Gates UK Pension Scheme

Implementation Statement for the year ending 5 April 2023

Introduction

This implementation statement has been prepared by the Trustee of the Gates UK Pension Scheme. The Scheme provides benefits calculated on a defined benefit (DB) basis for members in the DB Section and benefits calculated on a defined contribution (DC) basis for members in the DC Section.

The statement:

- sets out how, and the extent to which, the policies set out in the Statement of Investment Principles (the SIP) have been followed during the year;
- describes any review of the SIP, including an explanation of any changes made; and
- describes the voting behaviour by, or on behalf of, the Trustee over the same period.

The Trustee's policies contained in the SIP are underpinned by their investor beliefs, which have been developed in consultation with their investment consultant.

Trustee's overall assessment

In the opinion of the Trustee, the policies as set out in the SIP have been followed during the year ending 5 April 2023.

Review of the SIP

The Trustee's policies have been developed over time by the Trustee in conjunction with their investment consultant and are reviewed and updated periodically and at least every three years.

Changes to the DB investment strategy were made in the year ending 5 April 2023. The SIP was not reviewed during the Scheme year but it is in the process of being reviewed post year-end. The latest version is dated December 2021.

Policy in relation to the kinds of investments to be held

The Trustee has given full regard to their investment powers as set out in the Trust Deed and Rules and have considered the attributes of the various asset classes when deciding the kinds of investments to be held. The Scheme invests in pooled funds and cash, to manage costs, diversify investments and improve liquidity.

All investments made during the year have been in line with their investment powers.

Investment strategy and objectives

Investment strategy (DB Section)

The investment strategy for the Scheme is based on an analysis of its liability profile, the required investment return and the returns expected from the various asset classes over the long term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although returns and capital values demonstrate higher volatility. The Trustee is prepared to accept this higher volatility in order to aim to achieve the overall investment objective.

The Trustee is responsible for reviewing the investment strategy of the Scheme following each actuarial valuation in consultation with the Scheme's investment consultant. The Trustee may also reconsider the investment strategy outside the triennial valuation period where necessary.

A new investment strategy was commenced during the year as part of considering of a possible insurance company buy-in of the Scheme's benefits.

Policy in relation to the balance between various kinds of investments and the realisation of investments (DB Section)

The appointed investment manager holds a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market the manager maintains a diversified portfolio of stocks within pooled vehicles.

The Trustee requires the investment manager to be able to realise the Scheme's investment in a reasonable timescale by reference to the market conditions existing at the time the disposal is required.

Policy in relation to the expected return on investments (DB Section)

Over the long term, the current investment strategy is not considered to be consistent with the actuarial basis used by the Scheme Actuary at the 2022 triennial actuarial valuation, and the intention is to review the Scheme's investment strategy to ensure consistency.

Investment strategy (DC Section)

The Scheme provides members in the DC Section with a range of funds in which to invest. These aim to allow members to achieve the following:

- maximising the value of retirement benefits so as to enable a reasonable standard of living in retirement;
- protecting the value of those benefits in the years approaching retirement against equity market falls and fluctuations in the cost of annuities (for those members that wish to purchase an annuity); and
- tailoring their investments to meet their own needs.

The Trustee also provides a default strategy to provide a balanced investment strategy for members who do not make an active investment choice.

The Trustee anticipates that the DC assets will be transferred to the L&G Mastertrust in 2023.

Policy in relation to the balance between various kinds of investments and the realisation of investments (DC Section)

The default option for the Scheme is a lifestyle programme which, at seven years from a member's expected retirement age, gradually switches from a 100% allocation to a diversified growth fund into a mix of 50% diversified growth fund, 25% bond fund and 25% cash fund, at the member's selected retirement age. Alternative lifestyle programmes that operate in a similar fashion to the default option but solely targets cash at retirement or the purchase of an annuity are also available for members to choose from.

Under normal market conditions the Trustee expects to be able to realise investments within a reasonable timescale although there remains the risk that certain assets may become less liquid in times of market stress. Dealing spreads and liquidity are monitored periodically by the investment consultant, particularly during periods of heightened volatility.

Policy in relation to the expected return on investments (DC Section)

The default option is expected to provide an appropriate return on members' investments, based on the Trustee's understanding of the membership of the DC Section and having taken into account the risk considerations set out in the SIP.

Risk capacity and risk appetite

Policy in relation to risks (DB Section)

Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. Namely the risk:

- Associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- Of the investment managers failing to achieve the required rate of return.
- Due to the lack of diversification of investments.
- Of failure of the Scheme's Sponsoring Employer to meet its obligations.

The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

Policy in relation to risks (DC Section)

The Trustee has considered risk from a number of perspectives. These are the risk that:

- the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
- investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,
- investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit.

The investment strategy for the default option has been chosen with the aim of reducing these risks.

The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves. To help address these risks, the Trustee also reviews the default option used and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

Stewardship in relation to the Scheme assets

Policies in relation to investment manager arrangements

The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, set by the investment manager, for their services. The Trustee has very limited to no influence over the objectives of these funds or the fees they charge (although fee discounts can be negotiated in certain circumstances).

Changes have been made to the benchmark/objectives of the funds in which the Scheme invests over the year.

The Trustee, in conjunction with their investment consultant, have introduced a process to obtain and review the investment holding turnover costs incurred on the pooled funds used by the Scheme on an annual basis.

In addition, the Trustee receives information on any trading costs incurred as part of asset transfer work within either the DB or the DC Section, as and when these occur. The exercise is only undertaken if the expected benefits outweigh the expected costs. The Trustee notes that, in respect of the DC Section, trading costs are also incurred in respect of member switches (including within the lifestyle strategy). Information on potential ongoing member switching costs for members in the DC Section is included within the Chair's Statement.

The investment managers have invested the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. In return the Trustee has paid their investment managers a fee which is a fixed percentage of assets under management.

The investment consultant has reviewed and evaluated the investment managers on behalf of the Trustee, including performance reviews, manager oversight meetings and operational due diligence reviews.

Investment manager monitoring and changes

During the year the Trustee received reports from the investment manager examining the performance of the pooled funds used. These reports were discussed with the investment consultant at Trustee meetings.

There have been no changes to the Scheme's existing investment manager arrangements.

Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

Stewardship of investments

The Trustee has 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 Trustee can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

The Trustee, in conjunction with their investment consultant, appoint their investment manager and choose the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment manager makes decisions based on assessments about the financial performance of underlying investments, and that it engages with issuers of debt or equity to improve its performance (and thereby the Scheme's performance) over an appropriate time horizon.

The Trustee's objective is to ensure that the investment managers have the financial interests of the Scheme members as their first priority when choosing investments. They may take social, environmental or ethical considerations into account only when these factors do not contradict this objective.

Stewardship - monitoring and engagement

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

The Trustee's 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 Trustee has not set out their own voting policy but follow that of the investment manager. The investment manager is expected to provide regular reports for the Trustee detailing their voting activity.

The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

The Trustee seeks 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. Details of the signatory status of each investment manager is shown below:

Investment manager	UN PRI Signatory	UK Stewardship Code Signatory
LGIM	Yes	Yes

The Trustee reviews each investment manager prior to appointment and monitor them on an ongoing basis through the regular review of the manager's voting and engagement policies, their investment consultant's ESG rating, and a review of each manager's voting and engagement behaviour.

The Trustee has not set out their own stewardship priorities but follow that of the investment manager.

The Trustee 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 Trustee from time to time.

If the Trustee finds any manager's policies or behaviour unacceptable, they 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 Trustee does not envisage being directly involved with peer-to-peer engagement in investee companies.

Investment manager engagement policies

The Scheme's investment manager is expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustee 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.

The Trustee is comfortable that these policies are broadly in line with the Scheme's chosen stewardship approach and that they do not diverge significantly from any key stewardship priorities identified for the Scheme.

These policies are publicly available on the investment manager's website.

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

DC Section

Engagement	LGIM Global Equity Fixed Weights (60:40) Index Fund (charges included)	Future World Annuity Aware Fund (charges included)	LGIM Diversified Fund (charges included)
Period	01/04/2022 – 31/03/2023	01/04/2022 – 31/03/2023	01/04/2022 – 31/03/2023
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	466	83	691
Number of engagements over the year	726	168	979

	LGIM Future World Multi-Asset
Period	01/04/2022 – 31/03/2023
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	678
Number of engagements over the year	959

Exercising rights and responsibilities

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

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

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

The investment manager uses proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

The Trustee does 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 Trustee considers the proportion of votes cast, and the proportion of votes against management and believe this to be an important (but not the only) consideration of investor behaviour.

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

DC Section

Voting behaviour	LGIM Global Equity Fixed Weights (60:40) Index Fund (charges included)	LGIM Diversified Fund (charges included)	LGIM Future World Multi-Asset
Period	01/04/2022 – 31/03/2023	01/04/2022 – 31/03/2023	01/04/2022 – 31/03/2023
Number of meetings eligible to vote at	3,197	9,540	8,912
Number of resolutions eligible to vote on	41,099	99,242	93,318
Proportion of votes cast	99.8%	99.8%	99.8%
Proportion of votes for management	81.9%	77.4%	77.6%
Proportion of votes against management	18.0%	22.0%	21.7%
Proportion of resolutions	0.1%	0.7%	0.7%

abstained from voting on	

Trustee's engagement

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

The Trustee recognises 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.

Appendix

The link to the investment manager's engagement policy can be found here:

Investment manager	Engagement Policy (or suitable alternative)
Legal & General Investment Management	https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Information on the most significant votes for each of the funds containing public equities is shown below.

LGIM Global Equity Fixed Weights (60:40) Index Fund (charges included)	Vote 1	Vote 2	Vote 3
Company name	Royal Dutch Shell Plc	BP Plc	Rio Tinto Plc
Date of Vote	24/05/2022	12/05/2022	08/04/2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	4.1	1.9	1.6
Summary of the resolution	Resolution 20 – Approve the Shell Energy Transition Progress Update	Resolution 3 - Approve Net Zero - From Ambition to Action Report	Resolution 17 - Approve Climate Action Plan
How the fund manager voted	Against	For	Against
Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote?	Voted in line with management	Voted in line with management	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior

			to an AGM as our engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	Climate change: A vote against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, they remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.	Climate change: A vote FOR is applied, though not without reservations. While LGIM note the inherent challenges in the decarbonization 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 their 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, they 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.	Climate change: LGIM 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 LGIM acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, they 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 the vote	0.8	0.9	0.8

Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
Criteria on which the vote is assessed to be "most significant"	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

LGIM Diversified Fund (charges included)	**Vote 1**	**Vote 2**	**Vote 3**
Company name	Prologis, Inc.	Union Pacific Corporation	NextEra Energy, Inc.
Date of Vote	04/05/2022	12/05/2022	19/05/2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.4	0.4	0.3
Summary of the resolution	Resolution 1a – Elect Director Hamid R. Moghadam	Resolution 1e - Elect Director Lance M. Fritz	Resolution 1j - Elect Director Rudy E. Schupp
How the fund manager voted	Against	Against	Against
Where the fund manager voted against management, did they communicate their intent to the	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.		

company ahead of the vote?			
Rationale for the voting decision	Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	Joint Chair/CEO: A vote against is applied as LGIM expects companies not to recombine the roles of Board Chair and CEO without prior shareholder approval.	Diversity: A vote against is applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. They are targeting the largest companies as they believe that these should demonstrate leadership on this critical issue. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.
Outcome of the vote	0.9	0.9	0.9
Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
Criteria on which the vote is assessed to be “most significant”	LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the	LGIM views diversity as a financially material issue for their clients, with implications for the

	combination of the board chair and CEO (escalation of engagement by vote). LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 they have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they have voted against all combined board chair/CEO roles.	combination of the board chair and CEO (escalation of engagement by vote). LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 they have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they have voted against all combined board chair/CEO roles.	assets they manage on their behalf.

LGIM Future World Multi-Asset	**Vote 1**	**Vote 2**	**Vote 3**
Company name	Prologis, Inc.	Rio Tinto Plc	Royal Dutch Shell Plc
Date of Vote	04/05/2022	08/04/2022	24/05/2022
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.4	0.3	0.3
Summary of the resolution	Resolution 1a – Elect Director Hamid R. Moghadam	Resolution 17 - Approve Climate Action Plan	Resolution 20 - Approve the Shell Energy Transition Progress Update
How the fund manager voted	Against	Against	Against

Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.	Voted in line with management
Rationale for the voting decision	Joint Chair/CEO: A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	Climate change: They 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 they acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, they 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	Climate change: A vote against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, they remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.

		shareholders to monitor progress in a timely manner.	
Outcome of the vote	0.9	0.8	0.8
Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
Criteria on which the vote is assessed to be "most significant"	LGIM considers this vote to be significant as it is in application of an escalation of their vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills and experiences. Since 2015 they have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 they have voted against all combined board chair/CEO roles.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.	LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.

Information on the most significant engagement case studies LGIM participated in during the year ending 31 December 2022 is shown below.

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	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. At LGIM, they believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under LGIM’s Climate Impact Pledge, they publish their minimum expectations for companies in 20 climate-critical sectors. LGIM select roughly 100 companies for 'in-depth' engagement - these companies are influential in their sectors, but in LGIM’s view are not yet leaders on	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 LGIM’s strong relationship with BP, they lead the CA100+ engagements with them. At LGIM, they believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under LGIM’s Climate Impact Pledge, they publish their minimum expectations for companies in 20 climate- LGIM sectors. We select roughly 100 companies for 'in-depth' engagement -	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 our 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 their expectations of companies regarding the living wage have acquired a new level of urgency. LGIM’s expectations of companies: 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

	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 our minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions). UN SDG 13: Climate action	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). UN SDG 13: Climate action	across their supply chains. ii) LGIM expect the company board to challenge decisions to pay employees less than the living wage. iii) LGIM ask the remuneration committee, when considering remuneration for executive directors, to consider the remuneration policy adopted for all employees. iv) In the midst of the pandemic, LGIM went a step further by tightening their 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. 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. UN SDG 8: Decent work and economic growth
What the investment manager has done	LGIM have been engaging with Exxon Mobil since 2016 and they have participated willingly in LGIM's discussions and meetings. Under our Climate Impact Pledge, LGIM identified a number of initial areas for concerns, namely: lack of Scope 3 emissions disclosures (embedded in sold products); lack if integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities. LGIM's regular engagements with Exxon Mobil have focused on their minimum expectations under the Climate Impact Pledge. The improvements made have not so far been sufficient in our	LGIM have been engaging with BP on climate change or a number of years, during the course of which LGIM have seen many actions taken regarding climate change mitigation. 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	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 becoming a living wage accredited employer. This escalation succeeded insofar as, in April 2022,

	opinion, which has resulted in escalations. The first escalation was to vote against the re-election of the Chair, from 2019, in line with our Climate Impact Pledge sanctions. Subsequently, in the absence of further improvements, LGIM placed Exxon Mobil on our 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, LGIM’s 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 their minimum expectations. Levels of individual typically engaged with include lead independent director, investor relations, director and CFO.	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. 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. Levels of director typically engaged with include the chair, the CEO, head of sustainability, and investor relations.	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. Levels of individual typically engaged with include the Chair, the CEO, and head of investor relations.

Outcomes and next steps	Since 2021, LGIM have seen notable improvements from Exxon Mobil regarding LGIM's 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. The company remains on LGIM's divestment list (for relevant funds), but LGIM's engagement with them continues.	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 their concerns.	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 have asked the board to collaborate with other key industry stakeholders to bring about a living wage for contracted staff.