Hewlett-Packard Limited Retirement Benefits Plan - Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustee of the Hewlett-Packard Limited Retirement Benefits Plan (the "Plan") has been followed during the year to 31 October 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 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 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 objective of the Plan included in the SIP is to provide, on a defined benefits basis, pension and lump sum benefits for members on their retirement, or benefits on death, before or after retirement, for their dependents.

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. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The Trustee keeps the policies under regular review with the SIP subject to review every 3 years, but in practice usually every 12 to 18 months.

The SIP was most recently reviewed in March 2021.

Engagement

As set out in the SIP, the Trustee has given the investment managers full discretion in evaluating ESG factors, including climate change considerations. The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing managers.

The Trustee has elected to invest a portion of the Plan's assets through segregated mandates, and has specified criteria for these managers in the investment management agreements for the manager to invest in line with. The criteria align with the Trustee's specific investment requirements.

Voting and Engagement policies and activities are most relevant for mandates where equities are held directly or indirectly. These policies are less applicable for the Plan's LDI portfolio, credit mandates and private debt holdings. The Plan's investment managers provided the following responses in relation to voting and engagement:

- State Street Global Advisors Ltd ("SSGA") is a signatory of the 2020 UK Stewardship Code. Through company engagement, proxy voting and thought leadership, SSGA aims to encourage companies to enhance diversity at the board level, strengthen board leadership and improve disclosure on their sustainability practices. Over the year to 30 September 2022, SSGA had 977 engagements of which 358 where environment-related.

Engagement example: In 2022, SSGA initiated a series of targeted engagements with portfolio companies in the North American oil and gas industry on the topic of methane. SSGA engaged with ConocoPhillips in Q2 2021 ahead of its AGM on the company's approach to managing GHG emissions, including scope 3 and methane emissions. It discussed opportunities to enhance methane data quality and measurement-based reporting including joining the Oil and Gas Methane Partnership (OGMP) 2.0, a multi-stakeholder initiative launched by UNEP and the Climate and Clean Air Coalition. In Q3 2022, SSGA conducted a second engagement with the company to discuss its methane detection, monitoring and reduction efforts in further detail. In Q3 2022, ConocoPhillips formally joined OGMP 2.0. The company committed to report methane emissions from both operated and non-operated assets and to incorporate source-level and site-level measurements in line with the OGMP's guidance. The company also set a new medium-term target to achieve a near-zero methane emissions intensity by 2030. SSGA intends to continue to engage with the company on its methane emissions management and reporting efforts.

- Legal and General Investment Management ("L&G") is a signatory of the 2020 UK Stewardship Code. L&G's direct engagement with companies is a way it seeks to identify ESG risks and opportunities. Ongoing dialogue with companies is a fundamental aspect of L&G's responsible investment commitment. L&G's focus is to hold boards accountable, create sustainable value and promote market resilience. Over the year to 30 September 2022 L&G undertook 690 engagements, of which 300 were environment-related. Specifically to the Global Developed Small Cap Index Fund, L&G undertook 135 engagements, of which 55 were on environmental topics. For the Plan's Buy and Maintain portfolios, L&G undertook 154 engagements, of which 83 were on environmental topics.

  Over the year, from an environmental perspecive, L&G focused on climate transitions plans and deforestation. L&G is taking steps to meet its COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which it signed in 2021. L&G has launched a deforestation engagement campaign, writing to around 300 companies from a set of deforestation-critical sectors within its portfolios for which it has data, outlining its expectations, their current performance against these, and explaining L&G's new deforestation voting policy. Drawing on available data, as well as its in-house research, expertise and engagement, L&G will be assessing companies' progress ahead of 2023 AGM season.

- CQS (UK) LLP ("CQS") is a signatory of the 2020 UK Stewardship Code. CQS views engagement as a means to seek to influence long-term changes in companies. The manager also believes it can use engagement and working with businesses to improve ESG factors, and would like to use its position to seek ESG improvements from its borrowers.

  Engagement example: EG Group is one of CQS's ongoing targeted engagement companies that it has been engaging with since 2020. The company had been lagging its peers in the industry regarding ESG, with little public information to investors. They had no ESG report or related targets and CQS had been engaging with them for two years to encourage better disclosure. CQS's recent quarterly engagement call was to understand new ESG related initiatives and track the progress made. EG Group published its ESG report in October 2022, a month before expected. In the report, they announced scope 1 & 2 decarbonisation targets of 50% reduction by 2030. While the scope 1 & 2 emission reduction targets are a step in the right direction, the firm's carbon footprint remains largely unchallenged as 70% of their emissions come from scope 3 emissions. CQS continues to monitor the firm's development of their scope 3 targets, which they inform CQS are expected next year. The company have also recently established ESG-linked reward across the leadership structure in Europe, aligning all manager-level and above colleagues to ESG objectives. The report also confirmed that they are implementing a Diversity and Inclusion Plan in each market by 2024, are seeking at least 40% women in senior leadership positions by 2025 (from 23% in 2021) and have invested in training, as well as employee engagement. CQS targeted engagement with EG Group continues to be positive with the company making good strides to ramp up their ESG structure, disclosures, and targets. CQS will continue to monitor progress.

- Apollo Global Management ("Apollo") is not a signatory of the 2020 UK Stewardship Code, however, it is currently in the process of evaluating joining it in 2023. Apollo recently hired a Senior Stewardship & Engagement Specialist, Lori Shapiro, to lead the evaluation effort along with Apollo's broader engagement strategy within credit. Apollo is a signatory to UNPRI (United Nations Principles for Responsible Investment) and the IFC Operating Principles for Impact Management.

  Engagement example: In June 2022, Apollo engaged with Ampol Limited, a company that operates in the oil, fuel and gas industry, to incorporate sustainability-performance targets into the structure of Ampol's debt. The sustainability targets include carbon emssions and installation of electrical vehicle charging points. Ampol currently has A$1bn of outstanding sub-debt, and the proposed transaction with Apollo (A$150mn) will be the first to have sustainability linkage (for sub-debt).

- Ares Management LLC ("Ares") is not a signatory of the 2020 UK Stewardship Code but the manager has adopted a UK Stewardship Code Disclosure Statement. Specific to the Ares Secured Income Fund, to the extent applicable to the investment evaluation process for a particular investment, Ares may use independent experts to evaluate specific issues, including environmental and other relevant ESG-related considerations. Although Ares does not utilise ESG-specific data providers, as part of the Alternative Credit team's investment diligence process, all investments are subjected to a thorough legal and regulatory review to ensure that the counterparty is not only in compliance with applicable regulations, but also following industry best practices. Additionally, the investment team may arrange calls with third-party specialists to cover several industry factors and themes, which may include ESG-related factors.

  Most recently, Ares worked to amend its corporate revolving credit facility to introduce Sustainability-Linked Pricing. This amendment ties a portion of its borrowing costs to certain ESG-related targets, including measurements of greenhouse gas emissions as well as diversity metrics relating to employees and third-party supplier spend.

  Ares recently established a Fossil Fuel Working Group with representatives from investment teams that may hold fossil fuel assets in their portfolios. The group is currently formulating Ares' approach to engagement with traditional fossil fuel producers to support them on their path to decarbonisation.

- HSBC Global Asset Management ("HSBC") is a signatory of the 2020 UK Stewardship Code. Due to the nature of the underlying assets of the Plan's mandates (prior to termination during the year under review), most of HSBC's engagement activity occurs prior to the investment (deals marketed on the primary market). HSBC also engages post-investment by attending investor days.

- M&G Investments ("M&G") is a signatory of the 2020 UK Stewardship Code. M&G's engagement process is outcome-driven, systematic and aims to achieve specific objectives. For both the Real Estate Debt Fund ("REDF") and Long Dated Asset Fund ("LDAF"), M&G stresses the importance of assessing ESG and improving ESG outcomes but note that as a debt holder it does not have the same level of control as an equity holder.

  Engagement example (REDF): M&G financed an office property in Berlin in December 2019. Over the course of the loan term M&G has discussed the increasing importance of environmental performance for tenants and investors with the sponsor, particularly raising this again in November 2021. The sponsor is now investigating options for green building certification with the facility manager. In January 22 M&G further discussed the benefits of building in biodiversity improvements to the sponsor's landscaping capex plans. M&G will follow up to continue to encourage this and to determine whether these points are ultimately pursued.

  Engagement example (LDAF): In early 2022, M&G provided financing for the retrofitting of some of the European Ferry Operators' existing fleet, construction of new hybrid-electric ferries and supporting charging infrastructure. M&G objective was to ensure a timely and high standard of ESG and impact reporting and disclosure. It also wanted to minimise the company's ability to "offload" more polluting ferries to markets with less stringent environmental standards. M&G engaged with the borrower to agree a year-end management presentation that would include a specific update on ESG/Sustainability items and progress of electrification of the fleet, with data comparing annual diesel/LNG fuel consumption and reduction of emissions. In addition to the borrower publishing their sustainability report, M&G limited the company's ability to offload the more polluting ferries to other markets by capping earning from non-core and international operations at 10% of the group's total, thereby minimising the company's ability to expand international operations whereby they could be providing services using the older, diesel-fueled fleet. The issuer agreed to include, as a standing agenda item, a management presentation to be delivered at least once every year, an update on the progress on electrification of fleet, as well as consumption/emission reporting. The 10% cap was agreed following negotiations with the borrower.

- Goldman Sachs Asset Management ("GSAM") through its public markets investing business is a signatory of the 2020 UK Stewardship Code. The Liquid Reserves Fund in which the Plan invests falls under this umbrella. However, the Asset and Wealth Management Division, which manages the Broad Street Loan Partners III and IV funds, does not fall within this purview, but is expected to be included as part of GSAM's submission in 2023. GSAM aim to integrate ESG throughout the each investment's lifecycle; from sourcing to due diligence, and while the asset is held and realised. GSAM applies its ESG approach across the portfolio by identifying and managing potential risks, enhancing efficiencies and investing in key sustainable themes with the aim of delivering attractive risk-adjusted returns.

  Engagement example: One of the companies within the portfolio, a European provider of industrial water and gas filtration solutions, is focused on enabling their customers to remove harmful particles from their air emissions and wastewater, enhancing compliance with environmental regulations. Through due diligence, GSAM assessed the company's filtration technology to understand the environmental impact of their products and the corresponding commercial levers. The company is focused on recycling the activated carbon used in the filter technology, reducing the need for virgin carbon compared to the traditional alternative approach. Through a 10-year R&D effort, the company is seeking to extend the application of the circular model to biogas facilities, a key differentiator as no competitor currently has the capability of closing the loop in the biogas market. The company's facility is currently being built out and is expected to go-live in 2023, and GSAM expects to continue to monitor material developments in this space.

Throughout the life of the loan, GSAM incentivises the company's focus on environmental impact through the incorporation of a margin ratchet, which decreases the margin for improved carbon footprint savings resulting from the implementation of their circular model. On an annual basis, the company delivers a Carbon Footprint Certificate enabling GSAM to monitor the Company's progress and assess whether the step-down applies. In 2022, the company reported that they achieved a 22.7 tCO_2e reduction through sales of reactivated carbon instead of virgin carbon, an improvement from the 7.7 tCO_2e reported in the previous year, demonstrating the growing positive environmental impact of their business.

The Plan's investment performance report is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and specific to ESG) from the investment adviser. The investment performance report includes how each investment manager is delivering against their specific mandates.

<u>Voting Activity</u>

The Trustee has delegated its voting rights to the investment managers. The Trustee expects the Plan's investment managers, unless impracticable, to exercise all voting rights attaching to shares or securities and take account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code, where applicable. Where relevant, investment managers are expected to provide voting summary reporting on a regular basis, at least annually. As such, the Trustee considers the voting and engagement policies of the investment managers to be in line with the Trustee's policy as outlined in the SIP.

The Trustee does not use the direct services of a proxy voter. Due to the nature of the underlying holdings, only the equity managers are able to provide voting information. Over the last 12 months, the key voting activity on behalf of the Trustee is outlined below.

SSGA – Global Equity[1]

- SSGA uses the services of proxy voting company, Institutional Shareholder Services ("ISS").
- There have been 5,636 votable meetings over the year. In these meetings, there were a total of 53,154 votable proposals.
- SSGA has participated in the vote for 52,040 of the 53,154 votable proposals. In around 98% of these votes for proposals, SSGA has indicated its support to the companies' managements, whilst voting against around 17% of the proposals.
- Of the most significant votes in which SSGA participated, the majority were voting against management proposals on compensation of executive officers, apart from within the Japan ESG Screened Index Equity Fund, where the majority of significant votes were on proposals to "Phase out nuclear facilities". Both SSGA and management voted against such proposals for the Chubu Electric Power Company and the Kansai Electric Power Company; SSGA's rationale is that the companies' disclosure and/or practices related to nuclear power are reasonable.

L&G – Small Cap Equity[1]

- L&G uses the services of ISS for proxy voting.

- There have been 4,030 votable meetings over the year, of which L&G was eligible to vote on behalf of the Trustee. In these meetings, there were a total of 41,792 votable proposals.

- L&G has participated in the vote for 41,666 of the 41,792 votable proposals (i.e. 99.7%). Of these votes, L&G voted 75.5% with management, while voting against management in 24.5% of the proposals.

- Of the most significant votes in which L&G participated, the majority were voting against management proposals on the election/re-election of directors. As an example, in July 2022 L&G voted against the election of the Director for the DXC Technology Company. The reason for the vote was that L&G expects companies not to recombine the roles of Board Chair and CEO without prior shareholders' approval.

[1] Voting information as at 30 September 2022 as SSGA and LGIM standard reporting is to provide voting information at each quarter end.