IMPLEMENTATION STATEMENT – VOTING AND ENGAGEMENT

1st January 2022 – 31st December 2022

London Stock Exchange Group Pension Scheme

Introduction

Under regulatory requirements, the Trustee is required to produce an annual Implementation Statement setting out how voting and engagement policies in the Statement of Investment Principles (the "SIP") have been implemented.

This document has been prepared by the Trustee of the London Stock Exchange Group Pension Scheme ('the Scheme'), covering the period 1 January 2022 to 31 December 2022.

The document looks to set out at a high level how the Trustee's policy on stewardship and engagement has been implemented. Where relevant, the document describes the areas of the portfolio where the stewardship and engagement are most likely to be financially material. Disclosed is also the Trustee's opinion on the outcomes of voting and engagement activity for managers that hold listed equities.

From 1 October 2022, further Department of Work and Pensions ("DWP") guidance on the reporting of stewardship activities through Implementation Statements came into effect. This Statement aims to consider this guidance as the Trustee moves towards meeting the DWP's updated stewardship expectations. This will be explored where possible, noting that since 31st December 2022, both Sections of the Scheme have entered into bulk annuity transactions to cover all the Scheme's liabilities.

Changes to the SIP over the period

The SIP was updated in September 2022. The two key changes were:

- Updating the Strategic Asset Allocations (SAA's) for each Section.
- Updating the period for the Trustee to assess the ability of each investment manager in engaging with underlying companies to promote the long-term success of the investments to annually. This will be further updated in June 2023 to account for the bulk annuities.

The Trustee's policies on voting and engagement

The Trustee recognises that good stewardship practices, including engagement and voting activities are important as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant entities) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expects its investment managers to practice good stewardship. This includes monitoring and engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

On a quarterly basis, one of the Scheme's investment managers is usually invited to attend a session at the Investment Committee meetings. During these sessions, the investment managers are asked to dedicate time towards outlining their ESG approach.

The Trustee's investment consultant assesses the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments, and reports to the Trustee annually covering how the investment managers have acted in line with this policy, via an annual Implementation Statement.

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's equity investments and which are exercised by the asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

Being cognisant of the DWP's updated guidance emphasising the need for asset owners to be more "active" in their approach to stewardship, the Trustee acknowledges the policy should be reviewed with a view to bringing it more in-line with the new guidance, where applicable considering the bulk annuity transactions for both Sections.

Implementing the Stewardship and Engagement Policy

The Trustee receives regular updates from the investment consultant on the investment managers' performance. The Trustee has also been notified whether there have been any changes to the investment consultant's overall ratings of the managers. This manager rating factors in an ESG assessment incorporating voting and engagement. This reporting is discussed at investment committee meetings together with whether the managers are performing in line with the Scheme's objectives. The Trustee meets with the investment managers when required to discuss relevant matters, including sustainable investment. Over the year the Trustee met with Man, Schroders, Oaktree, Partners Group, Ruffer and Payden & Rygel.

The following investment managers for the Scheme are signatories to the UK Stewardship Code: Schroders, Royal London Asset Management, Ruffer, Payden & Rygel, Man Group. None of the Scheme's managers have raised any matters of non-compliance with the principles of the UK Stewardship Code. There are no immediate concerns that the other investment managers used by the Scheme (Permira and Oaktree) are not signatories to the UK Stewardship Code. These managers all support the principles of the UK Stewardship Code but are not formal signatories. The Scheme's investment consultant will continue to engage with the Scheme's managers to improve and monitor their stewardship and engagement practices.

The Trustee proposed its own definition of what it considers to be a significant vote which has been used in this iteration of the Statement. The Trustee has asked the managers to provide significant votes in line with this definition. The managers voting statistics are summarised in the next section.

Looking ahead

It is the Trustee's belief that the policies set out in the SIP regarding the exercise of rights attaching to investments and the undertaking of engagement activities in respect of the investments has been followed over the year, to year end December 2022.

Over the next year, the Trustee plans to consider how best to meet the DWP's new expectation on stewardship and move to take more ownership of stewardship, as the new guidance expects. Changes to the Trustee's approach will be taken with regard to the Scheme's governance constraints and in the best interest of the Scheme's members where applicable, considering the bulk annuity transactions for both Sections over the 2023 Scheme year.

Summary of voting over the year

The use of voting rights is most likely to be financially material in the sections of the portfolios where physical equities are held. Financially material considerations include (but are not limited to) those arising from Environmental, Social and Governance considerations, including climate change. Given that the vast majority of the Scheme's assets are invested with investment managers that hold gilts, derivative instruments, corporate bonds and other credit assets in their portfolios, voting is only relevant to the Man Progressive Diversified Risk Premia Fund, Ruffer Absolute Return Fund and the LSE Section's investment in the Oaktree Opportunities Fund IX. As these investments are made via pooled funds, where the investment manager is responsible for voting and engagement on the underlying assets rather than the Trustee, the Trustee's ability to influence voting activities undertaken is limited.

Over the Scheme year, voting activities by Man, Ruffer and Oaktree were on a fund wide basis and in accordance with the voting procedures set out in each manager's voting policy. The Trustee is not aware of any material departures from the managers' stated voting policies.

Given the nature of these mandates and the fact that voting activities were undertaken in line with the managers' policies, the Trustee is satisfied that the voting policies have all been adequately followed over the Scheme year.

A summary of voting by Man Progressive Diversified Risk Premia, Ruffer Absolute Return Fund and Oaktree Opportunities IX Fund on behalf of the Scheme over the year is provided in the tables below:

Voting Criteria	**Ruffer**	**Man**	**Oaktree**
Value of assets (as at 31st Dec 2022) LSE Section & LCH Section combined	£10.7m	£9.8m	£8.1m
No of meetings eligible to vote during the period	83	698	10
No of resolutions eligible to vote during the period	1,456	8,054	41
% of resolutions voted on of which eligible	100.0%	97.7%	100%
% of resolutions voted with management	94.3%	85.5%	98%
% of resolutions voted against management	5.6%	14.1%	2%
% of resolutions abstained	0.1%	0.4%	0%
% of meetings with at least one vote against management	47.0%	51.0%	10%
% of resolutions where manager voted contrary to recommendation of proxy adviser?	6.5%	6.6%	N/A
Any use of proxy voting services during the period	Yes (ISS)	Yes (Glass Lewis)	No

*Figures may not sum to 100% due to rounding.

Summary of significant votes over the period:

Further to the above summary, the Trustee is required to disclose further information on the 'most significant' votes. The Scheme Trustee has considered a significant vote based on the following criteria across the Scheme's managers to show what the Scheme Trustee has proposed to be significant, rather than what managers deem significant.

Any votes that are applicable to at least one of the following are considered as significant to the Scheme Trustee:

- A vote which can be considered as relating to a company which is one of the fund's largest carbon emitters, if not available, then inclusion as one of the 166 CA100+ companies might provide a reasonable proxy.
- Those resolutions with large votes against (a 50% vote against the company recommendation is clearly significant, but 20% against is usually deemed a high level; but in some markets on some issues less than this can be significant).
- Companies facing campaigns: campaigns include but are not limited to activist action, attention from industry groupings and/or shareholder resolutions. That would certainly include climate shareholder resolutions (not least those flagged by The Institutional Investors Group on Climate Change 'IIGCC' and its equivalents around the world).
- A vote that has a positive steer on climate change or other ESG factors.

The Trustee has requested votes that meet this definition from the Scheme's managers. One vote meeting this definition from managers with voting rights, as previously defined, is shown in the table below for Ruffer and Man specifically. Oaktree has confirmed it does not currently take any "significant voting criteria" into consideration as part of its proxy voting process, as such they were unable to provide this information upon request.

The significant votes for Ruffer and Man are shown below:

	Ruffer	Man
Approximate size of fund's holding as % of portfolio	0	Not provided
Summary of resolution	Equinor Environmental - Approve Company's Energy Transition Plan	DTE Energy Co. Shareholder Proposal Regarding Integration of Full Scope 3 GHG Emissions
Managers Vote	For	For

Rationale of decision	We voted for Equinor's transition plan because we are supportive of their efforts to decarbonise. Equinor is at the forefront of offshore wind developments, and we have been impressed by their business success in that area. We have engaged with the company and discussed their plan and disagree with ISS's assessment. Equinor are one of few companies who have been profitable in aiming to decarbonise and we will support that.	A key component of our ESG Proxy Voting Policy is shareholder proposals. Our policy is particularly supportive of positive environmental and social-related shareholder proposals and the Stewardship Team reviews all shareholder proposals to ensure that our voting instructions are appropriate and aligned with the promotion of higher ESG principles and standards. We think that active voting, particularly through shareholder proposals, is essential to our stewardship responsibilities.
Explanation of how this meets Trustee definition of a significant vote	A vote that has a positive steer on climate change or other ESG factors: "We believe this vote will be of particular interest to our clients. The management resolution aims to increase the transparency of the company's climate transition planning and outcomes."	A vote that has a positive steer on climate change or other ESG factors.

Summary of engagement from the Scheme's managers over the year

As per the Scheme's SIP, The Trustee expects its investment managers to practice good stewardship. This includes monitoring and engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social or governance considerations, and using voting rights to effect the best possible long-term outcomes.

With this in mind, the Trustee has requested its relevant investment managers to provide examples of how they have engaged with underlying companies on the Trustee's behalf. The managers provided an overview of engagement activity and the Trustee selected examples for each manager that they have considered noteworthy.

To focus the engagement examples to those that are most relevant to the Trustee, the engagement examples from managers were collected with a focus on ESG or Stewardship themes.

Royal London Asset Management

Engagement Example:

Background: As part of the Net Zero Asset Managers initiative (NZAMi), RLAM has initially committed approximately 71% of our total assets under management (AUM) to be managed in line with net zero. Our primary engagement objective is to evaluate and influence companies, which represent 70% of RLAM's financed emissions, to adopt emissions reduction targets and climate transition plans that are reinforced by credible science-based methodologies. We have developed 12 indicators to help assess companies' climate transition plans. Through this approach, we expect to influence real-economy decarbonisation that will in turn support RLAM's target of a 50% reduction in emissions by 2030.

Action: We have continued our work on net zero and client engagements. This quarter has seen RLAM become co-lead with CA100+ on both EDF and E.ON for which we have provided engagement examples below.

- **EDF** – RLAM is now co-lead within CA100+ on the engagement with EDF. After the announcement that EDF is to be nationalised, the company stated that the nationalisation process nor the energy crisis would impact the company's climate plans and they would still be accountable to the French Parliament on the delivery of their targets. The new CEO is supportive of the climate targets, with an apparent new focus on self-generation and energy decentralisation. The company is working to bring back reactors to recover the energy production in France, reducing the need for imports of coal and gas. We discussed in detail EDF's exposure to physical climate risk and gained more confidence on its adaptation plans.
- **E.ON** - RLAM is now co-lead within CA100+ on the engagement with E.ON. When meeting with E.ON we asked for reaffirmation of its 1.5°C targets, capex allocation and plans and to ensure a just transition. We also asked the company to do more proactive lobbying to tackle barriers to its plans in the context of shifting the energy policy environment in Europe. The company was receptive to the request of integrating climate considerations to its financial accounts and auditing report. RLAM provided E.ON. with a detailed slide pack showcasing examples of companies in the sector that provide quality disclosures on capital alignment. We obtained reassurance that the energy crisis and energy security concerns hadn't shifted the company's climate plans.

Man Group

Engagement Example:

Objective: To set and publish a strategy and short-, medium- and long-term targets to reduce the bank's exposure to fossil fuel assets on a timeline aligned with the goals of the Paris agreement.

Background: In October 2020, HSBC announced an ambition to be a net zero bank by 2050 at the latest. Although an important move, this announcement was seen critically by some investors and other stakeholders for making no commitment to reduce the bank's funding for fossil fuels, particularly coal.

Action: Man Group co-filed a shareholder resolution, together with 14 other institutional investors (representing $2.4 trillion in assets under management) and 117 individual investors. The resolution, coordinated by responsible investment NGO, ShareAction, followed a long engagement process with the bank over its climate strategy and commitment. We participated in several open and constructive engagement meetings with the bank and expressed the need for tangible action on net zero targets, a robust coal financing policy and appropriate client transition strategies.

Outcome: As a result of the engagement and investor pressure, HSBC committed to ramp up its climate change policies and stop financing coal projects by 2040, proposing its own management-led resolution on climate change at its May AGM. Under this board-backed resolution, the bank committed to set science-based targets to align its financing of companies with the Paris Agreement, starting with oil, gas, power and utilities companies in 2021, and to report on the process of its climate change efforts on an annual basis. The coalition of investors and Share Action agreed to drop the shareholder resolution and back the bank's own resolution with the expectation that the bank followed through on its commitment with serious action.

Payden & Rygel

Engagement Example:

Issuer/ Type: AstraZeneca / Environmental

Background: This was our initial reach out to the firm on specific ESG topics. The engagement was led by our credit research team.

Outcome: We engaged management in discussions regarding both traditional financial factors and ESG topics. The ESG topics included:

- Environmental goals – 2 reports on ESG and a sustainability report
- Verified CO2 emissions – carbon neutral by 2026 (Scope 1&2); carbon negative by 2045.
- Ethics and transparency – 48% women in senior and middle management roles; no racial target goal on inclusion and diversity; ethnic minority for US employees.

Next steps of the engagement will include incremental conversations with managements to receive progress updates on emissions targeting and diversity plans going forward.

Partners Group

Engagement Example:

Objective: Asset with Project Fersen (a Secondary transaction investing in a tail-end liquidity solution for predominantly hotel and retail assets locations in Sweden and Finland):

Outcome: More recently, as part of a large capex plan in Norse (Fersen II) the following ESG-related renovations are being addressed:

- HVAC upgrades (air-conditioning system)
- LED lighting upgrades
- Installation of solar panels
- Installation of charging stations

These initiatives will result in lower operation charges for the tenants and a positive impact on both exit yield and overall liquidity of the assets.