

The Law Debenture Pension Plan

Statement of Investment Principles – Implementation Statement

The purpose of this Statement is to provide information which is required to be disclosed in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as subsequently amended, including amendments to transpose the EU Shareholder Rights Directive (SRD II) into UK law. In particular, it confirms how the investment principles, objectives and policies of the Trustee's Statement of Investment Principles (SIP) dated December 2021 and updated in September 2023 have been implemented.

It also includes the Trustee's voting and engagement policies, as well as details of any review of the SIP during the year, subsequent changes made and the reasons for the changes (if any). A description of the voting behaviour during the year, either by or on behalf of the Trustee, or if a proxy voter was used, is also included within this Statement.

This Statement covers the period 1 January 2023 to 31 December 2023.

Investment objectives of the Plan

The Trustee's objectives for setting the investment strategy of the Plan have been set broadly with regard to the Plan's Statutory Funding Objective set out in the Statement of Funding Principles.

The Trustee's primary objectives are set out on page 1 of the SIP and are as follows:

- The Plan should be able to meet benefit payments as they fall due.
- The Plan's funding position (i.e., the value of its assets relative to the assessed value of its liabilities) should remain at an appropriate level. The Trustee is aware that there are various measures of funding, and has given due weight to those considered most relevant to the Plan.

In addition to these primary objectives, the Trustee has the following objectives:

- The Plan should be fully funded on a Technical Provisions basis, with a secondary objective of being fully funded on a self-sufficiency basis (defined as gilts + 0.5% p.a.) in the longer term.
- The expected return of the Plan assets is maximised whilst managing and maintaining risk at an appropriate level.

The Trustee appreciates that these objectives are not necessarily mutually exclusive.

The Trustee also recognises that it is currently necessary to accept some risk in the investment strategy to achieve the long-term funding objective.

Review of the SIP

The SIP was last reviewed in September 2023. The Trustee updated the SIP to reflect changes in the Plan's investment strategy that were made during the year.

Prior to this, the SIP had last been updated in December 2021 to take account of new investment regulations in relation to Environmental, Social and Governance (ESG) considerations and previous revisions to the Plan's investment strategy.

The Trustee has a policy on financially material considerations relating to ESG issues, including the risk associated with the impact of climate change. In addition, the Trustee has a policy on the exercise of rights and engagement activities, and a policy on non-financial considerations. These policies are set out later in this Statement and are detailed in the Trustee's SIP.

The Trustee's policies on financially and non-financially material considerations were not updated in the SIP that came into force during the year (with the exception of some minor changes to the wording used). The Trustee's policies on engagement and voting activities was updated in the SIP that came into force during the year to detail the Trustee's priority ESG themes of climate change, human rights and diversity, and equity and inclusion.

Investment managers and funds in use

The Trustee's investment strategy as at the start of the year is shown in the table below. This strategy is reflected in the 2021 SIP, but was not reflected in practice due to the Trustee having disinvested the emerging market equities allocation, and part of the diversified growth funds allocation, prior to the start of the Plan year.

| Asset Class | Fund | Target Asset Allocation |
|---------------------------------|---|-------------------------|
| Equities | LGIM UK Equity Index Fund | 18% |
| | LGIM North America Equity Index Fund | 6% |
| | LGIM Europe (ex UK) Equity Index Fund | 4% |
| | LGIM Japan Equity Index Fund | 3% |
| | LGIM Asia Pacific (ex Japan) Equity Index Fund | 3% |
| | Morgan Stanley Investment Management Emerging Markets Equity Fund | 6% |
| Diversified Growth Funds | Ruffer Absolute Return Fund | 15% |
| | Invesco Global Targeted Returns Fund | |
| Infrastructure | J.P. Morgan Infrastructure Investments Fund | 10% |
| Corporate bonds | LGIM Active Corporate Bond – All Stocks – Fund | 10% |
| LDI solution | LGIM Matching Core Fixed Short Fund | 25% |
| | LGIM Matching Core Fixed Long Fund | |
| | LGIM Matching Core Real Short Fund | |
| | LGIM Matching Core Real Long Fund | |
| | LGIM Sterling Liquidity Fund | |
| Total | | 100% |

During the year, the Trustee revised the Plan's investment strategy following an improvement in the Plan's funding position. The investment strategy as at the end of the Plan year is shown in the table overleaf, which reflects the Trustee's SIP in force at the end of the year dated September 2023.

| Asset Class | Fund | Target Asset Allocation |
|------------------------|--|-------------------------|
| Equities | LGIM UK Equity Index Fund | 8% |
| | LGIM North America Equity Index Fund | 3% |
| | LGIM Europe (ex UK) Equity Index Fund | 2% |
| | LGIM Japan Equity Index Fund | 1% |
| | LGIM Asia Pacific (ex Japan) Equity Index Fund | 1% |
| Infrastructure | J.P. Morgan Infrastructure Investments Fund | 15% |
| Corporate bonds | LGIM Active Corporate Bond – All Stocks – Fund | 30% |
| LDI solution | LGIM Matching Core Fixed Short Fund | 40% |
| | LGIM Matching Core Fixed Long Fund | |
| | LGIM Matching Core Real Short Fund | |
| | LGIM Matching Core Real Long Fund | |
| | LGIM Sterling Liquidity Fund | |
| Total | | 100% |

Investment governance

The Trustee is responsible for making investment decisions, and seeks advice as appropriate from Broadstone Corporate Benefits Limited ('Broadstone'), as the Trustee's investment consultant, which was appointed after the year end. Lane Clark and Peacock LLP ('LCP') was the Trustee's investment consultant during the year.

The Trustee does not actively obtain views of the membership of the Plan to help form its policies set out in the SIP as the Trustee's primary objective is to meet the benefits of the Plan as they fall due, and the current investment strategy in place is intended to meet this objective. In addition, the Trustee notes that the Plan is comprised of a diverse membership, which the Trustee expects to hold a broad range of views on ethical, political, social, environmental, and quality of life issues.

The Trustee had put in place strategic objectives for LCP, as the Trustee's investment consultant during the year, as required by the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, which were reviewed by the Trustee on 9 December 2022. These objectives covered demonstration of adding value, delivery of specialist investment consultancy services, proactivity of investment consultancy advice, support with Plan management, compliance and service standards.

Trustee's policies

The table below sets out how, and the extent to which, the relevant policies in the Plan's SIP have been followed:

| Requirement | Policy | Implementation of Policy |
|--|--|--|
| Balance of Investments | <p>The Trustee will set a Benchmark Allocation from time to time, determined with the intention of meeting its investment objectives.</p> <p>The Benchmark Allocation will be set taking account of the characteristics of different asset classes available and will be reviewed in light of any changes to the Trustee's view of the employer covenant, the nature of the Plan's liabilities or relevant regulations governing pension scheme investment.</p> | <p>SIP Dated December 2021: The allocation to emerging market equities was not implemented at the start of the year, which was subsequently reflected in the SIP dated September 2023.</p> <p>SIP Dated September 2023: No deviation from this policy.</p> |
| Delegation to Investment Managers | <p>The Trustee will delegate the day-to-day management of the Plan's assets to professional investment managers and will not be involved in the buying or selling of investments.</p> <p>The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well the role it plays in helping the Plan meet its overall long-term objectives taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations. The Trustee monitors the investment managers on a regular basis.</p> | No deviation from this policy over the year to 31 December 2023. |
| Realising Investments | <p>The investment managers have discretion over the timing of realisation of investments of the Plan and in considerations relating to liquidity of investments.</p> <p>When appropriate, the Trustee, on the administrators' recommendation, decides on the amount of cash required for benefit payments and other outgoings and informs the investment managers of any liquidity requirements.</p> | No deviation from this policy over the year to 31 December 2023. |
| Performance Assessment | The Trustee assesses the performance of the Plan's investments, investment providers and professional advisers from time to time. The Trustee will also carry out periodically an assessment of its own effectiveness as a decision-making body and will decide how this may then be reported to members. | No deviation from this policy over the year to 31 December 2023. |
| LDI Collateral Adequacy | <p>SIP dated December 2021: The Plan has a sufficient allocation to cash and other highly liquid assets that could be used to meet LDI collateral calls.</p> <p>SIP dated September 2023: The Trustee has a leverage management plan in place, which is reviewed and updated periodically. This sets out clearly the assets that support the Plan's LDI arrangements and the order of priority for where assets are sourced to meet collateral calls.</p> | No deviation from either policy over the year to 31 December 2023. |

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| <p>Performance Benchmarks and Objectives</p> | <p>The equity funds are index-tracking funds, meaning that their objective is to track the total return on a specified market index within an agreed margin over a specified time-scale.</p> <p>The infrastructure, corporate bond, (formerly held) multi-asset, and cash funds are actively managed and the investment managers have been set Performance Objectives to achieve returns in line with, or in excess of, a benchmark.</p> <p>The LDI funds have an objective to provide a prescribed level of hedging against changes in the value of the liabilities of a typical defined benefit pension scheme caused by interest rate and inflation risks. The practical method of implementing this level of hedging is delegated to the Investment Manager, with the expectation that the Investment Manager will choose the most cost-effective method.</p> | <p>The Trustee receives performance reports from the investment managers, and LCP provided any comments on the funds at each Trustee meeting, as required.</p> |
| <p>Rebalancing of Investments</p> | <p>New money / disinvestments to / from the investment managers are used by the Trustee to maintain the Plan's actual asset allocation as close as possible to the Benchmark Allocation.</p> | <p>No deviation from this policy over the year to 31 December 2023.</p> |
| <p>Financially and Non-Financially Material Considerations</p> | <p>The Trustee's policy on financially and non-financially material considerations is set out from page 5 of the SIP and in full below.</p> | <p>No deviation from this policy over the year to 31 December 2023.</p> |

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|---|---|---|
| <p>Engagement and Voting Rights</p> | <p>The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG factors.</p> <p>The Trustee does not monitor or engage directly with issuers or other holders of debt or equity, but it does engage with current and prospective investment managers on matters including ESG and stewardship. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee expects the managers to communicate their policies on stewardship from time to time, and provide reporting on the results of their engagement and voting activities regularly and at least once a year.</p> <p>The Trustee seeks to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code 2020 issued by the Financial Reporting Council, and from time to time the Trustee may review how these are implemented in practice.</p> <p>SIP dated December 2021: Where the Trustee holds assets in pooled funds, the Trustee has limited influence over managers' stewardship practices, but it encourages its managers to improve their practices where appropriate.</p> <p>SIP dated September 2023: The Trustee expects the managers to undertake voting and engagement in line with their stewardship policies, considering the long-term financial interest of investors.</p> <p>The Trustee has selected some priority ESG themes to provide a focus for its monitoring of investment managers' voting and engagement activities. The Trustee reviews the themes regularly and updates them if appropriate. The current priorities are climate change, human rights and diversity, equity and inclusion. The Trustee communicates these stewardship priorities to its managers.</p> <p>If its monitoring identifies areas of concern, the Trustee will engage with the relevant manager to encourage improvements.</p> | <p>No deviation from either policy over the year to 31 December 2023.</p> |
| <p>Additional Voluntary Contributions (AVCs)</p> | <p>The Plan holds AVCs separately from the assets, using a policy provided by Legal & General Assurance Society.</p> | <p>No deviation from this policy over the year to 31 December 2023.</p> |

Financially and non-financially material considerations

The Trustee has considered how Environmental, Social and Governance (“ESG”) and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan and its members.

The Trustee influences the Plan's approach to ESG and other financially material factors through its investment strategy and manager selection decisions. The Trustee expects all of its investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandate they are set. The Trustee seeks to appoint managers that have the skills and processes to do this, and periodically reviews how the managers are taking account of these issues in practice.

The Trustee has limited influence over the managers' investment practices where assets are held in pooled funds, but encourages the managers to improve their ESG practices within the parameters of their funds.

The Trustee does not take into account any non-financial matters (i.e., matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

The Trustee's views on how ESG issues are taken account of in each asset class used is set out below:

| Asset Class | Active/Passive | Trustee's views |
|------------------------|-----------------------|--|
| Equities | Passive | The Trustee acknowledges that the investment manager must invest in line with specified indices and, therefore, may not be able to disinvest from a particular security if they have concerns relating to ESG. The Trustee does expect the investment manager to take into account ESG considerations by engaging with companies that form the index, and by exercising voting rights on these companies. |
| Infrastructure | Active | The Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the underlying assets. However, the Trustee expects the investment manager to have regard to ESG issues when the underlying assets are being sold and purchased within the portfolio, together with any opportunities to re-develop existing assets with ESG issues in mind. |
| Corporate bonds | Active | The Trustee expects the investment manager to take financially material ESG factors into account, given the active management style of the fund and the ability of the manager to use its discretion to generate higher risk adjusted returns. The Trustee also expects its investment manager to engage with investee companies, where possible, although they appreciate that fixed income assets do not typically attract voting rights. |
| LDI solution | Active | With respect to the LDI assets, the underlying assets consist of government bond funds and derivative contracts, with no underlying investee companies as such. Therefore, the Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities. With respect to the cash fund, the Trustee believes there is less scope for the consideration of ESG issues to improve risk-adjusted returns in this asset class because of the nature of the securities. |

The Trustee does not currently impose any specific restrictions on the Investment Managers with regard to ESG issues but will review this position from time to time. The Trustee receives information from the Investment Managers on their approach to selecting investments and engaging with issuers with reference to ESG issues.

With regard to the specific risk to the performance of the Plan's investments associated with the impact of climate change, the Trustee seeks to appoint investment managers who will manage this risk appropriately, and from time to time reviews how this risk is being managed in practice.

Voting rights and engagement activities

The Trustee currently invests in pooled investment funds, and it acknowledges that this limits its ability to directly influence the investment managers.

The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest risks and ESG factors. The Trustee expects the managers to undertake voting and engagement in line with its stewardship policies, considering the long-term financial interests of investors.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity, but it does engage with current and prospective investment managers on matters including ESG and stewardship. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustee expects the managers to communicate their policies on stewardship from time to time, and provide reporting on the results of their engagement and voting activities regularly and at least once a year.

The Trustee expects its investment consultant to assist it in monitoring the voting and engagement activities of its investment managers.

Within the current investment arrangements, the regional LGIM Equity Index Funds contain equity holdings. Additionally, during the year the Plan held the Ruffer Absolute Return Fund which also contained equity holdings. Therefore, these funds have voting rights attaching the underlying equities.

Both LGIM and Ruffer set their own voting policy and will often engage with investee companies directly.

A summary of the votes made by the investment managers from 1 January 2023 to 31 December 2023 on behalf of the Trustee (where the investment owns equities) are provided in the table below. The analysis is based on the latest information available from the investment managers.

| Fund | Third Party Proxy Policy Used | Resolutions Voted On | Resolutions Voted: | | |
|--|--|----------------------|--------------------|---------|-----------|
| | | | For | Against | Abstained |
| LGIM UK Equity Index Fund | No – in house but cast votes using ISS | 10,495 | 94% | 6% | - |
| LGIM North America Equity Index Fund | No – in house but cast votes using ISS | 8,734 | 66% | 34% | - |
| LGIM Europe (ex UK) Equity Index Fund | No – in house but cast votes using ISS | 9,947 | 80% | 19% | 1% |
| LGIM Japan Equity Index Fund | No – in house but cast votes using ISS | 6,098 | 88% | 12% | - |

| | | | | | |
|---|--|-------|-----|-----|----|
| LGIM Asia Pacific (ex Japan) Equity Index Fund | No – in house but cast votes using ISS | 4,578 | 77% | 23% | - |
| Ruffer Absolute Return Fund | No – in house but cast votes using ISS | 1,051 | 95% | 3% | 2% |

Significant votes

The Trustee believes the following are the most significant votes undertaken on its behalf over the scheme year:

| SIGNIFICANT VOTE 1 | |
|---------------------------|---|
| Investment Manager | LGIM |
| Company | Shell Plc |
| Date of vote | 23 May 2023 |
| Resolution | Approve the Shell Energy Transition Progress |
| Why significant | LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5°C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant particularly when LGIM votes against the transition plan. |
| Voting decision | Against |
| Manager comments | <i>“We 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, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations.”</i> |
| Vote outcome | Resolution Passed |

| SIGNIFICANT VOTE 2 | |
|---------------------------|---|
| Investment Manager | Ruffer |
| Company | Bayer AG |
| Date of vote | 28 April 2023 |
| Resolution | Approve Remuneration Report |
| Why significant | Ruffer believe that this vote will be of particular interest to their clients. Ruffer support companies in the provision of long term incentives for senior management. |
| Voting decision | For |

| | |
|-------------------------|---|
| Manager comments | <i>“Ruffer have voted against the report for the past two AGMs. Our reasoning for this vote is, over this period Bayer has changed its Chairman (Winkeljohann) and recruited an external CEO (Anderson), which shows evidence of a thoughtful engagement on remuneration with shareholders in their report. The changes in senior leadership we view as key to delivering upon Bayer’s strategy, reflecting a positive change in corporate governance at the company. The increased shareholder engagement we see as a signal of improved transparency and disclosure between the company and its shareholders, boding well for future interactions. In this case, we view these changes as overall positive and wish to support the Board in its endeavours to deliver value to shareholders.”</i> |
| Vote outcome | Resolution Passed |

Engagement activities

The Trustee has also delegated engagement activities to its investment managers. The notable engagement activities of its investment managers are provided below:

- LGIM** met with the management team of Heidelberg Cement, a large international cement producer, during the year to discuss the progress and economic viability of the company’s planned carbon capture and storage (CCS) projects. LGIM note that cement production is responsible for around 8% of global carbon emissions each year, and therefore believe the cement industry needs to decarbonise significantly for the world to reach net zero carbon emissions. As a result, the sector is designated as ‘climate critical’ by LGIM.

Heidelberg believes it has an industry leading decarbonisation policy as well as the first-mover advantage in CCS. LGIM raised questions regarding the relative costs and economics of CCS, external factors affecting viability of CCS projects (such as possible regulation or government subsidisation), and expectations of demand for ‘carbon-free’ cement.

LGIM will continue to engage with Heidelberg Cement as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg Cement, LGIM believe CCS will only become economical when met with either an increase in the price of permits for generating carbon emissions, or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management going forwards.

- Ruffer** met with BP at the beginning of February 2023 to discuss the previous quarter’s performance and full year results for 2022, following a lot of negative media attention after the company gave an update on strategic progress towards renewables and away from oil and gas production.

Ruffer spoke with BP’s chief financial officer and the newly appointed executive vice president of gas and low carbon energy. They confirmed to Ruffer that BP is aiming to marginally extend the life of its existing oil and gas assets to meet demand due to Russia’s invasion of Ukraine, but is doing so efficiently and not investing in intensive new projects.

Ruffer believe that BP is taking a pragmatic and flexible approach to achieving its reiterated goal of a Net Zero transition, acknowledging that the transition will require a significant amount of energy, much of which will unavoidably be fossil fuel based. Ruffer think the events of the past year have highlighted how important flexibility will be to achieving decarbonisation in an increasingly volatile world.

The Trustee also considers an investment manager’s policies on stewardship and engagement when selecting and reviewing investment managers.

Monitoring of investment arrangements

In addition to any reviews of investment managers or approaches, and direct engagement with investment managers (as detailed above), the Trustee receives performance reports on a quarterly basis from LGIM to ensure the investment objectives set out in its SIP are being met.

Signed: Signature removed for external publication copy

Date: 3 July 2024

On behalf of The Law Debenture Pension Plan