

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 2024 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 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 February 2024.

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 February 2024. 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 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.

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 on 1 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 2024 (latest information available prior to the Plan year end of 5 April 2024), 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 2023, LGIM’s stewardship activities involved: formalising our approach on human rights, expanding LGIM’s diversity voting sanctions to the executive committee level for the largest companies in the US and the UK, applying vote sanctions for the first time on companies not meeting our expectations on deforestation, and initiating a campaign on income inequality at supermarkets across five continents

In 2023, LGIM launched 17 new responsible investment strategies and, as at year end, managed £378.1 billion of assets in responsible investment strategies.

There are c.100 LGIM employees with roles dedicated exclusively to ESG activity. This covers leadership positions to implement our responsible investing strategy across our Investment Stewardship, Investments, Distribution, Product, and ESG IT and Change teams.

In 2023, LGIM cast almost 149,000 votes at over 15,580 meetings.

There were 3,572 votable meetings over the year. In these meetings, there were a total of 45,041 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 81.7% of proposals and against management in 18.2% of proposals. The manager abstained in 0.1% 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	Shell Plc
Date of vote	23 May 2023
Approximate holding size at date of vote	3.5%
Summary of the resolution	Resolution 25 - Approve the Shell Energy Transition Progress
How LGIM voted	Voted 'Against' this resolution
Was voting intention communicated ahead of the vote?	LGIM publicly communicates its vote instructions on its website the day after the company meeting, with a 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.
Rationale for voting decision	A vote against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, LGIM remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.
Outcome of vote	Resolution passed.
Implications and next steps	LGIM continues to undertake extensive engagement with Shell on its climate transition plans.
Reason considered most significant by the Trustees	Climate Change.

Significant vote #2

Company name	BP Plc
Date of vote	27 April 2023

Approximate holding size at date of vote	1.8%
Summary of the resolution	Re-elect Helge Lund as Director
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	A vote against is applied due to governance and board accountability concerns. 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, LGIM note concerns around the governance processes leading to the decision to implement such amendments.
Outcome of vote	N/A.
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	Good Corporate Governance.

PGIM Fixed Income

PGIM confirmed that over the year to 5 April 2024, 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.

Engagement Example – Climate Change

Rationale –

To follow up on a previous call focusing on the oil spills in Nigeria and Shell's emission reduction targets.

What Has Been Done -

Shell's decision to divest from its onshore assets in Nigeria and the fact that its remediation work is nearly complete is significant and should help them resolve the longstanding reputational issues they have had due to theft, sabotage and oil spills in the Niger Delta. However, given a history of delays and aggressive legal maneuvering around the remediation work, it will be crucial to follow the progress of the third party organization tasked with the remediation work tied to the legacy spills in Ogoniland and confirm that the work is complete before considering any upgrade to Shell's ESG Impact Rating. From a credit perspective, it will also be important to evaluate any future sale for credit impacts arising from supply risks for their Nigerian LNG business. Strong execution on this sale will be vital. Regarding their emissions reduction targets, PGIM didn't learn anything new, but were able to confirm their assumptions about the economics of Shell's CCUS and renewable operations.

Next Steps -

We agreed to follow up in 6 12 months to check in on their progress related to the sale of their onshore Nigerian assets and the remediation work in the Niger Delta.

Insight Investments

Engagement Example 1 – Climate Change

Rationale -

Climate change is one of the greatest challenges of our time. Governments and businesses are grappling with its implications and the increasing urgency by which emissions need to be reduced. The theme is directly related to Insight's wider investment approach due to the potential impact that a company's climate strategy can have on investment performance.

As a response to this, Insight became a signatory of the Net Zero Asset Managers initiative in April 2021, where Insight have committed to reach net zero emissions by 2050 at the latest. To support Insight's journey towards net zero, we will either actively engage with our highest emitters, or ensure they are on a net zero pathway.

Therefore, Insight are developing bespoke strategies to engage with the highest emitters within their portfolio on climate-related issues, such as coal exposure and carbon intensity performance. Insight use their Net Zero Model to identify companies to engage with, as Insight look to ensure that at least 50% of financed emissions are either net zero, aligned to a net-zero pathway, aligning to a net-zero pathway or subject of engagement with a view to moving into alignment by net zero, by 2023. This target increases to cover 70% by of financed emissions by 2025. Insight identify objectives for engagement using tools such as the Net Zero Benchmark from Climate Action 100. Success will be measured on improvement across the criteria of Insight's Net Zero model and will be assessed on a case-by-case basis.

What Has Been Done –

Insight have been engaging on Climate Change for some time now both directly with issuers and collaboratively as a part of various initiatives. Insight engaged with over 35% of their financed emissions on climate-related issues in 2022. Insight are also actively involved in a number of collaborative initiatives on climate change. For example, in 2022 Insight joined the IIGCC's Net Zero Bondholder Stewardship Working Group which is working to create guidance and standards for bondholders engaging on climate-related issues. Insight also continue to be involved in a number of Climate Action 100+ investor groups. Climate Action 100+ is aligned with Insight's stewardship approach as Insight prefer to engage rather than divest to support the transition to a low carbon economy.

Insight are also a signatory of the CDP, taking a lead and co-signing investor in CDP's Non-Disclosure Campaign, which targets companies who are in material sectors and do not report to CDP currently. In 2022 Insight targeted seven companies for engagement through a CDP-led initiative, encouraging them to report their climate and/or water-related activity through the annual CDP reporting framework. The companies included O&G and utilities companies.

Outcome and Next Steps –

Insight has participated in the Climate Action 100+ (CA100+) collaborative engagement focusing on PEMEX since 2021. PEMEX continues to become more receptive to ESG engagement as they have realised the impact of poor ESG performance and ratings and the resulting influence on the company's reputation and cost of capital. In 2022, Insight were pleased to see improvements in PEMEX's climate action governance and plans, which Insight believe was influenced by delivering a consistent message on the long-term goals that the CA100+ group has championed combined with the shorter-term improvements that Insight has encouraged directly with PEMEX. In December 2022, PEMEX announced plans to publish a 2023-2050 Sustainability Plan in 2023, which will include the strategies, actions and metrics used to meet ESG goals. PEMEX made an important improvement on governance by establishing a sustainability committee to coordinate and oversee PEMEX's ESG strategies and guidelines. During an engagement in 1Q 2023, PEMEX confirmed the committee will regularly report to the board and will include two board directors in addition to C-suite executives. This board-level oversight will allow PEMEX to meet CA100+ indicator 8. In 2022, Insight engaged Heathrow Airport on their climate action plan. In 1Q 2023, Heathrow received approval from the Science Based Targets

Initiative (SBTi) for their 2030 carbon reduction targets, confirming they are consistent with a 1.5 degree trajectory. Heathrow is the first airport to achieve this status with SBTi's updated 1.5 degree standard.

Engagement Example 2 – Good Corporate Governance

Rationale –

This is a topic of increasing importance across both social and governance themes, Insight see D&I as a key impact area, where Insight can begin to make positive changes. There is an increasing body of research to support the material impact that D&I can have on a company's financial performance, will may improve investment performance over time. Insight will use D&I representation data and targets as principal indicators of success.

What Has Been Done –

Insight took an initial focus on Counterparties in terms of their engagement with on D&I. Poor performers in terms of target setting and performance were identified through Insight's Counterparty stewardship process, whereby Insight asked 25 Counterparties to fill in ESG questionnaires which included questions on D&I policies, performance and gender pay gap. Insight have held several engagements on D&I with Counterparties and are in the process of writing detailed recommendations.

Insight have been engaging with issuers where we have identified weak D&I performance from our PRIME model. Insight have engaged to improve disclosure on D&I and to set stronger targets at senior management / board levels. Insight will also conduct research which uses diversity and inclusion performance data (e.g. representation of minority groups) to identify companies with poor performance. Insight will take an initial focus on the UK and US, where there is currently increasing regulation, but they look to expand this to other markets over time.

Outcome and Next Steps –

Insight began our D&I engagement with America Movil (AMX) in 2021 to encourage improvement on governance and diversity. In late 2021, AMX updated its materiality assessment and conducted its first overview of board practices to evaluate board effectiveness. Insight engaged the company again in 2022 and they were happy to confirm a performance improvement on both governance and diversity. In the company's 2022 Sustainability Report, Insight were pleased that they established a new target to increase board diversity to three female directors, representing 21% of the board, which it achieved by appointing Gisselle Jiménez as a new director. This board-level diversity target is integrated into the company's strategy as it was added as a target within America Movil's Sustainability Linked Loan (SLL) structure. The company also refreshed their Board Diversity Policy, which includes the ambition to 'set measurable objectives to achieve gender diversity with the ultimate goal of having a composition of the Board where each gender represents at least thirty percent (30%).' The engagement may provide financial benefit, as there is a growing body of research which suggests that companies with diverse directors and executive teams (in relation to gender and ethnicity) are more likely to achieve above-average profitability and have higher returns on invested capital. Board-level diversity and support for diversity initiatives also helps to create a more inclusive culture throughout the entire organization.