

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 2025. 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 2019, and subsequent amendments, as well as 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 not updated during the year. The SIP can be found [here](#).

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 control 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 2025 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 (L&G), in relation to ESG factors, including climate change, on an ongoing basis.

- The Trustees receive investment performance reports on a quarterly basis from the Scheme's investment manager, L&G. These reports include L&G's Corporate Governance Polices.
- The Trustees requested that the investment manager, L&G, confirm compliance with the principles of the UK Stewardship Code. L&G 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 L&G, which are listed below.

As the Trustees have no direct relationship with the companies invested in through the pooled funds, the engagement initiatives are driven by L&G, mainly through regular engagement meetings with the

companies in which they invest or by voting on key resolutions at companies' Annual General Meetings.

Below we have provided data of engagements carried out by L&G at a total firm level during the year under review:

- L&G 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 were driven mainly through regular engagement meetings with the companies that L&G invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. The resolutions were often co-filed by a number of investors who indicated whether or not they supported the resolution to the company's management.
- L&G produce an 'active ownership' (or stewardship) report annually, based on calendar years. L&G's Investment Stewardship Team engaged with 3,447 companies in 2024. L&G's top four engagement topics were Climate Change (3,174 engagements), Human Rights (440 engagements), Capital Management (245 engagements) and Strategy (201 engagements). L&G 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.

Further information on L&G's approach to responsible investment, voting (including significant votes) and engagement with the investee companies is available at the following website:

<https://www.lgim.com/es/en/responsible-investing/>

Taking all the above into consideration, the Trustees are satisfied that L&G's responsible investment policies are satisfactory and broadly in line with the Trustees' policies.

Assessment of how the Engagement Policies in the SIP have been followed for the year to 5 April 2025

The Trustees are satisfied that the engagement policies set out in the SIP, which have been in place over the year, have been followed.

Below we have set out fund specific examples of engagements carried out by L&G during the year under review:

L&G Active Corporate Bond Fund Over 10 years

Engagement Example – BP PLC

Engagement Topic: Climate Change

Rationale for engagement

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 L&G's focus on this company for in-depth engagements. As members of the Climate Action 100+ (CA100+), L&G commit to engaging with a certain number of companies on their focus list and on account of their strong relationship with BP, L&G lead the CA100+ engagements with them.

L&G believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under L&G's Climate Impact Pledge, they publish their minimum expectations for companies in these 20 climate-critical sectors. Accordingly, L&G expect the company to meet their minimum expectations as set out in their relevant Climate Impact Pledge sector guides; companies failing to do so may be subject to voting sanctions (and/ or divestment sanctions, for companies selected for in-depth engagement).

In terms of objectives for this engagement, L&G's current objectives include that they will not make substantive downward revisions to their climate-related targets;

- demonstration of alignment to 1.5°C objectives through enhanced disclosure of scenarios and assumptions
- no new long lead-time oil and gas projects

- enhanced disclosure across the company's value chain (scope 3) to demonstrate agility and resilience when (if) markets are pivoting (against a range of inputs and scenarios)
- disclosure and application of responsible divestment standards in asset sale process

What has been done

L&G have been engaging with BP on climate change for a number of years, during the course of which L&G have seen many actions taken regarding climate change mitigation.

L&G met with BP several times during 2022. In BP's 2022 AGM, L&G were pleased to be able to support management's Net Zero – from ambition to action' report. Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP 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.

Following the company's decision to revise their oil production targets, L&G met with the company several times in early 2023 to discuss concerns. At their 2023 AGM, L&G voted against the re-election of the Chair; given the revision of the company's oil production targets, shareholders expect to be given the opportunity to vote on the company's amended climate transition strategy at the 2023 AGM. Additionally, L&G noted concerns around the governance processes leading to the decision to implement such amendments.

L&G have continued to engage with BP in 2023 following their decision, and throughout 2024, specifically on the objectives clarified above which reflect their main areas of concern at the company. L&G remain the 'lead' on BP engagement with the CA100+ although L&G also undertake their own individual meetings with the company.

Levels of individual typically engaged with include a range of senior staff, including the Chair and the former CEO.

Outcomes and next steps

Over the past few years, the company has made a number of positive steps. BP has made a commitment to allocate a substantial share of its capital to low carbon segments, and 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. BP also announced that it would be reducing its oil and gas output over the next decade, with a view to reaching net-zero emissions by 2050.

Regarding the objectives set out above, L&G consider the status of each to be in progress and will continue their engagement on these areas over the coming year, both individually and as part of the CA100+, building on the relationship they have built with the company, and measuring progress.

Emissions targets, business resilience, Oil and Gas production, capital allocation, value chain approach, responsible divestment and/ or decommissioning of assets will continue to be a focus.

L&G Short Dated Sterling Corporate Bond Index Fund

Engagement Example – Volkswagen AG

Engagement Topic: Human Rights

Rationale for engagement

L&G chose to engage with German automobile manufacturer Volkswagen due to its presence in Xinjiang in China, which has led to scrutiny by the press and third parties. This culminated in MSCI flagging this issue as a controversy in late 2022. By late 2023, Volkswagen conducted an audit which succeeded in removing the MSCI flag, but the company has continued to attract unwanted attention in the press and from lawmakers regarding limitations of the audit and other criticisms related to its presence in the region.

What has been done

L&G commenced this engagement in late 2022 after MSCI first flagged Volkswagen for this controversy. Initially the focus of their engagement was to stress the importance of the issue to the company in relation to its access to the bond market. Since the audit and resolving the MSCI controversy, L&G's approach has shifted towards finding a solution that draws a line under the issue. L&G have had regular engagement with the company ranging from the investor relations team up to the Chief Financial Officer.

Outcomes and next steps

In L&G's meetings over 2024, Volkswagen indicated that it has been working on various solutions to resolve this issue. In November, the company announced that its stake in the plant in Xinjiang had been sold to their joint venture partner. This removes responsibility from Volkswagen, which should de-risk the company's exposure to the region in future. Operationally this divestment is not expected to have any negative impact on the company's strategic direction. It is unlikely that L&G will need to engage further on this topic in future given this solution has been reached. In L&G's discussions with the company, it has indicated that discussions with important stakeholders such as themselves have helped indicate the urgency of the matter to senior management and to achieve a resolution.

L&G Net Zero Sterling Corporate Bond Fund

Engagement Example – Toyota

Engagement Topic: Climate Change

Rationale for engagement

As a longstanding member of the Asian Corporate Governance Association network ('ACGA') Japan Working Group, L&G engages with Japanese companies, including Toyota Motor Corporation, to improve their corporate governance and sustainability practices.

At Toyota, L&G have identified their key issues to be:

- i) capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure)
- ii) board independence, diversity and effectiveness
- iii) A climate transition strategy misaligned to industry expectations and associated political lobbying activity

More recently, the company has been implicated in a few controversies regarding the quality and safety of products at its subsidiaries, and the governance of group companies has also been questioned.

Toyota is one of the world's largest and most influential companies. They have long pushed their multi-pathway strategy of decarbonisation, incorporating a mixture of vehicle types - hybrids, Electric Vehicles (EVs) and fuel cell. These will have important roles in transitioning to net zero transportation. In certain regions that are making rapid progress towards EVs, Toyota have received negative press on their lobbying practices. L&G have been clear in their engagement that Toyota should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment.

With regards to L&G's Climate Impact Pledge expectations, L&G would like to see greater clarity from the company regarding how its 'multi-pathway' strategy aligns with its climate goals and with regulatory developments, specifically relating to the absence of a target for phasing out internal combustion engine vehicles.

What has been done

L&G originally started their engagement with Toyota in September 2021, both independently and alongside fellow shareholders.

Since 2023, L&G have continued their conversations with the company and increased the frequency of their meetings, both individually and collaboratively, on governance and climate topics. Concerns about irregularities regarding certifications, the accountability for this, and transparency at the company have also been a topic of engagement, especially as they pertain to overall corporate culture. Given the

company's size and influence at Japan's largest business federation and in industry associations, L&G have continued to question the company's lobbying stance and its alignment with a 1.5°C transition pathway (this is also one of L&G's 'red lines' under their Climate Impact Pledge).

In addition to a number of email exchanges, L&G met with the company three times in 2024. Levels of individual typically engaged with included the Head of Investor Relations and the Finance Director.

L&G voting at the company's recent AGM reflected their ongoing concerns about independence on the board and diversity. Additional reasons for L&G's vote against the re-election of the Chair included accountability for a lack of transparency regarding advisory roles of the former CEO, responsibility for certification irregularities and, on the topic of climate change, a vote sanction under L&G's Climate Impact Pledge due to apparent misalignment of the company's stated ambitions and its forward-looking strategy. L&G also supported a shareholder proposal requesting greater transparency regarding climate lobbying activities.

Outcomes and next steps

L&G will continue to engage with the company on corporate governance issues and push for better practices both in terms of governance and climate strategy, as mismanagement of these incidents may lead to erosion of customer trust and exposes the company to reputational and legal risks.

L&G are pleased with the progress Toyota is making on lobbying disclosures and are encouraged that Toyota have proactively responded to investor feedback and expectations in various iterations of the lobbying report. However, L&G would still welcome further clarity on Toyota's position on specific climate policies in key markets and how they align with the decarbonisation and electrification strategy. A more complete overview of the governance concerning climate lobbying positions and assessments, including an alignment review by the Board of Directors, would also be desirable. L&G also expect greater clarity on what action is taken where inconsistencies are identified within trade associations and their alignment to Toyotas climate ambitions.

L&G will continue to engage with the company on both climate and governance issues, alongside the ACGA. L&G consider the objectives outlined above to be "in progress".

L&G Sterling Liquidity Fund

Engagement Example – Sumitomo Mitsui Trust Holdings Inc

Engagement Topic: Climate Change & Cross shareholdings

Rationale for engagement

High levels of cross-shareholding (where one publicly traded company holds a significant number of shares in another) are common in Japan and reducing these cross-shareholdings remains a challenge for many Japanese companies, including big banks in Japan, despite various reforms implemented by Japan Financial Services Agency and Japan Exchange Group.

L&G expect companies to fully comply with the Corporate Governance Code's provisions on cross shareholdings, which call for companies to disclose their policy with respect to cross shareholdings, including their policies regarding the reduction of such holdings. The code further requests companies to annually assess whether or not to hold each individual cross shareholding and to disclose the results of this assessment. Management should, therefore, be prepared to engage in an open dialogue with shareholders to demonstrate the value created through cross holdings, and to share plans for such holdings to be reduced.

Banks have a significant role to play in financing the global transition to net zero and are therefore included under L&G's Climate Impact Pledge. L&G believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under their Climate Impact Pledge, L&G publish their minimum expectations for companies in 20 climate-critical sectors. Accordingly, L&G expect the company to meet minimum expectations as set out in their Climate Impact Pledge sector guides.

What has been done

In 2022, the company first approached L&G for a meeting. L&G have since had open discussions with the company where they discussed several governance-related issues, including the threshold of 20%

for crossholdings. 20% is the level L&G has chosen in their own voting policy, however, L&G were keen to understand Sumitomo's plans in this area. L&G were pleased to hear that they plan to reduce cross-shareholdings to 0% over time, and this alleviated L&G's concerns regarding the current level. L&G also spoke about climate change, although the main focus of the conversation was on cross-shareholdings; L&G spoke about disclosure of scope 3 emissions from investments, and implied temperature alignment by 2030.

Outcomes and next steps

L&G's corporate governance policy for Japan was amended with regard to cross-shareholdings to improve companies' capital management. From 2022, L&G applied votes against the board chair due to strategic shareholdings exceeding 20% of net assets.

L&G engage on the issue of cross-shareholdings because they may cause problems, including poor corporate governance or ineffective capital management. They also expose investors to undue risks because, under Japanese accounting rules, if the market value of any security in which the company has invested falls by 50% compared to the purchase price then the loss must be recorded in its balance sheet. L&G therefore believe that this is an issue of financial materiality to investors.

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 October 2025.