

Padley & Venables Pension Fund: Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 5 April 2024. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

This statement is based on, and should be read in conjunction with, the SIP dated December 2023. The SIP was updated during the year, with the previous version dated September 2020.

Investment Objectives of the Fund

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The Trustees objective is to invest the Fund'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 Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and controls of the various risks to which the Fund is exposed. The Trustees' primary objectives are as follows:

- To achieve sufficient stability in the ongoing funding level such that Fund assets remain in excess of accrued non-discretionary ongoing liabilities;
- To deliver performance in excess of the return that can be achieved by investing in the lowest risk investments, with a view to covering the cost of discretionary benefits and future service liabilities without recourse to the Sponsoring Company.

When these objectives conflict with each other, the Trustees will aim to achieve a balance between them but with a higher weighting to the first objective than the second.

Policy on ESG, Stewardship and Climate Change

The Fund'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.

The following work was undertaken during the year to 5 April 2024 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.

Engagement

- Through their investment consultant, Mercer Limited (Mercer), the Trustees review the mandate of the investment manager, Legal and General Investment Management (LGIM), in relation to ESG factors, including climate change, on an ongoing basis. Mercer has highlighted that the ESG rating for the Legal and General Investment Management's (LGIM) active and buy and maintain corporate bond mandates broadly

in line with the peer group average. Passive corporate bonds, gilts, swaps and cash investments are not rated due to the more limited scope for ESG integration within these asset categories.

- If a particular fund in which the Fund invests were to have its ESG rating downgraded then the Trustees could consider their continued investment and may put a manager 'on watch' or, in the case of a material change in rating, terminate the appointment.
- The Trustees requested that the investment manager, LGIM, confirm compliance with the principles of the UK Stewardship Code. LGIM have subsequently confirmed that they are a signatory of the current 2020 UK Stewardship Code.
- The Trustees, via their investment consultant, also received details of relevant engagement activity for the year from LGIM, which are listed below.
 - LGIM provided examples of instances where they had engaged with companies which they were invested in (or were about to invest in) which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that LGIM invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions are often co-filed by a number of investors who indicate whether or not they support the resolution to the company's management.
 - LGIM produce an 'active ownership' (or stewardship) report annually, based on calendar years. LGIM's Investment Stewardship Team engaged with 2,050 companies in 2023. LGIM's top four engagement topics were Climate Change (1,760 engagements), Remuneration (239 engagements), Diversity (226 engagements) and Deforestation (171 engagements). LGIM can engage with one company on a number of engagement topics, so the number of companies engaged with does not necessarily equal the number of engagements

Voting Activity

Over the year the Trustees disinvested from the Fund's residual equity holding such that, at the Fund year end, the Trustees did not hold any assets with associated voting rights. As such, there is not any voting activity to report.

Significant Votes

Guidance on reporting on stewardship from the Department of Work and Pensions (DWP) requires trustees to define what they consider to be a significant vote and report on all the most significant votes each year. The Trustees did not hold any assets with associated voting rights over the Fund year. As such, there are not any significant votes to report.

That said, for prior reporting years, the Trustees had defined their stewardship priorities for the purpose of defining what it considers to be a significant vote. The Trustees maintain these priorities, which are listed below, and will consider the investment manager's engagement activity in this context.

- **Climate Change:** including, but not limited to, low-carbon transition and physical damages resilience;
- **Human Rights:** including, but not limited to, modern slavery, pay & safety in the workforce and abuses in conflict zones; and/or
- **Diversity, Equity and Inclusion:** including, but not limited to, inclusive & diverse decision-making.

This statement was prepared by the Trustees of the Padley & Venables Pension Fund in November 2024.