Marks & Spencer Pension Scheme

Annual Implementation Statement – year ending 31 March 2025

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Section 1: Introduction

This document is the Annual Implementation Statement ("the statement") prepared by the Trustee of the Marks & Spencer Pension Scheme ("the Scheme") covering the Scheme Year ("the year") from 1 April 2024 to 31 March 2025.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee's policies on engagement and voting as set out in the Statement of Investment Principles (the "SIP") have been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of proxy voting services during the year.

The SIP is a document which outlines the Trustee's policies with respect to various aspects related to investing and managing the Scheme's assets, including but not limited to: investment managers, portfolio construction and risks.

Unless otherwise stated, this Statement will refer to wording within the SIP dated August 2024. This is an updated document from the one previously dated August 2023, with minor amendments to the governance arrangements to ensure the document remains current and appropriate. The Responsible Investing section of the SIP was amended to reflect changes to reporting frequency and the Scheme's decision to no longer be a signatory to the United Nations Principles of Responsible Investment. The asset allocation descriptions for two assets were updated to better reflect the underlying nature of the Scheme's investments.

A copy of the August 2024 SIP can be found within the Scheme's annual reports and accounts, and published online here: Statement of Investment Principles.

Section 2: How the Trustee has adhered to policies related to voting and engagement

As set out in the Trustee's ESG Beliefs, engagement and voting are both thought to be highly influential activities and the Trustee recognises that they can lead to changing behaviour of companies and ultimately improving investment performance, as well as having a positive impact on the environment and society. The primary goal of the Trustee is to act in the best financial interests of its members, and the investment strategy is formulated to support its primary objective of paying member benefits as and when they fall due. Contributing towards this objective, the Trustee works in close partnerships with the Scheme's investment managers, monitoring stewardship processes closely, with the advice and expertise of third parties.

The Scheme makes use of both pooled and segregated vehicles. Investing in pooled funds allows the Scheme to benefit from economies of scale and potentially lower fees. However, this means that the investment or engagement decisions regarding the companies invested in by each fund are made at the discretion of the investment manager of the pooled fund. The Trustee is comfortable with this approach, given that ESG factors form a significant part of manager selection exercises and ongoing due diligence, particularly when considering long-term investments.

Across both pooled and segregated mandates, whilst the Trustee does not direct voting or engagement activities themselves, they seek to exert their influence as an asset owner through engaging with the managers where concerns are highlighted through the various monitoring processes. The Trustee requires the investment managers to develop and maintain appropriate voting and engagement policies, both as part of the initial selection process and ongoing where applicable.

The Trustee's policies relevant to voting and engagement as stated in the SIP are as follows:

- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee, or its advisers, will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

- For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may from time to time invest in certain strategies (e.g. hedge fund strategies) where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

- The Trustee believes that ESG factors, including Climate Change, are financially material considerations that will have significant influence on the future success of companies and their ability to service debt and of security of cashflows and asset values. Integration of ESG factors is fundamental to the design and implementation of the investment strategy of the Scheme.
- The ESG Committee ("ESGC") advises the Board, including the Investment Committee, on ESG risks and opportunities, and recommends governance and policies to manage these. The ESGC receives input from the Investment Advisor, the Covenant Advisor, and the Scheme Legal Advisor, where appropriate.
- In appointing investment managers, the Trustee, with input from the Investment Advisor, considers in detail their experience and capabilities and in managing ESG factors and sustainability in the securities or assets in which they invest, and this assessment forms a part of the regular on-going monitoring of the investment managers.

- The Trustee believes that companies that effectively manage ESG risks can protect and enhance value by, for example, avoiding risk to their reputation, reducing potential financial liability and by increasing their ability to recruit and retain high-quality staff.

- Therefore, the Trustee wishes to promote the proactive management of ESG risks amongst the companies in which the Scheme invests and expects its appointed investment managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process and also to exercise their voting rights.

- The Trustees monitors the stewardship practices of its managers to understand how they exercise their duties with regard to ownership rights (including voting rights) on the Trustee's behalf and to aid them in so doing, the Trustee seeks the advice of expertise from third parties.

The Trustee has been involved in extensive activities over the course of the year to 31 March 2025 in order to meet its engagement and voting policies, and, more widely, the incorporation of responsible investment factors in decision-making. These activities included (but are not limited to) the following:

- The Trustee and its committees monitored the performance of the Scheme's investment managers (and the Scheme as a whole) throughout the year. As part of this the Scheme's custodian provided quarterly monitoring which includes quantitative performance data, reviewed at quarterly meetings with the Investment Committee ("IC"), and further considered by the Trustee Executive Team ("TET").

- The ESGC met 4 times over the year ending 31 March 2025. The ESGC discussed ongoing ESG related activities, opportunities and risks within responsible investments ("RI") and meeting evolving regulatory requirements. The purpose of the ESGC is to continue to maintain the Scheme's progress and position at the forefront of good practice in relation to RI.

- The ESGC continued to make progress in relation to meeting TCFD recommendations. With the help of advisors, the ESGC reviewed, approved and published the Scheme's third Climate Change Report. The report highlights that engagement will be a critical element in achieving the targets set out, noting that the Trustee will aim to reduce emissions through changing the behaviour of investee companies. Ahead of publishing this report, the Trustee reviewed TPR's feedback on first round of TCFD statements, noted any applicable commentary and reflected this in the report.

- As part of the annual Sustainable Investment (SI) review, the ESGC considered analysis which reviewed the Scheme investment managers' commitment to Net Zero, UN SDGs, UN PRI and exclusions. It was concluded that the majority of the managers consider ESG information while making investment decisions and are signatories to industry initiatives, while others have good engagement and are striving to add these factors to their decision-making process. Where managers fell short of expectations, the Trustee engaged further to address this and encourage managers to align with the ESGC's expectations. As a result of industry developments and developments in our own views, the ESGC made some important changes to the annual SI review process:

  - Managers are now scored against a traffic light approach for the key topics that they are tested against. This allows the Trustee to see at a glance which managers are aligned with the Trustee's expectations.

- The ESGC also increased the breadth of data requested from the managers to include a question on their approach to social factors. This is in line with industry developments, the training the Trustee received in this area over the year and the stewardship priorities agreed for the Scheme.

- The ESGC reviewed what the Trustee's approach to ESG should be going forward in the context of longer-term objectives, the regulatory and geopolitical landscape, stewardship priorities and reputational risk.

- The Trustee received a training session by an investment manager covering an introduction to incorporating social factors into investment decisions. This considered what social factors were and why it is important for pension schemes to consider them as well as their financial materiality both today and in the future.

- The ESGC heard from one of the Scheme's bulk annuity providers about its approach to ESG and how it integrates sustainable investment into portfolio decisions.

- The ESGC conducted a detailed review of the investment consultant's capabilities in matters relating to ESG. The Trustee also conducted a wider benchmarking exercise of the key industry participants in the ESG consulting space. The review concluded that the Trustee was happy with the service provided in this area.

- The topic of greenwashing was discussed to ensure the Trustee remained vigilant against investment manager claims of action in this area. The Trustee reviewed how greenwashing can present and the wider implications of anti-greenwashing regulations.

- The Trustee received training on evolving climate scenarios in response to changing expectations of the impacts of climate related policies that are currently in place. There has been some industry wide debate around the severity of the scenarios being modelled, specifically that the worst-case scenario doesn't capture the most severe possible outcomes. One limitation of the scenarios used is that they may not adequately consider possible climate 'tipping points'. The ESGC has discussed this with its advisers, who've indicated that future analysis can be expected to include an additional "hot house world" scenario, in which the world follows a net-zero pathway. However, the resultant temperature outcome exceeds 2°C due to a lower-than-expected remaining carbon budget, and/or the impact of climate tipping points.

- In February 2025, the Trustee received an update on the Net Zero Asset Manager's initiative (NZAM) which was impacted by developments in the

U.S. and different regulatory and client expectations in investors' respective jurisdictions. This has led to NZAM launching a review of the initiative to ensure NZAM remains fit for purpose in the new global context.

More widely, in line with the Trustee's fiduciary duty to meet member benefit payments as they fall due, the Trustee considers that the balance of investments held and the approach to managing risk is in the best interests of members in order to mitigate downside risk to the funding position of the Scheme whilst helping the Scheme to achieve its ultimate objectives over an appropriate time horizon.

At present, the Trustee does not explicitly take account of non-financial matters in the Scheme's investment strategy but may consider reflecting specific non-financial considerations in future. The Trustee is working to provide more regular updates on the topic of Responsible Investing (RI) to the Scheme's members. The Trustee also recognises that, with ever increasing focus on RI, a number of non-financial considerations may materialise into financial considerations which may affect the Scheme and its underlying companies in meeting financial obligations in future.

Engagement and Governance Priorities

- The Trustee's preferred approach is to drive change through engagement with the Scheme's underlying investments as opposed to applying negative screens. The Trustee expects managers to engage for long-term value over short-term improvements, however, the Trustee identified circumstances where an exclusionary approach may be appropriate, for example:

    - Where, despite repeated attempts at engagement, a company shows no indication that it will seek to improve its practices;

    - Where investment in an entity is seen to be significantly detrimental to matters relating to ESG considerations, including where there is significant unmitigated climate/transition risk;

    - Where there are significant failings within a company, including material or repeated breaches of the voluntary UN Global Compact initiative;

    - Where political risks cause a related investment risk and/or there are sanctions applied.

- The Trustee has agreed that fund managers should be able to evidence that, where relevant, they have engaged with their investments on these matters where appropriate. The governance priorities, upon which the Trustee believes that engagement should be focused, include:

    - Carbon emissions and related climate issues, as the Trustee believes that such issues will have a significant financially material impact on the Scheme, and that engagement should be used to support the transition to a low-carbon economy

    - Corporate activity to the detriment of biodiversity

    - Labour standards, and in particular, Diversity, Equity and Inclusion ("DEI") and modern slavery

      Corporate governance and appropriate executive remuneration structures, aligning board interests with those of stakeholders.

The Trustee is responsible for regularly reviewing these policies, in line with the evolving regulatory and geopolitical environment, in order to ensure that they remain relevant.

Engagement case studies:

As highlighted above, the Trustee considers engagement as a key aspect of ongoing Scheme management, and an important responsibility of both the Trustee and its investment managers, expected to provide long-term value to the Scheme. The Trustee expects the Scheme's investment managers to act as responsible stewards of capital as applicable to their mandates, through engagement undertaken.

As part of the ongoing monitoring and reviewing of the Scheme's investment managers, the Trustee has explored the approach to voting and engagement carried out across the portfolio. The Trustee has picked out key case studies related to the voting and engagement activities over the year. The Trustee considered these areas as significant as they closely align with the Trustee's investment beliefs (including ESG beliefs), policies, and mission statement in relation to RI.

<u>Schroders Social Factors Training</u> In August 2024, Schroders were invited to an ESGC meeting to deliver training to the Trustee on incorporating social factors into investment decisions. This aligned with the growing focus on social factors within the industry and the establishment of the DWP's Taskforce on Social Factors. The presentation covered what social factors are and why pension schemes should consider them, before looking at the extent to which they could be considered financially material.
<u>Manager approach to social factors</u> Given the growing interest in social factors, the Trustee asked the investment consultant to provide insight on how mangers are addressing social factors as part of the SI Annual Review. As a result, the review was expanded to challenge managers on their approach to social factors. Managers were asked if/how social factors were integrated into the investment process and whether their firms had set DEI policies. The responses showed that the Scheme's managers generally had a good level of engagement on DEI and social factors integration, but there was a noticeable lack of thinking among most managers on the forward-looking question around ensuring a 'just transition.' Manager progress against ambitions in this area will be reviewed on an annual basis.

UK Stewardship Code

As part of the Scheme's annual SI review, managers are asked whether they are signatories to the UK Stewardship Code. Whilst the Trustee strongly values the role that stewardship plays in driving long-term value for members and other stakeholders, and is aligned with the principles of the Code, in 2023 the Committee took the decision not to undertake the process of becoming a signatory to the Code itself.

Following the review, the Trustee re-engaged with managers that said they were not a signatory in order to better understand the reasons why and if there was scope to become a signatory. One reason some managers have cited for not being signatories is their belief that the code is not relevant to their assets. However, the Trustee is aware that the scope of the UK Stewardship Code has recently been under review. Since year end, the Financial Reporting Council (FRC) announced that a revised UK Stewardship Code will take effect from January 2026. This revised code aims to include more asset classes and provide clearer guidance for effective implementation. Considering these changes, the Trustee plans to continue engagement in this area over the coming years, concentrated on managers who previously believed the code was not relevant to their assets and ask them to reassess their position. The Trustee believes that aligning with the UK Stewardship Code is crucial for ensuring transparency, accountability, and long-term sustainable value creation for our members.

As a result of engagement in this area, one of the Scheme's real estate providers became a signatory to the Code over 2024. The manager recognised it is an area of importance to the Scheme.

Engagement with strategically important managers

Over the year, the Trustee discussed the Scheme's approach to ESG related issues and climate related investment opportunities in the context of the wider strategy and long-term objectives. These conversations reinforced the importance of focusing on the parts of the portfolio where the Trustee can make the most meaningful difference. By concentrating on these key areas, where the Trustee has real influence, the investment strategy remains firmly aligned with the Scheme's climate goals, while also, where possible, seeking to capture long-term value from climate-related opportunities.

As a result, over the year, the Scheme met with Aviva as one of their buy-in providers to discuss their approach to sustainable investment and the Trustee intends on continuing to focus this engagement on the long-term strategically important managers.

Section 3: Voting information

Commentary on voting principles

The Scheme is invested in a diverse range of asset classes. However, this section focuses on the equity investments which have voting rights attached.

In mid-April 2023, the Scheme fully disinvested from the remaining equity mandates held with LGIM. Therefore, over the year, the Scheme had no physical public market equity exposure and thus had no voting rights attached to any of its underlying holdings.

When applicable assets are held in the portfolio, the Trustee's policy is to delegate responsibility for exercising of ownership rights (including voting rights) to the Scheme's investment managers. The Trustee monitors the stewardship practices of its managers to understand how they exercise these duties on their behalf and to aid them in doing so, the Trustee seeks the advice of expertise from third parties. Investment managers also have their own policies which determine their approach to voting, and the principles they follow when voting on investors' behalf.

The Trustee expects investment managers to act as responsible stewards of capital as applicable to their mandates. The Trustee considers the investment managers' policies and activities in relation to Environmental, Social and Governance (ESG) and stewardship both at the appointment of a new manager and on an ongoing basis through meetings with the managers. The Trustee engages with managers to improve their practices and may terminate a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no managers were terminated on these grounds during the year.

Significant Voting

When applicable mandates are held in the portfolio, the Trustee recognises that some votes will be more significant than others, based on various considerations determined by the Trustee. These include:

- A matter relating to assets of significant importance to the Scheme's investment strategy.
- Shareholder resolutions on climate related policies and activities that would result in significant detriment to the climate or significant biodiversity loss.
- Company proposals that would be at odds with the expectations of the appropriate stewardship and governance compliance frameworks in relevant markets. This includes, but is not limited to, matters of excessive or inappropriate executive remuneration; issues relating to board make up (including DEI, lack of term limits, and lack of chair independence) and ineffective audits.

Section 4: Conclusion

As highlighted throughout this statement, the Trustee has undertaken a number of activities over the year in order to build on their approach towards engagement and is proud of the progress made thus far. The Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the year, going above and beyond in a number of areas, and strives to further improve practice in the future.

Following monitoring of the Scheme's investment managers over the year, the Trustee is satisfied that its managers are acting in the Scheme members' best interests and are effective stewards of the Scheme's assets.

The Trustee will continue to monitor the investment managers' stewardship practices on an ongoing basis in order to ensure that the Scheme's investment strategy and Trustee decision-making consistently aligns with the Trustee's investment beliefs and contributes towards achieving the Trustee's mission statement to provide long-term value and security to the Scheme's members.