

SANKYO PHARMA UK LIMITED RETIREMENT SECURITY PLAN Engagement Policy Implementation Statement

Year Ending 31 December 2022

Introduction

This statement, written for the benefit of the Plan's members, sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles¹ ('SIP') produced by the Trustee, has been followed during the year to 31 December 2022. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, as amended, and the guidance published by the Pensions Regulator.

Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The primary investment objective for the Plan is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due. In doing so, the Trustee also aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Plan.

Investment Strategy

In October 2022, the Trustee undertook a significant de-risking of the Plan's assets, to invest all of the assets into bonds. The purpose of this was to protect funding gains that had been made as the rise in gilt yields led to a significant fall in the value of the Plan's liabilities.

Review of the SIP

No update to the Plan's SIP was made over the Plan Year. However, the SIP was updated on 4 May 2023 to reflect the change of investment strategy. A copy of the latest SIP is available at: [Sankyo Pharma SIP Approved 4 May 2023.pdf \(daiichi-sankyo.co.uk\)](#).

Plan's Investment Structure

The Plan's only investment is a Trustee Investment Policy ('TIP') with Mobius Life Limited ('Mobius'). Mobius provides an investment platform and enables the Plan to invest in pooled funds managed by third party investment managers.

As such, the Trustee has no direct relationship with the Plan's underlying investment managers.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. It also sets out the processes followed by the Trustee in relation to voting rights and stewardship.

The Trustee has considered financially material factors such as ESG issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Plan

¹ A statement of Investment Principles describes the way in which the Trustee seeks to manage the assets of the Plan.

for members. The Trustee believes that ESG factors are implicitly reflected in the expected risk and return profile of the asset classes the Plan is invested in and it is therefore in members' best interests to account for these factors within the investment process.

At 31 December 2022, the change of investment strategy meant that the Plan's assets were invested solely in bond based pooled funds.

Furthermore, c85% of the assets were invested in pooled funds containing solely UK Gilts and Index Linked Gilts. As these are issued by the UK Government, then ESG considerations do not naturally apply.

In relation to the c15% invested in Corporate Bonds, the Trustee acknowledges that it cannot directly influence the ESG policies and practices of the companies in which the pooled fund invests. However, the Trustee does expect the fund manager and investment consultant to take account of financially material considerations when carrying out their respective roles.

Over the Plan year, the assets have been invested solely in pooled funds managed by Legal and General Investment Management (LGIM).

The Trustee accepts that the Plan's assets are subject to LGIM's own policy on stewardship and socially responsible investment.

Further information on this is available at the following link: <https://www.lgim.com/uk/en/capabilities/investment-stewardship/>

The Trustee is satisfied that this corresponds with its responsibilities to the beneficiaries of the Plan.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee has monitored financially material considerations through the investment advisor's ESG ratings, which assess how the Plan's investment managers take account of ESG issues. The Trustees will continue to do this to the extent that they are relevant under the revised investment strategy.

The following sections set out how the Trustee's engagement and voting policies were followed and implemented during the year.

Engagement

Monitoring

- The Trustee considers 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 managers. When revising the investment strategy, the Trustee noted that the risk reduction of investing solely in bond funds was the primary objective, but chose to invest in pooled funds with LGIM, as the Trustee is satisfied in LGIM's approach to ESG.
- Managers will be expected to report on their own ESG policies as and when requested by the Trustee.
- The Plan's investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings from the investment adviser. These ratings include an indication of Mercer's conviction in the ability of a manager to deliver its performance objectives. Deteriorations in these ratings may prompt the Trustee to consider terminating certain managers. The investment performance report includes details of how each investment manager is delivering against their specific mandates. It also includes Mercer's ESG rating for the funds in which the Plan is invested, and the Trustee remains satisfied that these ratings are good.

Stewardship

- The Trustee notes that LGIM is a Tier 1 signatory of the UK Stewardship Code, indicating a high quality and transparent description of its approach to stewardship, and explanations of an alternative approach where necessary.
- Over the period, the Trustee invested solely in passively managed pooled funds, with no investment restrictions.

Voting Activity

At the year end, the Plan was invested solely in pooled bond funds. Bond investments have no voting rights. However, prior to the implementation of the revised strategy in October 2022, the Plan was invested in the LGIM Global Equity Fixed Weights (60:40) Index Fund.

As noted earlier, the Plan has no direct relationship with LGIM, and invests solely in pooled funds through the Mobius platform. Therefore the Trustee has no voting rights in relation to the Plan's underlying investments and no direct ability to influence LGIM.

Nevertheless, the Appendix to this Statement sets out a summary, of key voting background and activity for the Global Equity Fixed Weights (60:40) Index Fund.

The Trustee notes that LGIM has put in place a custom voting policy with specific voting instructions with ISS ("Institutional Shareholder Services") to enable them to vote widely across their investee companies, without outsourcing strategic voting decisions.

The Trustee also notes that in determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation. This includes, but is not limited to:

- 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;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

Again, the Trustee has no direct ability to influence LGIM, but is satisfied that the approach taken by LGIM to determine a significant vote is appropriate. An example significant vote is included in the Appendix.

The table on the following page sets out a summary of the key voting activity over the financial year:

Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
LGIM Global Equity Fixed Weights (60:40) Index Fund	<p>LGIM's Investment Stewardship team uses Institutional Shareholder Services (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares.</p> <p>The use of ISS recommendations is purely to augment internal research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the ISS research reports for UK companies when making specific voting decisions.</p> <p>All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.</p>	40,837 eligible, 99.8% voted	17.9% of votes cast	0.1% of votes cast	<p>LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:</p> <ul style="list-style-type: none"> • 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 LGIM note a significant increase in requests from clients on a particular vote; • Sanction vote as a result of a direct or collaborative engagement; • Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes. 	<p>Rio Tinto Plc: a vote against Resolution 17 - Approve Climate Action Plan</p> <p>Rationale: LGIM recognises the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while LGIM acknowledges the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, they remain concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.</p> <p>Outcome: 84.3% of shareholders supported the resolution.</p> <p>Implications: LGIM will continue to engage with their investee companies, publicly advocate LGIM's position on this issue and monitor company and market-level progress.</p> <p>Significance: LGIM considers this vote significant as it is an escalation of their climate-related engagement activity and their public call for high quality and credible transition plans to be subject to a shareholder vote.</p>
LGIM – AAA-AA-A Corporate Bond - All Stocks Index Fund	This is a fixed income pooled fund that does not have voting rights.					

LGIM – Over 15 Year Gilts Index Fund	This is a fixed income pooled fund that does not have voting rights.
LGIM – Over 5 Year Index Linked Gilts Index Fund	This is a fixed income pooled fund that does not have voting rights.
