The Hendre Limited Retirement Benefits Scheme – ML98

Implementation Statement - Addendum

ESG (Environmental, Social & Governance)

In conjunction with the Implementation Statement issued on ESG, the trustees have questioned Scottish Widows further in order to establish not only their views but more importantly, to ascertain that this aspect of investing is being taken seriously, evidenced by the actions taken or to be taken in respect of ESG investing.

The questions raised by the trustees along with the answers provided by Scottish Widows are published in this paper, for your information.

1. ***TRUSTEES:*** **What do you think are the most financial material ESG risks to our portfolio of funds in the With-Profits fund, and why?**

SCOTTISH WIDOWS: All our current frameworks and policies (e.g. the Responsible Investment framework, Stewardship Policy, Exclusions Policy, Climate Change Approach) apply to several With-Profits funds.

So far, the most financially material risks we are considering to our portfolios overall including With-Profits are those related to:

Climate and Carbon: we currently exclude companies that earn more than 10% of their revenues from thermal coal production or tar sands operations (and are currently working towards further tightening this threshold), and have announced our 2050 Net Zero target, which include interim targets of increasing our investments in climate solutions by 2025, halving our financed emissions by 2030). Another example is the investment we have made in the ACS Climate Transition Global Equity Fund adopting an innovative data driven research approach to sustainability and climate change, and aims to deliver long-term value to clients based on companies' readiness to transition to a low carbon economy.

Investments in controversial weapons: excluding companies that manufacture cluster munitions, anti-personnel landmines and chemical & biological weapons. We believe that the social costs from the operations of these companies are extremely high and they don't belong in a future we want our members to retire in.

Investments in companies that violate the UN Global Compact (UNGC) principles: UNGC principles encompass Human Rights, Labour Rights, Environment and Anti- Corruption. Depending on our size of investment, we engage with companies flagged for one or more violations in our active mandates, giving them 3 years to come off the violators list.

The importance of having cognitive diversity in boards that impacts robust decision making across all strategy, governance and ESG issues: - we are imminently publishing a Report on this subject and will engage with the industry and our most material holdings on this subject.

2. ***TRUSTEES:*** **How are you managing climate change risk and opportunities on our behalf?**

SCOTTISH WIDOWS: Our Climate Change Approach, outlining our Net Zero target, has been detailed on our website. We are founding signatories to IIGCC's Paris Aligned, Net Zero Investment Framework, which we helped developed. In addition, we sit on several other sub-working groups; Climate Solutions and Net Zero

Stewardship toolkit, this is currently in development, for us here at Scottish Widows and the industry to adopt. Our first Climate Action Plan, supporting our Net Zero strategy, will be published in Feb 2022 to provide further detail.

3. ***TRUSTEES*: In what ways are you influencing companies on our behalf?**

SCOTTISH WIDOWS*:* We influence companies in 3 ways:

- Through regular oversight of our key Managers own engagement and voting practices towards investee companies, across a range of ESG factors, above and beyond those mentioned above. This ongoing dialogue with our key managers has led to several enhancements in their own stewardship practices e.g. adoption of greater support towards shareholder resolutions, direct and greater participation in collective engagement initiatives like ClimateAction100+, more progressive exclusion policies etc

- Direct engagement with our top holdings on topics like UNGC violations; Climate Change focussed on 5 key asks related to NZ targets, disclosures and reporting, and exec accountability), and our upcoming thematic engagement on cognitive diversity on Boards

- Participation in collective engagement (like through IIGCC and related third parties) and collaborative initiatives like Taskforce for Pension Scheme Voting Implementation, Occupational Pension Scheme Stewardship Council, ABI Climate Change sub-committee et al that promote systemic changes and well-functioning markets

4. ***TRUSTEES*: What is your approach to voting in pooled funds?**

SCOTTISH WIDOWS: We have participated in the Taskforce for Pension Scheme Voting Implementation, and as an implementation of that, are currently working with BlackRock, whose pooled funds we invest in, to direct voting of our shares in the in-scope ACS funds based on a policy of our choice, the most progressive on ESG from what's available for these purposes. We are also influencing other managers, whose pooled funds we invest in, to make this facility available.

5. ***TRUSTEES*: Can we direct how our votes are used in pooled funds?**

SCOTTISH WIDOWS: So far Scottish Widows, as Asset Owners, were unable to direct their share of votes related to investments in third-party external pooled funds. Following the very recent breakthrough in the ability of asset owners to exercise greater control over voting rights in pooled funds (as mentioned above, in the BlackRock ACS funds), we recognise that our trust scheme clients may wish to understand how they can play a role.

It is important to note that Scottish Widow's has the obligations, when investing in a collective vehicle, and is accountable for any assigned voting policy as an asset owner, in order to exercise stewardship to the highest standards with the view that this helps preservation and enhancement of value for our clients. To that end, we have selected the most progressive ESG policy that BlackRock offers to clients for within its in-scope pooled funds .

We are now in the process of creating our voting guidelines applicable to our mandated funds, and we will reflect this arrangement with relevant pooled funds as well. This document would then be publicly available, and we are targeting this to be available by the end of this year. Having said this, we are conscious that pension scheme trustees and governance committees may wish their views to be heard. We are exploring ways in which we can take their views on board on a collective basis.

We are also looking to get access to member views directly via our recently launched member tool, so all of this will feed into our stewardship and voting policy and activities that we undertake to continue breaking barriers in our drive for market-leading stewardship.

6. ***TRUSTEES*: Describe a situation where you engaged with a company, the processes you followed and the outcome?**

SCOTTISH WIDOWS: In July 2020, we wrote to the CEO of a large Oil & Gas firm, asking for clarification on actions taken, to ensure that it met the commitments the company made following a shareholder resolution in 2019, to set out a business strategy consistent with the goals of the Paris Agreement on climate change.

Specifically, the company was asked to provide details of its greenhouse gas emissions targets, its plans for investment in both traditional oil and gas as well as low-carbon technology, its plans to ensure material new capital expenditure is consistent with the Paris Agreement, and how performance against these plans will be integrated into executive remuneration.

The company has subsequently set an ambition of reaching net zero by 2050 or sooner. The response to our CEO letter, includes specific interim milestones on how they plan to achieve this ambition including, but not limited to, the following targets by 2030:-

1. A 10-fold increase in investment in low carbon, from $500m to $5bn
2. A 40% reduction in Oil & Gas operations, amounting to 1 million barrels per day
3. A reduction in operational emissions of 30-35%.

In Aug 2020, we wrote to the CEO of another large Oil & Gas company, encouraging it to accelerate its efforts on low carbon transition and to showcase its strong leadership to the market, as well as asking for clarification of its plans for capital expenditure post Covid-19, to ensure this aligns to a green recovery.

In response, the company informed us that it has set a net zero target on absolute emissions by 2050, and has introduced short-term emissions targets to achieve this which are linked to remuneration.

We have been assured it is on the way to meeting the first short-term target of a 2-3% net carbon footprint reduction by 2021. It has confirmed that approximately 60% of its capital is invested into Leading Transition or Emerging Power businesses and that it's replacing coal with Liquid Natural Gas, which will provide a 45-55% greenhouse gas emissions reduction when used for power generation

As mentioned in response to Q3 above, we have in 2021 written to several other companies across several high impact sectors for climate, around specific criteria, we will monitor their progress and engage with them further one-on-one, as relevant.

For our UNGC violations engagement, we have had follow-on calls with some of the companies on the list after the first set of correspondence, and will be doing so until the 3 years allocated to come off the violators list expires. After that duration, if a company doesn't come off the list, we will seek to divest from them. One of the companies in our initiate list of nine, who we had follow-on engagement with, has already cleared its name from the list of violators.

We will continue to provide update on all of our Responsible Investment and Stewardship activities annually via our Report.

The 2020 Report is available here Scottish Widows Responsible Investment and Stewardship Report.

Scottish Widows have been successful in becoming one of the first signatories of the UK Stewardship Code 2020.

The Trustees will continue to question Scottish Widows regarding their approach to ESG investing.

Date: 25th October 2021