# Mitsubishi Electric UK
# Retirement Benefits Scheme
# Implementation Statement
# for the year ending 31 March 2023

## Introduction

This implementation statement has been prepared by the Trustees of the Mitsubishi Electric UK Retirement Benefits Scheme (the “Scheme”). The Scheme provides benefits calculated on a defined benefit (DB) basis for members in the DB Section and benefits calculated on a defined contribution (DC) basis for members in the DC Section.

The statement:

- sets out how, and the extent to which, the policies set out in the Statement of Investment Principles (the SIP) have been followed during the year;
- describes any review of the SIP, including an explanation of any changes made; and
- describes the voting behaviour by, or on behalf of, the Trustees over the same period.

## Trustees’ overall assessment

In the opinion of the Trustees, the policies as set out in the SIP have been followed during the year ending 31 March 2023.

## Review of the SIP

The Trustees’ policies have been developed over time by the Trustees in conjunction with their investment consultant and are reviewed and updated periodically and at least every three years.

The SIP was last reviewed in March 2023, and the changes made to the SIP are detailed in the Implementation Statement for the year ending 31 March 2023.

## Policy in relation to the kinds of investments to be held

The Trustees have given full regard to their investment powers as set out in the Trust Deed and Rules and have considered the attributes of the various asset classes when deciding the kinds of investments to be held. The Scheme invests in pooled funds, other collective investment vehicles and cash, to manage costs, diversify investments and improve liquidity.

All investments made during the year have been in line with their investment powers.

# Investment strategy and objectives

### Investment strategy (DB Section)

The investment strategy for the Scheme is based on an analysis of its liability profile, the required investment return and the returns expected from the various asset classes over the long-term.

The investment strategy is kept under frequent review. Following the Trustees' decision to implement a lower risk investment strategy, changes were made to the asset allocation over the year ending 31 March 2023. As at the Scheme year end, the new strategy was in the process of being implemented and it is expected to be implemented in full before the Scheme year ending 31 March 2024.

### Policy in relation to the balance between various kinds of investments and the realisation of investments (DB Section)

The appointed investment managers hold a diversified mix of investments in line with their agreed benchmark and within their discretion to diverge from the benchmark. Within each major market each manager maintains a diversified portfolio of securities.

The Trustees require the investment managers to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required.

During the year, the Trustees discussed the performance of the asset classes invested in and the attributes of the asset classes that contributed to that.

### Policy in relation to the expected return on investments (DB Section)

The current investment strategy is believed to be capable of exceeding the overall required rate of return as detailed in the most recent actuarial valuation in the long term.

### Investment strategy (DC Section)

The Scheme provides members in the DC Section with a range of funds in which to invest together with some lifestyle strategies from which to make their investment choices. These aim to allow members to achieve the following:

- maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement;
- protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs; and
- tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.

The Trustees also provide a default strategy to provide a balanced investment strategy for members who do not make an active investment choice.

The last review of the default investment strategy and objectives was carried out from January to May 2023 and this also included a review of the alternative lifestyle strategies and wider fund range.

The next such review is expected to be undertaken no later than 2026.

### Policy in relation to the balance between various kinds of investments and the realisation of investments (DC Section)

The investment managers maintain a diversified portfolio of stocks or bonds within each of the funds offered to members under the DC Section (both within the default and self-select options). In addition, the design of the default strategy provides further diversification through the use of multiple funds throughout a member's working lifetime.

Under normal market conditions the Trustees expect to be able to realise investments within a reasonable timescale although there remains the risk that certain assets may become less liquid in times of market stress. Dealing spreads and liquidity are monitored periodically by the investment consultant, particularly during periods of heightened volatility.

During the year, the Trustees discussed the performance of the asset classes invested in and the attributes of the asset classes that contributed to that.

### Policy in relation to the expected return on investments (DC Section)

The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the membership of the DC Section and having taken into account the risk considerations set out in the SIP.

The expected return of both the default option and the self-select options were considered during the year as part of SMPI calculations.

## Risk capacity and risk appetite

### Policy in relation to risks (DB Section)

The Trustees acknowledge that the main risk is that the Scheme will have insufficient assets to meet its liabilities.

The liquidity and cashflow risks were assessed at each Trustee meeting during the year.

The Trustees monitor manager risks through the quarterly performance monitoring reports.

### Policy in relation to risks (DC Section)

The Trustees have considered risk from a number of perspectives. These are the risk that:

- the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
- investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income, and
- investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit.

The Trustees monitor these risks through quarterly performance monitoring reports provided by and discussed with the investment consultant.

The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves. The risks inherent in the default option and self-select options were assessed in 2023 as part of the investment strategy review.

## Stewardship in relation to the Scheme assets

### Policies in relation to investment manager arrangements

The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, set by the investment manager, for their services. The Trustees have very limited to no influence over the objectives of these funds or the fees they charge (although fee discounts can be negotiated in certain circumstances).

There have been no changes to the benchmark / objectives of the funds in which the Scheme invests over the year.

The Trustees, in conjunction with their investment consultant, have introduced a process to obtain and review the investment holding turnover costs incurred on the pooled funds used by the Scheme on an annual basis.

In addition, the Trustees receive information on any trading costs incurred as part of asset transfer work within either the DB or the DC Section, as and when these occur. The exercise is only undertaken if the expected benefits outweigh the expected costs. The Trustees note that, in respect of the DC Section, trading costs are also incurred in respect of member switches (including within the lifestyle strategy), and information on potential ongoing member switching costs for members in the DC Section is included within the Chair's Statement.

During the year, the Trustees decided to implement a lower risk strategy for the DB Section of the Scheme, and information on potential switching costs was included in pre-transfer advice from the investment consultant. The new investment strategy is being implemented in phases and is expected to be completed by the Scheme year end 31 March 2024.

The investment managers have invested the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. In return the Trustees have paid their investment managers a fee which is a fixed percentage of assets under management.

The investment consultant has reviewed and evaluated the investment managers on behalf of the Trustees, including performance reviews, manager oversight meetings and operational due diligence reviews.

### Investment manager monitoring and changes

During the year the Trustees received four reports from the investment consultant examining the performance of the pooled funds used.

### Stewardship of investments

The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

The Trustees, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled funds to use in order to meet specific policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon. The Trustees have decided not to take non-financial matters into account when considering their policy objectives.

During the year, the Trustees received training from their investment consultant on ESG matters, including regulatory changes and recent trends.

**Stewardship - monitoring and engagement**

The Trustees recognise that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

The Trustees also delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

The Trustees have one direct investment, being a share-holding in HICL Infrastructure plc. The Trustees do not currently vote or engage in respect of this holding.

**Investment manager engagement policies**

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustees with information on how each investment manager engages in dialogue with the companies it invests in and how it exercises voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

Links to each investment manager's engagement policy or suitable alternative is provided in the Appendix.

These policies are publicly available on each investment manager's websites.

The latest available information provided by the investment managers (with mandates that contain equities or bonds) is as follows:

DB Section

| **Engagement** | | |
|---|---|---|
| | LGIM World (ex UK) Equity Index (GBP Hedged) Fund | RLAM UK Corporate Bond |
| Period | 01/04/2022-31/03/2023 | 01/04/2022-31/03/2023 |
| Engagement definition | Purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). | |

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| | Regular communication to gain information as part of ongoing research should not be counted as engagement. | |
| Number of companies engaged with over the year | 305 | 59 |
| Number of engagements over the year | 478 | 143 |

DC Section (key funds only)

| **Engagement** | | |
|---|---|---|
| | LGIM Equity Fixed Weights (60:40) Index | LGIM Diversified Fund |
| Period | 01/04/2022-31/03/2023 | 01/04/2022-31/03/2023 |
| Engagement definition | Purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). | |
| Number of companies engaged with over the year | 466 | 690 |
| Number of engagements over the year | 731 | 985 |

**Exercising rights and responsibilities**

The Trustees recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The Trustees do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour.

The latest available information provided by the investment managers with listed equity voting rights is as follows:

DB Section

| Voting behaviour | LGIM World (ex UK) Equity Index (GBP Hedged) Fund |
| --- | --- |
| Period | 01/04/2022-31/03/2023 |
| Number of meetings eligible to vote at | 3,008 |
| Number of resolutions eligible to vote on | 36,202 |
| Proportion of votes cast | 99.8% |
| Proportion of votes for management | 77.6% |
| Proportion of votes against management | 21.7% |
| Proportion of resolutions abstained from voting on | 0.8% |

DC Section (key funds only)

| Voting behaviour | LGIM Equity Fixed Weights (60:40) Index | LGIM Diversified Growth Fund |
| --- | --- | --- |
| Period | 01/04/2022-31/03/2023 | 01/04/2022-31/03/2023 |
| Number of meetings eligible to vote at | 3,197 | 9,541 |
| Number of resolutions eligible to vote on | 41,099 | 99,252 |
| Proportion of votes cast | 99.8% | 99.8% |
| Proportion of votes for management | 81.9% | 77.4% |
| Proportion of votes against management | 18.0% | 21.9% |
| Proportion of resolutions abstained from voting on | 0.1% | 0.7% |

**Trustees' engagement**

The Trustees have undertaken a review of each investment manager's engagement policy including their policies in relation to financially material considerations.

The Trustees recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

## Appendix

Links to the Engagement Policies for the pooled fund investment managers can be found here:

| Investment manager | Engagement policy (or suitable alternative) |
|---|---|
| Legal & General Investment Management | https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf |
| Royal London Asset Management | https://www.royallondon.com/globalassets/docs/shared/investment/pdf5pd0102-our-approach-to-stewardship-and-engagement.pdf |
| M&G Investments | https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/mg-investments-engagement-policy-may-2022.pdf |
| Insight Investment Management | https://www.insightinvestment.com/globalassets/documents/responsible-investment/responsible-investment-reports/responsible-investment-policy.pdf |
| InfraRed (manager of HICL) | https://www.ircp.com/sites/default/files/2021-03/InfraRed%20Stewardship%20Policy%20December%202020%20final.pdf<br>https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/stewardship |

Information on the voting behavior for a selection of key funds containing equities is shown below.

| **LGIM World (ex UK) Equity Index Fund - GBP Currency Hedged** | **Vote 1** | **Vote 2** | **Vote 3** |
|---|---|---|---|
| Company name | Amazon.com, Inc. | Alphabet Inc. | Meta Platforms, Inc. |
| Date of Vote | 25/05/2022 | 01/06/2022 | 25/05/2022 |
| Approximate size of fund's holding as at the date of the vote (as % of portfolio) | 1.9 | 1.2 | 0.8 |

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| Summary of the resolution | Resolution 1f - Elect Director Daniel P. Huttenlocher | Resolution 7 - Report on Physical Risks of Climate Change | Resolution 5 - Require Independent Board Chair |
| How the fund manager voted | Against | For | LGIM voted in favour of the shareholder resolution (management recommendation: against). |
| Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote | LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics. | | |
| Rationale for the voting decision | Human rights: A vote against is applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings. | Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. | Shareholder Resolution - Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair. |
| Outcome of the vote | 93.3% | 17.7% | 16.7% |
| Implications of the outcome | LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress. | | |
| Criteria on which the vote is assessed to be “most significant” | LGIM pre-declared its vote intention for this resolution, demonstrating its significance. | LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to | LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote). |

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| | be subject to a shareholder vote. | |

Information on the most significant engagement case studies for LGIM as a company as at 31 December 2022 (latest available) is shown below:

| **LGIM - Firm-level** | **Case Study 1** | **Case Study 2** | **Case Study 3** |
|---|---|---|---|
| Name of entity engaged with | ExxonMobil | BP Plc | J Sainsbury Plc |
| Topic | Environment: Climate change (Climate Impact Pledge) | Environment: Climate change (Climate Impact Pledge) | Social: Income inequality - living wage (diversity, equity and inclusion) |
| Rationale | As one of the world's largest public oil and gas companies in the world, we believe that Exxon Mobil's climate policies, actions, disclosures and net zero transition plans have the potential for significant influence across the industry as a whole, and particularly in the US.<br><br>At LGIM, we believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under our Climate Impact Pledge, we publish our minimum expectations for companies in 20 climate-critical sectors. We select roughly 100 companies for 'in-depth' engagement - these companies are | As one of the largest integrated oil and gas producers in the world, BP has a significant role to play in the global transition to net zero, hence our focus on this company for in-depth engagements. As members of the CA100+ we commit to engaging with a certain number of companies on their focus list and on account of our strong relationship with BP, we lead the CA100+ engagements with them.<br><br>At LGIM, we believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under our Climate Impact Pledge, we publish our minimum | Ensuring companies take account of the ‘employee voice’ and that they are treating employees fairly in terms of pay and diversity and inclusion is an important aspect of our stewardship activities. As the cost of living ratchets up in the wake of the pandemic and amid soaring inflation in many parts of the world, our work on income inequality and our expectations of companies regarding the living wage have acquired a new level of urgency.<br><br>LGIM’s expectations of companies:<br><br>i) As a responsible investor, LGIM advocates that all companies should ensure that they are paying their |

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| | influential in their sectors, but in our view are not yet leaders on sustainability; by virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains. Our in-depth engagement is focused on helping companies meet these minimum expectations, and understanding the hurdles they must overcome. For in-depth engagement companies, those which continue to lag our minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).<br><br>UN SDG 13: Climate action | expectations for companies in 20 climate-critical sectors. We select roughly 100 companies for 'in-depth' engagement - these companies are influential in their sectors, but in our view are not yet leaders on sustainability; by virtue of their influence, their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains. Our in-depth engagement is focused on helping companies meet these minimum expectations, and understanding the hurdles they must overcome. For in-depth engagement companies, those which continue to lag our minimum expectations may be subject to voting sanctions and/ or divestment (from LGIM funds which apply the Climate Impact Pledge exclusions).<br><br>UN SDG 13: Climate action | employees a living wage and that this requirement should also be extended to all firms with whom they do business across their supply chains.<br><br>ii) We expect the company board to challenge decisions to pay employees less than the living wage.<br><br>iii) We ask the remuneration committee, when considering remuneration for executive directors, to consider the remuneration policy adopted for all employees.<br><br>iv) In the midst of the pandemic, we went a step further by tightening our criteria of bonus payments to executives at companies where COVID-19 had resulted in mass employee lay-offs and the company had claimed financial assistance (such as participating in government-supported furlough schemes) in order to remain a going concern.<br><br>With over 600 supermarkets, more than 800 convenience stores, and nearly 190,000 employees, |

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| | | | Sainsbury's is one of the largest supermarkets in the UK. Although Sainsbury's is currently paying higher wages than many other listed supermarkets, the company has been selected because it is more likely than many of its peers to be able to meet the requirements to become living-wage accredited.<br><br>UN SDG 8: Decent work and economic growth |
| What the investment manager has done | We have been engaging with Exxon Mobil since 2016 and they have participated willingly in our discussions and meetings. Under our Climate Impact Pledge, we identified a number of initial areas for concerns, namely: lack of Scope 3 emissions disclosures (embedded in sold products); lack if integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities.<br><br>Our regular engagements with Exxon Mobil have | We have been engaging with BP on climate change or a number of years, during the course of which we have seen many actions taken regarding climate change mitigation.<br><br>BP has made a series of announcements detailing their expansion into clean energy. These include projects to develop solar energy in the US, partnerships with Volkswagen (on fast electric vehicle charging) and Qantas Airways (on reducing emissions in aviation), and winning bids to develop major offshore wind projects in the UK and US. Our recommendation | Sainsbury's has recently come under scrutiny for not paying a real living wage. LGIM engaged initially with the company's [then] CEO in 2016 about this issue and by 2021, Sainsbury's was paying a real living wage to all employees, except those in outer London. We joined forces with ShareAction to try to encourage the company to change its policy for outer London workers. As these engagements failed to deliver change, we then joined ShareAction in filing a shareholder resolution in Q1 2022, asking the company |

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| | focused on our minimum expectations under the Climate Impact Pledge. The improvements made have not so far been sufficient in our opinion, which has resulted in escalations. The first escalation was to vote against the re-election of the Chair, from 2019, in line with our Climate Impact Pledge sanctions. Subsequently, in the absence of further improvements, we placed Exxon Mobil on our Climate Impact Pledge divestment list (for applicable LGIM funds) in 2021, as we considered the steps taken by the company so far to be insufficient for a firm of its scale and stature. Nevertheless, our engagement with the company continues. In terms of further voting activity, in 2022 we supported two climate-related shareholder resolutions (i.e. voted against management recommendation) at Exxon's AGM, reflecting our continued wish for the company to take sufficient action on climate change in line with our minimum expectations. | for the oil and gas industry is to primarily focus on reducing its own emissions (and production) in line with global climate targets before considering any potential diversification into clean energy. BP has also announced that it would be reducing its oil and gas output by 40% over the next decade, with a view to reaching net-zero emissions by 2050.<br><br>We met with BP several times during 2022. In BP's 2022 AGM, we were pleased to be able to support management’s 'Net Zero – from ambition to action' report (Resolution 3). Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP has also expanded its scope 3 targets, committed to a substantial decline in oil and gas production, and announced an increase in capital expenditure to low-carbon growth segments.<br><br>Levels of director typically engaged with include the chair, the CEO, head of | to becoming a living wage accredited employer.<br><br>This escalation succeeded insofar as, in April 2022, Sainsbury’s moved all its London-based employees (inner and outer) to the real living wage. We welcomed this development as it demonstrates Sainsbury’s values as a responsible employer. However, the shareholder resolution was not withdrawn and remained on the 2022 AGM agenda because, despite this expansion of the real living wage to more employees, there are still some who are excluded. This group comprises contracted cleaners and security guards, who fulfil essential functions in helping the business to operate safely.<br><br>Levels of individual typically engaged with include the Chair, the CEO, and head of investor relations. |

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| | Levels of individual typically engaged with include lead independent director, investor relations, director and CFO. | sustainability, and investor relations. | |
| Outcomes and next steps | Since 2021, we have seen notable improvements from Exxon Mobil regarding our key engagement requests, including disclosure of Sope 3 emissions, a 'net zero by 2050' commitment (for Scopes 1 and 2 emissions), the setting of interim operational emissions reduction targets, and improved disclosure of lobbying activities. However, there are still key areas where we require further improvements, including inclusion of Scope 3 emissions in their targets, and improving the level of ambition regarding interim targets. We are also seeking further transparency on their lobbying activities.<br><br>The company remains on our divestment list (for relevant funds), but our engagement with them continues. | We will continue engaging with BP on climate change, strategy and related governance topics. Following the company's decision to revise their oil production targets, we met with the company several times in early 2023 to discuss our concerns. | Since filing the shareholder resolution, Sainsbury's has made three further pay increases to its directly employed workers, harmonising inner and outer London pay and is now paying the real living wage to its employees, as well as extending free food to workers well into 2023. We welcome these actions which demonstrate the value the board places on its workforce. We have asked the board to collaborate with other key industry stakeholders to bring about a living wage for contracted staff. |

Information on the most significant engagement case studies for RLAM as a company as at 31 March 2023 is shown below:

| RLAM - Firm-level | Case Study 1 | Case Study 2 | Case Study 3 |
|---|---|---|---|
| Name of entity engaged with | BP | Shell | Rio Tinto |
| Topic | Environment - Climate change | Environment - Climate change | Corporate Culture |
| Rationale | We met with BP's CEO and Strategy & Sustainability VP to discuss our expectations on credible climate transition plans and the upcoming voting resolution on its net zero report | We met with Shell's Chairman to discuss our expectations on credible climate transition plans and the upcoming climate plan progress report vote ahead of the company's AGM. | This was a relative engagement with a company we were already engaging with on net zero. We engage with companies on proactive and reactive engagement and this is an example of a reactive engagement. |
| What the investment manager has done | We met with BP's CEO and Strategy & Sustainability VP to discuss our expectations on credible climate transition plans and the upcoming voting resolution on its net zero report. Conversation on the Russian invasion of Ukraine quickly led to the CEO's assertion that the unfolding energy security crisis reinforces the urgency of the climate transition. BP's Net Zero plan was described as a triple goal in operations, production (upstream) and product sales. In response to us raising concerns about divestment not being the optimal strategy for reducing overall | We met with Shell's Chairman to discuss our expectations on credible climate transition plans and the upcoming climate plan progress report vote ahead of the company's AGM. Additionally, a follow-up meeting was held with Shell's investor relations with a further meeting expected in July. Upon presenting our milestones the conversation turned to scenario testing. The Chairman confirmed that should the world align to 2°C policies, they would need to write down $17bn and $16bn from the upstream and natural gas businesses respectively as noted in the company's Annual Report and | Following our net zero engagement meeting with Rio Tinto we sent a follow up email asking about the recent news of an employee sexually assaulted in Western Australia mine. We had spoken to the Chairman on 06/03/2022 and had been reassured on the approach of implementing the recommendations of the independent workplace culture report. |

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| | emissions, BP argued that the approach was necessary to fund the business transformation and allow them to provide low-carbon alternatives, where they could have most impact in reducing emissions. Moreover, the BP believed the most effective strategy to preserve value for shareholders was offloading these assets earlier in the decade, and then maintain flat hydrocarbon production thereafter. Demand-side decarbonisation was again an important topic of conversation, and the CEO pointed to BP's investments in electric vehicle (EV) charging points as well as developing hydrogen and biofuel value chains as examples of BP's commitment here. We explained our support of the company's proposition to include emissions from traded products within its scope 3 targets, but we also asked for the company to restate its scope 3 baseline to include physically traded and oil & gas sales. In our view, BP's current scope 3 emissions disclosures cannot be considered | accounts. Shell suggested these figures were not material and that the bulk of stranded asset risk was concentrated downstream, where they have already divested. Our main asks in support of Shell's climate plans were to halt new frontier exploration, reduce heavy reliance on offsets and setting absolute scope 3 targets. The chairman firmly indicated Shell's belief that both investors and policy should focus on demand-side decarbonisation. The chairman also emphasised the company's commitment to transitioning through offering lower carbon products. Accordingly, the company resisted our request to set absolute scope 3 emission targets, and instead will continue with its intensity-based targets. We discussed our concerns over Shell's continued new frontier exploration, which is set to continue until 2025, but Shell pushed back with their claims that continued fossil fuel exploration was in line with 1.5°C scenarios. The company clarified | |

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| | a fair assessment of the company’s emissions. Overall, we hold a positive view of BP’s shift away from upstream fossil fuel production and its investments to help the demand side transition, although we oppose the method through which this has been funded. Additionally, the potential misstatement of Scope 3 and other concerns highlighted in our milestone analysis fuelled our abstain vote followed by a letter to the CEO clearly outlining which improvements would shift our views to vote in favour of the strategy: restated scope 3 disclosures, articulating a stance on ‘responsible divestment’, addressing concerns over continued investment in exploration. | its preference for nature-based offsetting was due to the associated positive externalities (such as for indigenous communities) but were receptive to our preference for more permanent removal of residual emissions projects offered through carbon capture, utilisation and storage (CCUS), the chairman agreed the company could do more on this front. The chairman also agreed with our request for a further focus on clean energy for emerging markets. He flagged there would be additional announcements on this front (we later learned of the acquisition Sprng Energy , an Indian solar and wind power distributor). We also discussed exposure to Russia, with the company strongly supportive of western democracies efforts in the war, considering it preferable to write-off the asset value of joint ventures and gradually wind down their purchase of oil and gas due to pressures to ensure supplies for Europe. |

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| Outcomes and next steps | Following the AGM, BP's CEO reached out to RLAM's RI team expressing his gratitude for the dialogue so far, setting a positive outlook on follow-up engagements. | In our view, the meeting was positive, and we are assured several of our comments and suggestions will be considered by the firm. Despite its climate plan progress report not meeting our rigorous milestones, due to their continued engagement and considerable progress up to this point we informed the company of our decision to vote 'Abstain' and will continue engaging for improvements. | Rio replied that they are not in a position to provide specific details beyond confirming that the alleged perpetrator was removed from site immediately and no longer works for Rio Tinto. Further updates on the progress of the 2022 independent workplace culture report will be found in the 2022 annual report which we will review and engage further if required. |