.

Engagement Example – United Utilities Group PLC

Engagement Topic: UK water

The objective of LGIM's engagement with UK water organisations in 2024 included contributing to creating and maintaining a regulatory framework for UK water that supports investment to improve outcomes, in respect of pollution incidents and water resources, among other things. LGIM also want to maintain pressure on the privatised water companies to prioritise addressing these issues.

Through 2024, LGIM engaged with UK officials Defra and Ofwat to share views on bond market perceptions of the regulatory framework. This included proactive bilateral calls with Defra civil servants and investor relations at Ofwat, and a group meeting with Defra ministers.

Additionally, LGIM proactively engaged directly with management at companies where they identified potential issues. For example, LGIM requested calls with United Utilities' treasurer to discuss specific issues relating to leakage calculations and pollution incidents.