

Photo-Me International plc Pension & Life Assurance Fund (the “Fund”)

Engagement Policy Implementation Statement

Introduction

The Trustee invests in the All-Stocks Index-Linked Gilts Index Fund and the Pre-Retirement Fund both managed by Legal and General Investment Management (“LGIM”). The former invests in index-linked gilts and the latter invests in gilts and investment grade corporate bonds.

The Trustee reviews LGIM's Environmental, Social and Governance (“ESG”) practices on an annual basis and takes advice from the investment adviser with regards to any significant concerns.

Stewardship can be less applicable in fixed income investments such as index-linked gilts and fixed interest gilts, compared with equity investments. However, fixed income managers are increasingly influential in their ability to encourage positive change. Whilst the Trustee acknowledges that stewardship may be less applicable to certain asset classes, the Trustee would generally still expect to see investment managers develop formalised stewardship policies and processes over time.

The Trustee's primary concern when setting the investment strategy is to act in the best interests of the beneficiaries, seeking the best return that is consistent with a prudent level of risk. The Trustee believes that promoting corporate responsibility and ensuring the highest standards of governance is consistent with this objective.

The Funds’ Stewardship Policy

This Statement sets out the actions undertaken by the Trustee, its service providers and investment manager, to implement the stewardship policy as set out in the SIP and includes engagement information that has been gathered from LGIM.

The SIP relating to the financial year ending 31 May 2020 was signed in September 2019 and the relevant extract relating to the Fund's stewardship wording is as follows:

'The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Trustee recognises that ultimately this protects the financial interests of the Fund and its beneficiaries.

The Trustee expects the investment manager to use its influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with –where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

Scheme Activity over the year

Training

Over the year, the Trustee received training on responsible investment from the investment adviser which covered the new regulatory requirements on stewardship, relationships with asset managers and costs. The training also covered a recap of the investment adviser's Environmental, Social and Governance (“ESG”) ratings process, and a discussion of the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

Ongoing Monitoring

The Trustee receives investment reports on a quarterly basis from the investment manager, which includes information relating to performance, asset allocation, asset valuations, transactions during the quarter and responsible investment. The Trustee's ongoing monitoring takes different forms, including investment performance monitoring, ad-hoc market updates and annual investment risk disclosures.

Investment Risk Disclosure

The Trustee reports on the risks associated with the Fund's investments annually in the investment risk disclosure report which accompanies the annual reports and accounts. In this report, the Trustee monitors the risks associated within the Fund's investments, concentrating on market risks, credit risk, interest rate risk, inflation risk and other risk.

Engagement

The Trustee invests in the LGIM All Stocks Index-linked Gilts Index Fund and the LGIM Pre-Retirement Fund. This LGIM Pre-Retirement Fund holds both UK government bonds and corporate bonds.

Signatory Information

The Principles for Responsible Investment ("PRI") is the world's leading proponent of ESG and a global standard setter for better practice. LGIM has been a PRI signatory since 2010.

Engagement Summary

The Trustee does not expect LGIM to engage with respect to the investments in UK Government Bonds.

While equity managers may have more direct influence on the companies they invest in, fixed income managers are also increasingly influential in their ability to encourage positive change. Voting, engagement and stewardship are less applicable to hedging instruments, such as government bonds, but with that said, the Trustee generally would still expect to see ESG policies and processes formalised and developed over time by all investment managers.

LGIM has become an industry leader in stewardship activities for index tracking funds and is arguably setting best practice for other managers to follow.

LGIM's engagement policy aims to encourage companies to adopt sustainable business models. Engagement at LGIM covers governance in its broadest sense looking at all material issues including regulation, listing rules, mergers and acquisitions, corporate strategy, and capital and financial management.

LGIM does not outsource its engagement activities. It has a six-step approach to engagement activities which includes:

1. Identifying the most material issues and focus on specific ESG themes they are able to address.
2. Identify and set long-term goals for the engagement, which often may take many years to occur.
3. Formulate an engagement strategy, including prioritising engagement in companies where they have the biggest holdings, which poses the greatest risk and opportunities to market performance.
4. Track progress of the engagement activity to assist evaluation of stewardship approaches and performance.
5. Regularly reviewing the progress, impact and success of engagement and amend the engagement strategy if required.
6. Consistent and regular reporting to clients on the engagement outcomes and detailing case studies.

LGIM is currently working on reporting developments that should allow it to provide more targeted strategy level engagement information. However, this is not due to be available before 2021. As a result, LGIM is unable to provide information its engagement activity at an individual fund level.

Engagement Example: Pharmaceuticals and Healthcare

LGIM provided an interesting case study in the fixed income space in their 2019 Active Ownership report. The opioid epidemic in the US, which has led to tens of thousands of deaths annually in recent years, stems from the extensive overuse of drugs obtained from medical prescriptions and from illegal sources.

Last year, as public interest continued to build, several companies faced litigation over their alleged role in the crisis. A group of analysts from LGIM's active equity and fixed income teams presented their research findings on the legal, regulatory, financial and ESG risks to the pharmaceutical and healthcare sectors. Because of this research, a collective engagement strategy was agreed, and investment decisions were informed. Within investment grade credit, LGIM maintained sector and issuer underweights or divested where there was financially material opioid-associated risk.

Conclusion

The Trustee is comfortable that LGIM is exercising its responsibility to engage, where applicable, to a satisfactory level.

The Trustee acknowledges that stewardship is generally less applicable to certain fixed income assets, but generally would still expect to see policies and processes formalised and developed over time.

The Trustee recognises that it has a responsibility as an institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Fund invests in.

The Trustee will continue to use its influence to encourage positive behaviour by LGIM and with other third parties that the Trustee relies on, such as its investment advisor.