

CELLTECH PENSION AND LIFE ASSURANCE SCHEME

TRUSTEE'S REPORT YEAR ENDED 30 SEPTEMBER 2022

Engagement Policy Implementation Statement ('EPIS')

The Engagement Policy Implementation Statement ("EPIS") has been prepared by Celltech Pension Trustees Limited (the "Trustee"), as Trustee of the Scheme, and covers the Scheme year 1 October 2021 to 30 September 2022.

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual statement which outlines the following:

- Explain how and the extent to which the Trustee has followed its engagement policy which is set out in the Statement of Investment Principles ("SIP"); and
- Describe the voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

Executive summary

Based on the Trustee's and its investment managers' activity over the year, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that all managers have supplied stewardship information and have shown sufficient evidence of applicable voting and engagement activity.

Managers will generally provide engagement examples on a calendar year basis. Some examples shown below may be 'lagged' to some extent relative to the Scheme year end and when the EPIS was prepared. In any event, the Trustee expects managers to demonstrate evidence of engagement activity each reporting year, which the managers have done.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Scheme stewardship policy

The below bullet points summarise the Scheme Stewardship Policy in force over most of the Scheme year to 30 September 2022.

The full SIP can be found online:

<https://pensioninformation.aon.com/celltech/fileviewer.aspx?FileID=12824&FileName=Post%20Trustee%20-%20Celltech%20SIP.pdf>

- The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance. This includes the promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.
- The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and takes advice from its investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed investment managers.
- The Trustee reviews the stewardship activities of its investment managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of its policies to those of the Scheme's investment managers and ensure its investment managers use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting and – where relevant and appropriate – engagement with underlying investee companies to promote good corporate governance, accountability, and positive change.

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Engagement Policy Implementation Statement ('EPIS') (Continued)

Scheme stewardship policy (continued)

- When necessary, the Trustee will engage with its investment managers and request more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This takes the form of annual reporting, which will be made available to Scheme members on request.

Scheme stewardship activity over the year

Training

During the year the Trustee Directors received training from Aon Investments Limited ("AIL") on the underlying components within their pooled fund investments. As part of this training the Directors were provided with additional information on the Aon ESG rating process as well as how their investments address ESG risks and look to improve the ESG profile of the funds. The Directors took this opportunity to ask questions and ensure they were comfortable with the approach taken by their delegated manager, AIL, with respect to these matters.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring report being provided to the Trustee by Aon. The reports include Environmental, Social and Governance ("ESG") ratings and highlight any areas of concern, or where action is required. The ESG rating system is for Aon's buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process.

The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversations with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Engagement activity – Delegated manager

The Trustee invests a proportion of the Scheme's assets in AIL's Delegated Consulting Service ("DCS"). Under the DCS arrangement, with the Trustee's instructions, AIL invests the Scheme's assets in a range of funds which includes AIL's Managed Growth and Low Risk Bond strategies. These are multi-manager funds which invest across a range of assets classes, global investment markets, and investment managers. AIL selects the underlying investment managers to manage these investments on behalf of the Trustee.

The Trustee has reviewed the AIL's 2021 Annual Stewardship Report and is content that AIL is using its resources to appropriately influence positive outcomes across the strategies in which it invests. AIL's 2022 Annual Stewardship Report is expected to be released in Q3/Q4 2023 at which point it will be discussed with the Trustee.

Over the year, AIL held several ESG focussed meetings with the underlying managers in its strategies. At these meetings, AIL discussed ESG integration, stewardship, climate and biodiversity matters, and modern slavery with the investment managers. This allowed AIL to form an opinion on each manager's strengths and areas for improvement across these areas. AIL provided feedback to the investment managers following these meetings with the goal of improving the standard of ESG integration across its portfolios. AIL continues to execute its ESG integration approach and engage with managers.

In Q3 2021, AIL was confirmed as a signatory to the UK Stewardship Code (the "Code").

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Engagement example

In September 2022, AIL engaged with an underlying investment manager to track the progress the manager had made since their last engagement meeting. AIL found that the manager had made progress on the development of its stewardship capabilities and had also broadened its ESG team, which has integrated specific engagement themes within its investment selection process.

AIL noted that the manager does not plan to formalise any climate policy and is not a member of any Net-Zero initiatives, as the manager believes such public commitments do not align with their fiduciary role. However, the manager has reassured AIL that climate risk and its impact remains at the core of its engagement efforts.

AIL welcomes progress on more company-specific engagement. AIL would, however, like to see a more detailed definition for the manager's escalation process for unsuccessful engagements.

Voting and Engagement activity – Equity funds

Over the period, the Scheme was invested in AIL's Managed Growth strategy with underlying investments across various asset classes, such as equity, fixed income and liquid alternatives. This includes the LGIM Multi Factor Equity and BlackRock Emerging Market Equities funds. The Scheme invested directly in the LGIM Multi Factor Equity fund outside of the AIL DCS arrangement.

In this section there are examples of significant voting activity from some of the Scheme's material investment managers. The managers provided examples of 'significant' votes they participated in over the period. Each manager has their own criteria for determining whether a vote is significant. The Trustee considers a significant vote as one which the voting manager deems to be significant.

Voting statistics can be found in the Appendix.

Legal & General Investment Management Limited ("LGIM") – Multi Factor Equity Fund

Voting approach

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from Institutional Voting Information Service ("IVIS"). This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if their engagements with a particular company provides additional information.

Voting example

In January 2022, LGIM voted against the management of Accenture, a professional services company, on a resolution to elect Arun Sarin as a Director. In addition to the proposed role, Arun is CEO of Vodafone. LGIM voted against the proposal because it expects Board members not to hold too many external positions to ensure they can undertake their duties effectively. The vote passed with 86% votes in favour of the resolution. LGIM will continue to engage with its investee companies, publicly advocate its position on this issue, and monitor company and market-level progress.

Engagement approach

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues;
2. Formulate the engagement strategy;
3. Enhancing the power of engagement;
4. Public policy and collaborative engagement;
5. Voting; and
6. Reporting to stakeholders on activity.

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Engagement Policy Implementation Statement ('EPIS') (Continued)

LGIM monitors several ESG topics and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, Board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy <https://www.lgim.com/landq-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf>.

At the time of writing, LGIM had not provided engagement specific engagement examples for the funds held by the Scheme. The Trustee's delegated manager, AIL, has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM confirmed it currently undertakes firm level engagement, rather than at a fund level. AIL continues to monitor the progress LGIM is making and will encourage improvements with regard to fund level engagement reporting. The example provided below is at a firm level, i.e., it is not specific to the fund the Scheme is invested in.

Engagement example (firm level)

Over 2021/2022, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. The overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM wrote to 20 water utility companies to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of the issue was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

BlackRock – Emerging Markets Equity Fund

Voting approach

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from other investment colleagues. BlackRock's voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice, and insights gained from its engagements.

BlackRock subscribes to research from the proxy voting advisers ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

Voting example

In January 2022 BlackRock voted against a proposal for China Tower Corporation Limited ("China Tower"), a telecommunications company, to elect Gao Tongqing as a Director. BlackRock voted against the proposal due to concerns about the lack of gender diversity on the Board. BlackRock noted that the proposed Board composition would fail to comply with the local regulatory requirements on gender diversity.

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BlackRock engaged with the company to communicate its concerns about the lack of gender diversity on the Board and that the company should take a more proactive approach toward achieving gender diversity. The vote passed. BlackRock will continue to engage with China Tower, and the companies it invests in the Asia Pacific region, to provide constructive feedback as companies seek to enhance diversity in the Boardroom.

Engagement approach

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues, that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on Board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock's stated key engagement priorities include: Board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation, and the impacts on people.

More information can be found within BlackRock's stewardship priorities

<https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf>

Engagement example

BlackRock has engaged with Vale S.A. ("Vale"), a Brazilian mining company, since 2019. In January 2019, a tailings dam at one of Vale's iron ore mines collapsed and killed approximately 270 people. Tailings dams are used to store water and waste that are by products from the mining process. The collapse also caused significant environmental damage.

Over the course of 2020 and 2021, BlackRock held frequent engagements with Vale, being the latest available information. Vale provided updates on the dam collapse, including the status of the investigation and the final settlement. Vale provided additional context on: (1) the steps taken to strengthen risk management and governance policies to ensure the safety of people and operations; and (2) the remediation measures regarding the environmental damage and socio-economic impact on the local community.

Engagement activity – Fixed income and alternative funds

The Scheme also invests in a number of fixed income and alternative strategies through AIL's Managed Growth and Low Risk Bonds strategies.

The Trustee recognises that stewardship may be less applicable, or have a less tangible financial benefit, for fixed income and alternative investments compared to equity investments. Nonetheless, the Trustee still expects its non-equity investment managers to engage with external parties if they identify concerns that may be financially material.

Fixed income managers, in particular, have significant capacity for engagement with issuers of debt. Debt financing is continuous, and so it is in debt issuers' interests to make sure that investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, the downside risk mitigation and credit quality are critical parts of investment decision-making.

The following section demonstrates some of the engagement activity being carried out by the Scheme's fixed income and alternative managers over the year.

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Robeco – Global Credit Short Maturity Fund

Engagement approach

Robeco actively uses its ownership rights to engage with companies on behalf of its clients. Robeco believes improvements in sustainable corporate behaviour can result in an improved risk-return profile of its investments.

Robeco aims to improve a company's behaviour on ESG issues to improve the long-term performance of the company and ultimately the quality of investments for its clients.

Engagement example

Robeco engaged with British bank, Barclays, regarding its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system. The culture and behaviour at Barclays were key areas of focus for improvement. Barclays did a lot of work to change its culture and the bank now regularly reports on the importance of behaviour, reinforcing an open culture. In Robeco's view, Barclays approach to combatting money laundering and financial crimes is largely in line with other European banks. Robeco closed this engagement with Barclays in Q4 2021.

Aegon Asset Management ("Aegon") – European Asset Backed Securities ("ABS") Fund

Engagement approach

Aegon believes that actively engaging with companies to improve their ESG performance and corporate behaviour is generally more effective than excluding companies from investment. Engagements are conducted by its investment managers, research analysts and its Responsible Investment team.

When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment ("PRI"). Aegon also participates in collaborative engagement initiatives such as the UK Investor Forum and the Institutional Investors Group on Climate Change.

Aegon engages with ABS issuers regularly through ESG questionnaires that are specifically for consumer loan ABS. It has meetings to discuss the questionnaire responses, the companies' ESG goals and any areas for improvement.

Engagement example

In 2021/2022, Aegon engaged with Brignole, an ABS issuer, to better understand the consumer loans issued by the company, so it could assess if the loans had any positive environmental impact. Further, Aegon suggested that the company increase borrowing for environmental purposes by offering a discount to borrowers with these intentions. To start the engagement, Aegon sent Brignole its ESG questionnaire. Aegon discussed the questionnaire responses with Brignole's management.

From the engagement, Aegon gained a better understanding of the loans, which helped Aegon make a thorough ESG analysis of the issuer. Brignole agreed to implement Aegon's suggestion to offer loans with environmental purposes at a discount. Aegon stated it will pursue similar engagements with other consumer loan issuers.

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Engagement Policy Implementation Statement ('EPIS') (Continued)

Appendix

Voting Statistics for the year ended 30 September 2022

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
LGIM – Multi Factor Equity Fund	11,772	99.7	20.2	0.2
BlackRock – Emerging Markets Equity Fund	32,351	97.0	11.0	4.0

Source: Managers, Aon.

Please note that managers generally collate voting information on a quarterly basis.

The voting statistics only covers LGIM and BlackRock because they are the only two equity managers at year end.