State Bank of India (UK) Pension Scheme – year to 31 March 2023

Implementation Statement

Overview

The Trustees of the State Bank of India (UK) Pension Scheme ('the Trustee' and 'the Scheme' respectively) have prepared this implementation statement in compliance with the governance standards introduced under The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. Its purpose is to demonstrate how the Trustees have followed the policy on voting, stewardship and engagement as set out in the Scheme's Statement of Investment Principles ('SIP'), dated June 2022. This statement covers the period 1 April 2022 to 31 March 2023.

The Scheme's assets are held in pooled investment funds (via the Mobius Life investment platform) and the day-to-day management of these investments (including the responsibility for voting and engaging with companies) is delegated to the fund managers of the pooled investment funds ('the Fund Managers').

The Fund Managers are Legal & General Investment Management ('LGIM'), M&G Investments (M&G), BNY Mellon Investment Management ('BNYM') and Columbia Threadneedle Investments ('CT').

As Trustees of the Scheme's assets, we are responsible for the selection and retention of the funds. Reviewing the voting and engagement activities, which we include details on below, is an important exercise to help us ensure they remain appropriate and are consistent with the Fund Managers' stated policies in this regard. We are satisfied with the voting and engagement activities of the Fund Managers, and in particular, that the Fund Managers are using their position as stakeholder to engage constructively with investee companies; however, we will engage with the Fund Managers should we have any concerns about the voting and/or engagement activities carried out on our behalf. The Trustees had no cause to challenge the Fund Managers' voting and/or engagement activities during the year to 31 March 2023.

During the year to 31 March 2023, the Trustees updated the SIP to reflect the investment strategy changes made over the year.

Changes to investment strategy

In July 2022, with advice from the Trustees' investment advisor, the Trustees improved the liquidity and stability of the assets by making the following changes:

- The LGIM Dynamic Diversified Fund was sold;
- The Capital Group Emerging Markets Total Opportunities Fund was sold;
- The sale proceeds were used to fund a new allocation in the M&G Total Return Credit Fund and to top up the allocation invested in the BNYM Global Dynamic Bond Fund

In April 2023, with advice from the Trustees' investment adviser, the Trustees rebalanced the asset allocation back to the strategic asset allocation agreed in July 2022, following the turmoil in the UK government bond market in September/October 2022.

Reporting and oversight

The Trustees have regularly reviewed the performance of the funds over the year and performance information is set out elsewhere in this report. The Trustees are satisfied that the performance of the funds in the Defined Benefit section are consistent with their objectives. The Trustees, in conjunction with the sponsoring employer, continue to review the operational efficiency and ongoing management of the Scheme, including potential alternatives to the current structure. The Trustees continue to engage with its advisors in this regard.

Voting and engagement

Details on voting and engagement activities provided by LGIM, M&G, BNYM and CT are set out below. In order to produce this statement we have asked the Fund Managers a series of questions on their policies, actions and for examples relating to their voting and engagement activities. We have then reviewed these and summarised their responses for the purposes of this statement.

LGIM has provided information relating to the Future World Global Equity Index Fund, as this fund holds equities for which the Fund Manager has voting rights.

The BNYM Global Dynamic Bond Fund and M&G Total Return Credit Fund do not hold equities and given that bonds do not confer voting rights, there was no voting carried out in relation to these funds. However, BNYM and M&G do undertake engagement activities in respect of their bond holdings and we have included examples below.

The CT LDI Funds do not hold equities and given that these investments do not confer voting rights, there was no voting carried out in relation to these funds. However, CT does undertake engagement activities with counterparty banks on relevant issues, where applicable, and we have included examples below.

<u>LGIM - voting and engagement activities</u>

The following is based on the information that LGIM have provided in response to our questions and provides an illustration as to how they co-ordinate their voting and engagement activities with companies.

"LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.

All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions.

To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We also believe public transparency of our vote activity is critical for our clients and interested parties to hold us to account. In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA)."

LGIM Future World Global Equity Fund

LGIM were eligible to vote on 54,368 resolutions. Votes: For 80%, Against 18%, Abstained 2%.

LGIM provided the following examples in response to our request to provide details of their most significant votes:

1. **Amazon.com, Inc**

   Date: 25/05/2022

   Resolution: Elect Director Daniel P. Huttenlocher

   Vote: Against

   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.

2. **NVIDIA Corporation**

   Date: 02/06/2022

   Resolution: Elect Director Harvey C. Jones

   Vote: Against

   Diversity: A vote against was applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. We are targeting the largest companies as we believe that these should demonstrate leadership on this critical issue.

   Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.

3. **Alphabet Inc.**

   Date: 01/06/2022

   Resolution: Report on Physical Risks of Climate Change

   Vote: For

A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.

BNYM - engagement activities

The following is based on the information that BNYM have provided in response to our questions on voting and engagement and provides an illustration as to how they co-ordinate their voting and engagement activities with companies. Newton are a subsidiary of BNYM and are the entity that manage the Global Dynamic Bond Fund.

We believe the value of our clients' portfolios can be enhanced by the application of good stewardship. This is achieved by engagement with investee companies and through the considered exercise of voting rights. Our understanding of a company's fundamental business enables us to assess the appropriate balance between the strict application of corporate governance policies and taking into account a company's unique situation.

We do not maintain a strict proxy voting policy. Instead, we prefer to take into account a company's individual circumstances, our investment rationale and any engagement activities together with relevant governing laws, guidelines and best practices. For the avoidance of doubt, all voting decisions are made by Newton.

It is only in the event of a material potential conflict of interest between Newton, the investee company and/or a client that the recommendations of the voting service used (Institutional Shareholder Services, or the ISS) will take precedence. It is also only in these circumstances when we may register an abstention given our stance of either voting in favour or against any proposed resolutions. The discipline of having to reach a position of voting in favour or against management ensures we do not provide confusing messages to companies.

Voting decisions take into account local market best practice, rules and regulations while also supporting our investment rationale. For example, when voting on the election of directors in Japan, we are unlikely to vote against a board chair should the board not be majority independent given that only recently the corporate governance code has recommended boards appoint independent directors. However, in the UK, where majority independent boards are well established and expected by investors, we are likely to vote against the chair and non-independent directors. This being said, we frequently vote against executive pay at US companies despite it being accepted US market practice of granting significant awards of free shares, as we believe executive pay should be aligned with performance.

BNYM Global Dynamic Bond Fund

The fund does not hold equities and therefore does not have the same voting rights as some other funds. However, Newton's engagement activities are undertaken for all the companies that they hold and so they also engage with the companies whose bonds are held in this fund, for example:

Volkswagen

"We joined an investor call urgently convened by the company following a downgrade from MSCI, which now deems it to breach the UN Global Compact (UNGC). The downgrade was triggered in response to

MSCI's evaluation methodology which considers the company to have exposure to China's Xinjiang region, leading to concerns of forced labour.

The company very clearly articulated its disagreement with MSCI's decision, explaining that its exposure to this plant in question is through a joint venture rather than directly owned by the company. While the company is correct on this nuance, we found the company to be defensive towards investors and feel it failed to engage on the heart of this sensitive and complex subject. Its responses were extremely disappointing.

We had a follow up meeting with the company following MSCI deeming it to be in breach of the UNGC. While we acknowledge the company's clarification that it has exposure to the plant in question via a joint venture, rather than direct ownership, we shared our view that this argument was technical in nature and appeared defensive. Instead, the company needs to better communicate its approach to supply chain audits and risk management, particularly in sensitive regions. Furthermore, while the company's exposure is via a joint venture, it still has accountability on expectations placed on the practices of its joint venture partner.

Despite this follow up discussion, our concerns remain regarding how the company is properly managing this risk, particularly as it appears committed to continuing with the partnership, which is important for the company to be able to sell vehicles into this market. We do acknowledge the challenges of maintaining supply chains in this region and note that there is a lesser chance of this being a high risk exposure for the company given the skilled nature of the roles and the smaller size of the plant. Furthermore, the company does not use intermediaries to manage this risk better.

We participated in a discussion with the company on its new green bond framework. We asked the company its reasons for updating its framework and whether it plans to issue other labelled bonds. In addition, we engaged with the company on the selection and governance of green projects."

M&G - engagement activities

The following is based on the information that M&G have provided in response to our questions and provides an illustration as to how they co-ordinate their engagement activities with companies.

"Across all of our assets classes, M&G believes that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance.

Alongside engagement with investee companies, active voting is an integral part of our investment approach. We believe exercising our vote adds value and protects the interests of our clients as shareholders. We often get asked by clients how we carry out our voting, as a number of asset managers just follow their proxy agents' advice. We use the ISS voting platform to vote and we have built, with ISS, a custom voting service that reflects our public voting policy.

Given the limited upside and potential downside of fixed income investments, the focus of our ESG analysis is on understanding downside risks. Since ESG risks often develop over the longer term, and given our long-term investment approach, we believe it is essential to integrate ESG issues into our investment process. Our integrated approach to ESG is applied across all forms of fixed income including corporate bonds, *government bonds, securitised debt, real estate debt, infrastructure debt, leveraged finance, direct lending and private placements.*

Engagement with issuers is usually undertaken by our credit analyst team, with support when needed from the Corporate Finance and Stewardship team, since they have a clear and detailed understanding of the ESG issues affecting the credit quality of the issuers that they cover. Although bond holders normally have less influence than equity holders when engaging with companies, M&G considers it important to engage with fixed income issuers regarding material ESG issues in order to gain better understanding of ESG risks, and to encourage improved ESG practices.

The additional insight often gained through ESG engagement also better informs our credit views and investment decisions. We prefer to engage on ESG issues directly with an issuer's senior management, and M&G's significant scale in fixed income markets provides us with necessary access to an issuer's senior management in order to do so. In our private debt business, we are often one of the primary sources of finance for the borrower, which can give us significant access and influence to engage."

M&G Total Return Credit Fund

The fund does not hold equities and therefore does not have the same voting rights as some other funds. However, M&G's engagement activities are undertaken for all the companies that they hold and so they also engage with the companies whose bonds are held in this fund, for example:

INFORMA PLC

*"**Objective** - To ensure that there is appropriate succession planning for Informa, British publishing, business intelligence, and exhibitions group.*

***Action taken** - M&G met with the Chairman and Head of IR.*

***Engagement Outcome**: The board have regular and formal discussions on succession planning for the CEO and executives. There are no current plans for the CEO leaving, he is expected to stay in the business for the foreseeable future. Informa don't specifically use an external head-hunter to search for potential talent, if the CEO were to leave on a planned or unplanned basis they would have someone step into the role in the interim and they have someone in mind for the moment. Then, from here they would specifically evaluate the situation to see whether they needed to recruit externally for the role. They have had good stability in the leadership team for long time and the company reassured us that the team is not likely to change in the short term and that they have controls and measures in place to replace him if necessary."*

Columbia Threadneedle - engagement activities

The following is based on the information that CT have provided in response to our questions and provides an illustration as to how they co-ordinate their engagement activities with companies. These examples provide evidence that the Fund Manager is engaging actively with the companies they invest in on behalf of the Scheme.

'We take responsible investment seriously. The identification of financially material environmental, social and governance (ESG) issues forms part of our investment process, helping us to manage risk and support long-term returns. Beyond the management of opportunity and risk, we also see responsible investing and

broader investment stewardship activities as part of our duty as an investor acting in the best interest of our clients, and as a participant in the global financial system.

Our approach is aligned with the core values and beliefs of the wider CT Financial Group, and draws on national and international codes and standards for responsible investment and ownership, including the United Nations Principles for Responsible Investment, to which we are a founder signatory.

LDI portfolios are very different to traditional equity or bond portfolios and so our engagement programme primarily focuses on trading counterparties and clearing members. This engagement work is structured both in terms of prioritisation (both in terms of companies to whom we have the greatest exposure and to companies whom we feel have the greatest ESG deficiencies) and in terms of progress monitoring against predefined milestones.'

Columbia Threadneedle Dynamic LDI Funds

These funds contain investments that provide exposure to interest rates / inflation. They do not hold any physical equity investments and are therefore not eligible to vote. However, CT does still engage with counterparty banks on relevant issues. They have provided the following examples:

Barclays PLC - *At the Q3 2022 investor update, the company announced that it was accelerating its timeline to phase out the financing of thermal coal power in the US from 2035 to 2030, in line with its approach in the UK and EU. The decision was taken as a result of engagement with shareholders and the introduction of the Inflation Reduction Act in the US.*

HSBC Holdings PLC - *HSBC has updated its energy policy to include the ending of funding for new oil and gas projects. In particular it states: HSBC will not provide new finance, or new advisory services, to any client for the specific purposes of O&G exploration, appraisal, development, and production pertaining to: • ultra-deepwater offshore O&G projects; • shale oil projects; extra heavy oil projects; • projects in environmentally and socially critical areas; •infrastructure whose primary use is in conjunction with the above activities.*