

PGIM UK Retirement Savings Plan

Annual Report for the year ended 5 April 2022

Trustees' Report

Responsible investment and corporate governance

The Trustees believe that environmental, social, and corporate governance (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, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The strategic rationale for holding different asset classes that help the Trustees to achieve the Plan's investment objectives remains the primary driver behind the Plan's investment strategy. However, within this constraint, 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. The Trustees' investment consultant monitors the ESG capabilities of the investment managers and documents their views within the six-monthly investment report. The Trustees consider this information as part of their review of these reports.

Non-financially material matters, such as member views, are not taken into account in the selection, retention and realisation of investments. However, if the Trustees were formally approached by members expressing such views, these would be considered on their merits. This position is kept under review.

The Trustees review the investment managers' policies and engagement activities (where applicable) periodically. Equity managers who are registered by the UK's Financial Conduct Authority are expected to report on their adherence to the UK Stewardship Code on an annual basis.

Employer-related investments

Details of employer-related investments are set out in note 21 to the financial statements.

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 regulations require certain additional information to be given to you on strategic investment decisions. We describe 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 2022 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.

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Investment Objectives of the Plan

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 for the Plan 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 for the Plan 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 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 actuarial 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 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 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 managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers is based on advice received from Mercer Limited.

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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 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 September 2020.

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 2022 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 (Legal & General Investment Management, CT 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.

Both CT and PGIM are signatories of the current UK Stewardship Code (2020 version).

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 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 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 48 LGIM employees with roles dedicated to ESG activity. In addition, there are a further 62 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 over £200 billion in responsible investment strategies.

In 2021, LGIM opposed the election of 370 directors globally due to concerns about board diversity. They engaged with 571 companies, and voted on 67,551 resolutions worldwide.

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.

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Key votes undertaken over the year – 1 April 2021 – 31 March 2022	
Global Equity Market Weights (50:50) Index Fund. Over the year to 5 April 2022, LGIM voted on almost all 44,835 resolutions put forward at 3,702 meetings. LGIM voted against management for c. 17% of the total resolutions.	Company: ExxonMobil Resolutions proposed: 1.1 Elect Director Gregory J. Goff 1.2 Elect Director Kaisa Hietala 1.3 Elect Director Alexander A. Karsner 1.4 Elect Director Anders Runevad 1.9 Management Nominee Kenneth C Frazier 1.12 Management Nominee Darren W. Woods 4 Require Independent Board Chair. LGIM vote: LGIM supported resolutions 1.1 to 1.4; but opposed resolutions 1.9 and 1.12; they supported resolution 4. Background: In 2019, ExxonMobil was removed from select LGIM strategies, sanctions applied under LGIM's Climate Impact Pledge engagement programme. In 2020, LGIM announced their opposition to the re-election of the company's chair/CEO as we believe the separation of roles provides a better balance of authority and responsibility. As the roles currently remain combined, LGIM therefore voted AGAINST resolution 1.9 at the 2021 AGM. LGIM acknowledges steps taken by the company around carbon disclosure and targets, but they remain concerned with the strength of the Exxon's sustainability and capital-allocation strategy, as the risks of the energy transition become increasingly apparent. That is why they support activist investor Engine No. 1's proposals for board refreshment, as the experience and skills of the proposed four candidates would, in LGIM's view, make a positive contribution to board effectiveness and oversight, providing much-needed constructive challenge at a time of industry disruption. LGIM voted FOR resolutions 1.1-1.4. As in 2020, they also supported a resolution requesting that the company implements an independent chair, and opposed the re-election of the chair of the Board Affairs committee for failing to respond to a meaningful level of shareholder support for such votes in prior years. Further comment from LGIM: LGIM will continue to engage with the company and monitor progress.

PGIM Fixed Income

PGIM confirmed that over the year to 5 April 2022, 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. We provide an example of the engagement that PGIM have undertaken over the year below:

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Issuer name: HSBC

Category: ESG- Engagements- Environmental & Governance

Topic: GHG Emissions & Climate Change, Disclosure & Reporting, Green Securities, ESG Strategy, Corporate Governance

Objective: To understand reasoning for climate policies and climate reporting, and clarify ESG ratings flags related to MSCI.

Summary: Climate targets are based on loan book (and not capital markets activity) as that is what they can currently measure. Finding it difficult to measure capital market activities financed emissions – raising cash for GCP but the UoP is often green. They are working in an industry initiative to drive standardization of the reporting. Once the framework for capital markets activity is available, they will be able to report this and set targets- this should be available by the time of FY22 reporting. We stressed the need for the bank to engage third party NGO's such as BankTrack to verify and clarify any assessments of the banks' lending policies. Investor Relations stated that the bank takes issue with the BlueTrack methodology being used by Barclays but did not provide a rationale.

PGIM's Assessment: The gap we had identified in HSBC's disclosure around capital markets activities should be fixed for 2022 FY report with more disclosure and quantitative targets, when they are given an appropriate framework to use, which is a fair reason for the delay. HSBC intends to take credit only for their pro rate share of capital markets activities which we think is an appropriate approach. As suspected, HSBC has trouble with some of the ESG rating services, e.g. financing for an entity in a diversified groups not being classed in the correct category. The over boarding issue will soon disappear with the board member concerned set to step down. Looking at doing more ESG bonds, but this is not guaranteed and relevant asset pool is limited.

Next Steps: Continue to monitor, including the next round of disclosures to determine if HSBC stuck to pledge related to capital markets activities tracking and setting targets.

CT

As an LDI investor, CT have limited scope for engagement, as they have no voting rights, however CT 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 regards to CT'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. CT'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 CT 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 2021 CT recorded 215 milestones with investor value, and in H2 2021 they recorded 171 further milestones. We note that this is a significant increase on the previous year and we are pleased to see CT more actively engaging with their counterparties.