

Annual Engagement Policy Implementation Statement

LEGO UK Limited Retirement Benefits Scheme

Introduction:

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 December 2020. 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 subsequent amendments, and the guidance published by the Pensions Regulator.

On the basis of materiality (size of AVCs relative to total Scheme assets) and due to the lack of available information from the Scheme's AVC provider at the time of writing, this Statement focuses on the Trustees' Engagement Policy in relation to the investments managed by State Street Global Advisors ("SSgA").

Investment Objectives of the Scheme:

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the SIP are as follows:

"The Trustees' objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed a primary objective to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, as follows:

- To offer protection of the Scheme's funding position on a basis appropriate for a scheme with 100% of its assets invested in investment grade corporate bonds.

Additional objectives are as follows:

- To ensure that it can meet its obligation to the beneficiaries of the Scheme.
- To achieve a return on the total Scheme assets which is compatible with the level of risk considered appropriate.
- To pay due regard to the Sponsoring Employer's interest in the size and incidence of contribution payments."

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change. This policy sets out the Trustees' beliefs

on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This was last reviewed in Q3 2020.

In order to establish these beliefs and produce this policy, the Trustees discussed their beliefs and the new disclosure requirements at the Trustees meeting on 29 October 2019. The policy was incorporated into the SIP following this meeting. The Trustees keep their policies under regular review with the SIP subject to review at least triennially.

The Trustees' policy in relation to ESG factors, stewardship and climate change, as set out in the SIP, is as follows:

“The Trustees believe that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and may therefore be considered as part of the Scheme’s investment process. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. When setting investment strategy, ESG factors, including climate change, may be considered alongside a number of other factors that can influence investment strategy.

The Trustees have given the appointed investment manager full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme’s investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees periodically review the policies and engagement activities (where applicable) of the appointed investment manager. The Trustees will, where it is deemed necessary, engage the manager in discussion on its policies. It will however be made clear to the manager that any decisions taken by the manager should be in the best long term financial interest of the Scheme and its members.

However, at the current time, the Trustees’ focus is on achieving the primary objective outlined in Section 3, via investment in a passively managed corporate bond fund. In such an investment, they accept that ESG considerations by the investment manager are diminished. The Trustees will however keep their investment strategy under periodic review, including consideration of ESG issues.

The Trustees have not set any ESG related investment restrictions on the appointed investment manager in relation to particular products or activities, but may consider this in future.

Member views are not taken into account in the selection, retention and realisation of investments but the Trustees retain the right to seek member views in future.”

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

Engagement

The Scheme's investment performance report was reviewed by the Trustees on a semi-annual basis from the Scheme's investment manager, SSgA. The Trustees also received from their investment consultant the research ratings (both general and specific to ESG) that apply to the fund invested in by the Scheme.

The Trustees are comfortable with the ratings that are applied to the fund, and will continue to closely monitor the ratings and any significant developments at the investment manager (including receiving relevant research updates from their investment consultant).

SSgA have confirmed that they are signatories to the UK Stewardship Code and have submitted the required reporting to the Financial Reporting Council in order to be on the first list of signatories for the UK Stewardship Code 2020.

Although not directly applicable to the Scheme given the nature of the Scheme's investment strategy, the Trustees' investment consultant requested, on behalf of the Trustees, details of relevant engagement activity for the period from SSgA.

SSgA provided examples of their engagement with companies, which is undertaken at a firm wide level rather than fund-by-fund. These engagements related to a wide range of different issues including governance, compensation, and sustainability practices. This included engaging with companies on climate change to understand if companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (e.g. reaching net-zero carbon emissions and a commitment to align all of its financing activities with the goals and timelines of the Paris Agreement).

SSgA also provided examples where they had engaged with companies they were invested in, or about to invest in, which resulted in a positive outcome. These engagement initiatives are driven mainly through regular meetings with the companies that SSgA invest in, or by voting on key climate-related resolutions at companies' Annual General Meetings.

Voting Activity

Given the nature of the investment strategy and arrangements, during the period to 31 March 2021 the Scheme did not hold any funds that assign voting rights.