The Baby & Child Retirement Benefit Plan

Implementation Statement

Purpose of this statement

This Implementation Statement has been produced by the Trustee of the **Baby & Child Retirement Benefit Plan (“the Plan”)** to set out the following information over the year to **30 September 2023**:

- how the Trustee’s policies on exercising rights (including voting rights) and engagement activities, as set out in the Statement of Investment Principles (**SIP**), have been followed over the year; and
- the voting activity undertaken by the Plan’s investment manager on behalf of the Trustee over the year, including information regarding the most significant votes.

How voting and engagement policies have been followed

Based on the information provided by the Plan’s investment manager, the Trustee believes that its policies on voting and engagement have been met in the following ways:

- The Plan invests entirely in pooled funds, and as such the Trustee delegates responsibility for carrying out voting and engagement activities to the Plan’s investment manager, Legal & General Investment Management (**LGIM**).
- The Trustee’s investment consultant at Barnett Waddingham LLP (**Investment Consultant**) has obtained from LGIM details of its stewardship polices and engagement activities in the 12 month period under consideration. The Trustee has reviewed the voting information and engagement activities of LGIM (as has been reported to the Investment Consultant) to ensure it aligns with its own policies. The findings of the Trustee’s review are reported in this Implementation Statement, agreed by the Trustee, which will also be included in the Plan’s Annual Report and Accounts for the year to 30 September 2023.

  Based on the voting and engagement information obtained from LGIM (summarised below), the Trustee is comfortable that the actions of LGIM are in alignment with the Trustee’s approach to stewardship and ESG/ Climate Risk, as set out in the SIP (see below), and that LGIM has evidenced that they have adequately voted and engaged on behalf of the Plan's holdings within the pooled funds to the extent it is possible to do so given some of the underlying assets used by LGIM have no voting rights.
- Furthermore, the Trustee is satisfied that the information obtained from LGIM indicates that over the 12 month period LGIM have voted and engaged in a way which promotes good corporate governance and accountability.
- The Investment Consultant has also confirmed to the Trustee that LGIM’s policies comply with the principles set out in the Financial Reporting Council's UK Stewardship Code.

Stewardship Policy

The Trustee's approach to investment stewardship and engagement is set out in the Plan's SIP. The Plan's current SIP is dated 4 July 2023 and states that the Trustee expects LGIM to undertake good stewardship and positive engagement in relation to the assets held in the pooled funds operated by LGIM. The Plan's SIP has been made available online here: https://schemedocs.com/download/baby-and-child-statement-investment-principles.pdf

The Trustee decided not to set stewardship priorities for the Plan because the Plan solely invests through pooled investment vehicles where the Plan's asset only represents a small proportion of the capital invested in the funds. The Trustee understands that they are constrained by the policies of the pooled fund manager. Additionally, only 1.9% (£0.5m as at 30 September 2023) of the Plan's assets were invested in assets with voting rights attached following de-risking action implemented over last few years. However, the Trustee takes stewardship priorities, climate risk, and ESG factors into account at manager selection. The Trustee also reviews the stewardship and engagement activities of the investment manager annually.

Prepared by the Trustee of the Baby & Child Retirement Benefit Plan
30 January 2024

Voting Data

The Plan invests entirely in pooled funds and therefore the Plan's investment manager, LGIM, votes on behalf of the Plan's holdings in the pooled funds. Based on information reported by LGIM, this section has been prepared by the Investment Consultant on the Trustee's behalf and provides a summary of the voting activity undertaken by LGIM within the Plan's Growth Portfolio on behalf of the Trustee over the year to 30 September 2023.

The LGIM Diversified Fund invests across a diverse range of asset classes and is therefore included below as the equity holdings carry voting rights. The LDI portfolio (consisting of Gilts and Index-Linked Gilts) with LGIM has no voting rights and limited ability to engage with key stakeholders given the nature of the mandate as these funds invest only in fixed income assets. The Plan's holdings in the LGIM Absolute Return Bond Funds also invest only in fixed income assets and therefore have no voting rights.

Manager	Legal & General Investment Management
Fund name	LGIM Diversified Fund
Structure	Pooled
Ability to influence voting behaviour of manager	The pooled fund structure means that there is limited scope for the Trustees to influence the manager's voting behaviour.
No. of eligible meetings	8,827
No. of eligible votes	93,066
% of resolutions voted	99.8%
% of resolutions abstained[1]	0.4%
% of resolutions voted with management[1]	76.7%
% of resolutions voted against management[1]	23.0%
Proxy voting advisor employed	ISS's 'ProxyExchange'
% of resolutions voted against proxy voter recommendation	14.4%

Source: Legal & General Investment Management

Significant votes

The change in Investment and Disclosure Regulations that came into force from October 2020 requires information on significant votes carried out on behalf of the Trustee over the year to be set out. The guidance does not currently define what constitutes a "significant" vote. However, recent guidance states that a significant vote is likely to be one that is linked to one or more of a scheme's stewardship priorities/ themes. The Trustee has decided to not set stewardship priorities/ themes for the Plan for the reasons given above. So, for this Implementation Statement, the Trustee has asked LGIM to determine what they believe to be a "significant vote". The Trustee has not communicated voting preferences to its investment manager over the period, as the Trustee does not have a specific voting policy.

[1] As a percentage of the total number of resolutions voted on

LGIM has provided a selection of votes for the LGIM Diversified Fund which they believe to be significant to the Plan's Investment Consultant, and in the interest of concise reporting, 5 of these votes have been shown in the table below.

Based on PLSA's guidance, LGIM define their process for determining a "significant vote" as follows (see page 91/ 92 of LGIM's Active Ownership report):

"As regulation on vote reporting has recently evolved with the introduction of the concept of 'significant vote' by the EU Shareholder Rights Directive II, LGIM wants to ensure we continue to help our clients in fulfilling their reporting obligations. We also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account.

For many years, LGIM has regularly produced case studies and/or summaries of LGIM's vote positions to clients for what we deemed were 'material votes'. We are evolving our approach in line with the new regulation and are committed to provide our clients access to 'significant vote' information.

In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- *A high profile vote which has such a degree of controversy that there is high client and/or public scrutiny;*
- *Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event, or where we note a significant increase in requests from clients on a particular vote;*
- *A sanction vote as a result of a direct or collaborative engagement;*
- *A vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.*

We provide information on significant votes in the format of detailed case studies in our quarterly ESG impact and annual active ownership publications."

A summary of the significant votes provided by LGIM over the year to 30 September 2023 is set out on the following pages.

Significant votes relevant to the LGIM Diversified Fund

	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5
Company name	Shell Plc	Tencent Holdings Limited	Toyota Motor Corp.	Public Storage	Amazon.com, Inc.
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.3%	0.3%	0.2%	0.2%	0.1%
Summary of the resolution	Approve the Shell Energy Transition Progress	Elect Director	Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement	Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal	Report on Median and Adjusted Gender/Racial Pay Gaps
How the manager voted	LGIM voted against the resolution.	LGIM voted against the resolution.	LGIM voted for the resolution.	LGIM voted for the resolution.	LGIM voted for the resolution.
Rationale for the voting decision	Climate change: A vote against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, they remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both are key areas to demonstrate alignment with the 1.5C trajectory.	Remuneration Committee: A vote against has been applied because LGIM expects the Committee to comprise independent directors.	LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. A vote for is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment. They acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years. However, they believe that additional transparency is necessary on the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified. Furthermore, LGIM expect Toyota Motor Corp to improve its governance structure to oversee this	Climate change: A vote in favour is applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.	A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as LGIM believe cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.

			climate lobbying review. They believe the company must also explain more clearly how its multi-pathway electrification strategy translates into meeting its decarbonisation targets, and how its climate lobbying practices are in keeping with this.		
Outcome of the vote	80.0% of shareholders supported the resolution.	88.4% of shareholders supported the resolution.	15.1% of shareholders supported the resolution.	34.7% of shareholders supported the resolution.	29.0% of shareholders supported the resolution.
Implications of the outcome	LGIM continues to undertake extensive engagement with Shell on its climate transition plans.	LGIM will continue to engage with the company and monitor progress.	LGIM will continue to engage with the company and monitor progress.	LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.	LGIM will continue to engage with the company and monitor progress.
Criteria on which the vote is considered "significant"	Thematic - Climate: LGIM is publicly supportive of so called "Say on Climate" votes. They expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.	Thematic - Climate: LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, our flagship engagement programme targeting companies in climate-critical sectors.	Pre-declaration and Thematic - Lobbying: LGIM believes that companies should use their influence positively and advocate for public policies that support broader improvements of ESG factors including, for example, climate accountability and public health. In addition, LGIM expect companies to be transparent in their disclosures of their lobbying activities and internal review processes involved.	High Profile meeting: This shareholder resolution is considered significant due to the relatively high level of support received.	Pre-declaration and Thematic – Diversity: LGIM views gender diversity as a financially material issue for their clients, with implications for the assets LGIM manage on the client's behalf.

Engagement data

The investment manager may engage with investee companies on behalf of the Trustee. The Trustee considers it a part of its investment manager's role to assess and monitor how the companies in which the funds are investing are managing developments in ESG related issues, and in particular climate risk, across the relevant parts of the capital structure for each of the companies in which the managers invest on behalf of the Plan.

Engagement activities are limited for the Plan's LDI and cash funds due to the nature of the underlying holdings, so engagement information for these assets has not been shown.

The two main components of LDI are gilts and derivatives. Given that the UK government has no human rights violations, and has shown a willingness to engage on climate change issues, engagement is not a major concern when investing in gilts.

Derivatives are contracts which the scheme or LDI pooled fund will trade with banks and ESG factors can be applied to banks. However, choosing which bank to trade derivatives with is a distinctly different decision to deciding which bank to buy shares in, whereby ESG factors would be an important consideration. This is because the derivatives that the pension scheme or LDI fund holds are collateralised and/or centrally cleared which reduces the risk that if a bank defaults, there is an adverse effect on the scheme or LDI fund. Engagement therefore has a largely limited impact on the holdings.

The table below summarises the engagement undertaken by LGIM over the year to 30 September 2023, with examples provided on the following page. The information set out below has been prepared by the Investment Consultant on the Trustee's behalf, based on information reported by LGIM.

Manager	Legal & General Investment Management		
Fund name	LGIM Diversified Fund	LGIM Absolute Return Bond Fund	LGIM Absolute Return Bond Plus Fund
Number of engagements undertaken on behalf of the holdings in this fund in the year	2,074	160	120
Number of entities engaged on behalf of the holdings in this fund in the year	1,665	80	75
Number of engagements undertaken at a firm level in the year	2,299	2,299	2,299
Number of entities engaged at a firm level in the year	2,164	2,164	2,164
Engagement topics	Top five engagement topics: Climate impact pledge, remuneration, deforestation, climate change, and company disclosure and transparency.	Top five engagement topics: Climate change, remuneration, climate impact pledge, corporate strategy, and deforestation.	Top five engagement topics: Climate change, climate impact pledge, remuneration, deforestation, and nominations and succession.

Source: Legal & General Investment Management

Examples of engagement activity undertaken over the year to 30 September 2023

Legal & General Investment Management

Exxon Mobil

At Exxon Mobil, LGIM's shareholder proposal, co-filed by LGIM America with Christian Brothers Investment Services ('CBIS'), called on the company to provide full disclosure on their asset retirement obligations (AROs). In LGIM's view, this is a highly relevant and financially material matter, and by filing this proposal they are seeking greater clarity into the potential costs Exxon may incur to retire its assets in the event of an accelerated energy transition. Such information is currently not factored into the company's financials.

The proposal received over 16% support from shareholders, which, although lower than LGIM would have liked, demonstrated an increasing recognition of the importance of this issue for investors. In terms of LGIM's next steps, they will continue direct engagements with the company under their Climate Impact Pledge and separately, to better understand and challenge Exxon on their approach to the energy transition, where financial material issues such as disclosure and the potential costs to retire their long-lived assets and decarbonisation levers being some of the key discussion points. LGIM will also be engaging with proxy advisers and fellow investors to better understand their voting rationale.

Kansai Electric Power

Kansai Electric Power is one of the largest electric utilities companies in Japan. LGIM identified several governance areas for improvement and the company appears to lag some of their minimum expectations on board composition. LGIM believe that through its improvement, it could have a positive influence more broadly upon its sector in Japan.

Following a bribery scandal in 2020 involving former directors, the company underwent significant changes to improve governance. These changes have been positive, but LGIM still observe some areas where they think improvements could be made, relative to their minimum expectations. Specifically, these include:

- Director independence and the presence of executives on committee which LGIM think should be fully independent (e.g., the Remuneration Committee),
- Cross-shareholdings,
- Limits to tenure of senior advisors to the board ('Komon').

LGIM are pleased to note that the company meets their expectations for gender diversity in Japan of 15% female representation on the board, which they also expect to increase over time.

In terms of climate change, LGIM have explained their expectations under the Climate Impact Pledge regarding verification of interim targets, and in its 2022 AGM they had supported shareholder proposals relating to disclosure of a Paris-aligned net zero transition plan and to linking remuneration to ESG factors. They noted the Company's lack of interim emissions targets and lack of time-bound commitment to exit coal-fired power generation as an area for discussion. While the company does disclose its CO_2 emissions in its reporting, they would still note the lack of published and independently verified interim emissions targets as an area which falls behind their minimum expectations for the electric utilities sector. In LGIM's meeting with Kansai Electric Power, they were able to discuss these areas in detail to better understand its approaches to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan.

LGIM's meeting was productive and they will continue working with management on both governance and climate change, and gaining a deeper understanding of the reasons behind its decisions and actions.