PGIM UK Retirement Savings Plan
Defined Benefit Section (the ''Plan'')
Annual Implementation Statement 2021 (the ''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 describe how Plan investments are responsibly invested, considering environmental, social and governance factors ('ESG').

This Statement has been produced for the year to 5 April 2021 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 disclose, 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.

Review of the SIP

Over the 12 months to 5 April 2021, the SIP was reviewed by the Trustees, and updated to reflect new requirements under The Occupational Pension Plan (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the Plan's arrangement incentivises investment managers to align their investment strategy and decisions with the Trustees' policies;
- How that Plan's arrangement incentivises the manager to make decisions based on assessments of medium to long term financial and non-financial outcomes;
- How the method (and time horizon) of the evaluation of managers' performance and remuneration are in line with the Trustee's policies;
- How the Trustees monitor portfolio turnover costs;
- The duration of the arrangement with the asset managers.

Over the 12 months to 5 April 2021 the SIP was also updated to reflect the change in the Plan's strategic target asset allocation from 15% in global equities, 50% buy and maintain credit and 35% liability driven investment, to 10% in global equities, 53% buy and maintain credit and 37% liability driven investment.

Wording was also included within the SIP in regard to the Trustees' policies on ESG, Stewardship and Climate Change, as well as the Trustees' position on member views relating to the Plan's investments.

A revised SIP was signed in September 2020 and published on a publically available website, in line with the Investment Regulations.

Assessment of how the policies in the SIP have been followed for the year to 5 April 2021.

The information provided in the following section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP.

There were no other changes to the Plan's strategic asset allocation or existing investment managers or their guidelines for the specific asset strategy mandates outside of this.

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 changes to the target allocation made over the year to 5 April 2021 served to reduce risk as well as better match the interest rate and inflation sensitivities of the Plan's liabilities. **These changes are in line with the investment objectives of the Scheme as outlined in the previous section.**

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 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 adviser 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 adviser, 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 Manager, 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 be 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 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

Section 4 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 September 2020. 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 2021 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 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 (Legal & General Investment Management, BMO and PGIM Fixed Income) confirm compliance with the principles of the UK Stewardship Code. LGIM 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.

LGIM believe that they have fully applied each of the principles in its investment stewardship activity during 2020, and they have submitted the 2020 Active Ownership Report to the FRC as its response to the UK 2020 Stewardship Code. The FRC will publish the list of confirmed

2020 Signatories to the 2020 Stewardship Code after assessing the reporting by each applicant.

BMO are signatories of the current UK Stewardship Code (2012 version), however PGIM Fixed Income are not signatories of the UK Stewardship Code. This is due to the original code design being lent towards equity investors and they believe as a fixed income investor only that it is generally not applicable to their business. However, the 2020 revisions to the code now expand its relevance considerably and as a result, PGIM Fixed Income do intend to become signatories in the near term. However, the process for becoming a signatory is fairly involved, and they are still working on putting in place the requisite infrastructure in order to fulfil the code’s requirements, which is why they are yet to join.

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.

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 will ask the investment managers to highlight key voting 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 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’s core investment beliefs are as follows:

1. *“Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes.*

2. *Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns.*

3. *Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole.”*

There are 38 LGIM employees with roles dedicated to ESG activity. In addition, there are a further 58 colleagues whose roles involve a very substantial contribution to their responsible investing capabilities and whose objectives reflect this, although their responsibilities are broader than solely ESG.

A key pillar of LGIM's approach to index strategies is active ownership: encouraging companies to consider sustainability risks, develop resilient strategies and consider their stakeholders.

In the face of challenges like climate change, ageing populations or technological disruption, LGIM believe a different approach to managing capital is required – where ESG impact is considered alongside the traditional metrics of risk and return.

Evolving their capabilities to assess and engage with companies on ESG criteria is a key objective for LGIM. Over the course of 2020, their Global Research and Engagement Group of 73 analysts devoted significant time and resource to tackling emerging ESG issues across a range of sectors from both sides of the capital structure. These included supply chains, biodiversity and climate change.

LGIM have also announced that they are targeting net zero emissions across all AUM by 2050 and they currently manage £206.8 billion in responsible investment strategies.

In 2020, LGIM launched high-profile campaigns to drive greater ethnic diversity within boards, while engaging on gender and leadership diversity in Japan. They opposed 208 directors globally due to concerns over board diversity.

In 2020, LGIM engaged with 665 companies and voted on 66,037 resolutions. They voted against management at 75% of companies, primarily due to concerns around the suitability of directors or auditors, pay or other elements of company strategy.

A summary of the 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.

Key votes undertaken over the year – 1 April 2020 – 31 March 2021	
Global Equity Market Weights (50:50) Index Fund. Over the year to 5 April 2021, LGIM voted on almost all 50,012 resolutions put forward at 4,157 meetings. LGIM voted against management for c. 16% of the total resolutions.	**Company:** *SIG plc.* **Resolutions proposed:** *Approve one-off payment to Steve Francis proposed at the company's special shareholder meeting held on 9 July 2020.* **LGIM vote:** *Voted against the resolution.* **Background:** *The company wanted to grant their interim CEO a one-off award of £375,000 for work carried out over a two-month period (February - April). The CEO agreed to invest £150,000 of this payment in acquiring shares in the business, and the remaining £225,000 would be a cash payment. The additional payment was subject to successfully completing a capital-raising exercise to improve the liquidity of the business. The one-off payment was outside the scope of their remuneration policy and on top of his existing remuneration, and therefore needed shareholder support for its payment. LGIM does not generally support one-off payments. They believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility. This should negate the need for additional one-off payments. In this instance, there were other factors that were taken into consideration. The size of the additional payment was a concern because it was for work carried over a two-month period yet was equivalent to 65% of his full-time annual salary. £225,000 was to be paid in cash at a time when the company's liquidity position was so poor that it risked breaching covenants of a revolving credit facility and therefore needed to raise additional funding through a highly dilutive share issue.* **Further comment from LGIM:** *LGIM intend to engage with the company over the coming year to find out why this payment was deemed appropriate and whether they made the payment despite the significant opposition.*

PGIM Fixed Income ('PGIM')

PGIM confirmed that over the year to 5 April 2021, 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.

PGIM did provide details of instances where they had engaged with issuers on the above, which the Trustees have received. These covered numerous topics including energy use and efficiency, green securities, product safety and quality, corporate governance, climate change, and human rights and social issues.

BMO

As an LDI investor, BMO have limited scope for engagement, as they have no voting rights, however BMO have noted that they have a strong engagement programme with their counterparties. They point to their long and proud tradition of engagement, with a dedicated team of analysts in their Responsible Investment Team.

In regard to BMO's LDI funds and the Sterling Liquidity Fund, there are two specific areas of work that they have communicated to the Plan: the first relates to the selection and monitoring process and the second relates to engagement. Their counterparty approval process includes input from their credit analysts, who produce explicit ESG scores for all the entities they research. BMO's Responsible Investment team additionally engages with trading counterparties and clearing members on ESG topics to assess their ESG credentials and to foster improvement in areas of concern. This engagement work is structured in terms of prioritisation (both in terms of companies to whom BMO have the greatest exposure and to companies whom they feel have the greatest ESG deficiencies) and in terms of progress, monitoring against predefined milestones.

In H1 2020 BMO recorded 8 milestones with investor value, and in H2 2020 they recorded 6 further milestones.