

Leggett & Platt UK Pension and Assurance Scheme

Annual Engagement Policy Implementation Statement to 5 April 2023

1. Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the 12-month period to 5 April 2023 (the "**Scheme Year**"). This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant version of the SIP that was in place for the Scheme Year, which was the SIP dated July 2020. An online version of the SIP can be accessed [here](#).

2. Statement of Investment Principles

2.1. Investment Objectives of the Scheme

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have adopted the following objectives:

- To meet the obligations of the beneficiaries of the Scheme.
- To pay due regard to the interests of the sponsoring Company in the size and incidence of the sponsoring Company's contribution payments.
- To provide benefits in full as they fall due and reduce the dependency of the Scheme on excess investment return.

The Trustees are aiming to restore and then maintain a funding level of, or in excess of, 100% on an ongoing basis through the adoption of a prudent funding and investment strategy. The aim will be to take on any investment risk in a controlled way. In addition to this, as the funding position improves, the aim is to gradually reduce the level of investment risk taken such that over the longer term the majority of the investment risk should be removed and the funding position restored.

2.2. Review of the SIP

The Trustees reviewed the Scheme's SIP in July 2020. The SIP was updated to reflect the new regulatory requirements regarding Investment Manager Monitoring and Engagement.

2.3. Policy on ESG, Stewardship and Climate Change

The Scheme's Statement of Investment Principles ("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.

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 manager 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 consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring the existing investment manager. Monitoring is undertaken on a regular basis.

Member views are not taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions on the investment manager in relation to particular products or activities.

3. Engagement Activity

Monitoring and implementation

- The Trustees consider how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers, implementing investment strategy decisions, and monitoring the existing investment manager. Over the year, no changes were made to the Scheme's strategic asset allocation and no new investment managers were appointed by the Trustees.
- As part of the monitoring process, the Trustees consider the ESG ratings provided by Mercer and how the investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically but the Trustees will discuss rating changes and decide if any action should be taken.
- The Manager will be expected to report on their own ESG policies as and when requested by the Trustees.

Stewardship

- Over the period, the Trustees did not set any investment restrictions on the appointed investment manager in relation to particular products or activities.

4. Voting Activity

The Trustees have delegated their voting rights to the investment manager. The Trustees expect that the votes attached to the Scheme's holdings are exercised whenever practical by the Scheme's investment managers and that managers should engage with the companies in which they have invested with the aim of ensuring ESG factors, including climate change considerations are properly taken into account in the companies' business strategies.

The Trustees meet with the investment managers at Trustee meetings as required and may challenge decisions made including engagement activity.

The Voting and Engagement policies and activities of the Scheme's investment manager is most relevant for the mandates where equities are held directly in the LGIM FTSE RAFI Equity Index and indirectly through the LGIM DGF.

- The Trustees receive investment manager performance reports on a 6 monthly basis from LGIM, which presents performance information over the 3 month, 6 month, 1 year, 3 year and since inception periods. The Trustees review the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated tracking error (over the relevant time period). If the manager is not meeting their investment objectives for the mandate or have changed their objectives, the Trustees may review the mandate including the annual management charge levied by the manager.

- LGIM will prepare quarterly reports to the Trustees including: Valuation of all investments held on behalf of the Scheme; records of all transactions together with a cash reconciliation; review of the recent actions undertaken on behalf of the Scheme together with a summary of their current stated policy.
- The Trustees consider how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers and monitoring the existing investment manager. Monitoring is undertaken on a regular basis.

The Trustees do not use the direct services of a proxy voter.

LGIM take the responsibility to exercise the voting rights of their clients' assets very seriously. They direct the vote of a significant proportion of a company's shares by exercising the shareholder rights of almost all their clients in order to improve the effectiveness of voting in supporting their engagement activities and bringing about change in the market as a whole. LGIM are wholly committed to using their power to encourage companies to improve their management of ESG issues, and they continue to dedicate significant resources to their stewardship obligations.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.

Significant Votes

The Trustees annually look at the significant votes of the underlying holdings of the Scheme. The Trustees have decided to consider the following areas of focus for the Scheme, aligned with United Nations Sustainable Development Goals ("SGDs"):

- **Climate change:** low-carbon transition and physical damages resilience
- **Pollution & natural resource degradation:** air, water, land (forests, soils and biodiversity)
- **Human rights:** modern slavery, pay & safety in workforce and supply chains and abuses in conflict zones
- **Diversity, Equity and Inclusion (DEI):** inclusive & diverse decision making

As part of this monitoring, the Trustees will engage with the Scheme's investment managers where appropriate to understand the activity undertaken in relation to these topics, for the 10 largest holdings of the funds with voting rights attached.

Over the last 12 months, the key voting activity within each mandate is set out below:

LGIM FTSE RAFI Equity Index

- There were 39,878 resolutions that LGIM were eligible to vote over the 12 month period, of which, LGIM voted at c. 99.7% of these.
- Of LGIM's total number of votes, c. 79% were votes with management and c. 20% were against management. There was a small portion of abstained votes (<2%).
- Below is a list of the voting activity the Trustee deemed as significant:

Company	Portion of Fund (%)	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome	Why Vote is Significant
Exxon Mobil Corporation	1.4%	25 May 2022	LGIM voted FOR the resolution to Set GHG Emissions Reduction targets Consistent With Paris Agreement Goal	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.	Resolution not passed LGIM will continue to engage with company and monitor company and market-level progress.	The Trustees have deemed votes related to climate change to be a significant vote.
Royal Dutch Shell Plc	1.3%	24 May 2022	LGIM voted Against the resolution regarding the approval of the Shell Energy Transition Progress Update	LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, LGIM remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.	Resolution passed LGIM will continue to engage with company and monitor company and market-level progress.	The Trustees have deemed votes related to climate change to be a significant vote.
Alphabet Inc.	0.9%	1 June 2022	LGIM voted For the resolution regarding Report on Physical Risks of Climate Change	LGIM voted in favour, as they expect companies to be taking sufficient action on the key issue of climate change. LGIM considers this vote significant as it is climate-related engagement activity and LGIM's public call for high quality and credible transition plans to be subject to a shareholder vote.	Resolution passed	The Trustees have deemed votes related to climate change to be a significant vote.

LGIM Diversified Growth Fund

- There were 99,252 resolutions that LGIM were eligible to vote over the 12 month period, of which, LGIM voted at c. 99.8% of these.
- Of LGIM's total number of votes, c. 77% were votes with management and c. 22% were against management. There was a small portion of abstained votes (<1%).

Company	Portion of Fund (%)	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome	Why Vote is Significant
Royal Dutch Shell Plc	0.3%	24 May 2022	LGIM voted Against the resolution regarding the approval of the Shell Energy	LGIM acknowledge the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products,	Resolution passed LGIM will continue to engage with	The Trustees have deemed votes related to climate change to be a significant vote.

			Transition Progress Update	demonstrating a strong commitment towards a low carbon pathway. However, LGIM remain concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.	company and monitor company and market-level progress.	
Novartis AG	0.15%	7 March 2023	LGIM voted Against the resolution to reelect Joerg Reinhardt as Director and Board Chair	LGIM expects a company to have a diverse board, with at least one-third of board members being women. They expect companies to increase female participation both on the board and in leadership positions over time.	Not available at the time of writing	The Trustees have deemed votes related to Diversity, Equity and Inclusion to be a significant vote.

Prepared for and on behalf of the Trustees of the Leggett & Platt Pension and Life Assurance Scheme in May 2023.