Banco Santander Retirement Savings Plan ("the Plan")

Annual Engagement Policy Implementation Statement

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 May 2023 (the "Plan Year"). This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Department of Work and Pensions.

Investment Objectives of the Plan

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 Plan included in the SIP are as follows:

- To meet the obligations of the beneficiaries of the Plan;
- To pay due regard to the Bank's (Banco Santander S.A., the Sponsoring Employer) requirements with regard to the size and incidence of contribution payments;
- To achieve buyout within an appropriate timeframe, while taking an appropriate level of risk.
- To reduce the risk in the Plan's investment strategy over the long-term as and when it is affordable to do so. In this context risk is defined as the volatility of changes in the Plan's asset portfolio relative to its liability portfolio (primarily due to changes in interest rates and inflation).

Policy on ESG, Stewardship and Climate Change

The Plan's SIP, which can be found online, includes the Trustees' policy on Environmental, Social and Governance ("ESG") factors, stewardship (including engagement activities) 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.

In order to establish these beliefs and produce this policy, the Trustees undertook investment training provided by its investment consultant on responsible investment. In addition, the Trustees have identified climate change concerns and/or transition to a low carbon economy (Paris-alignment) as high priority area for the voting and engagement undertaken on behalf of the Trustees in respect of the Plan's invested assets.

As set out in the Plan's SIP, the Trustees have given the appointed Investment Manager full discretion when evaluating ESG factors, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the Plan's investments, in accordance with the Investment Manager's own corporate governance policies and taking account of current best practice, including the UK Corporate

Governance Code and the UK Stewardship Code. The Trustees expect their Investment Manager to take these factors into account as appropriate to the mandate in the selection, retention and realisation of investments. This applies to both equity and debt investments (including those held in the Diversified Growth Fund), as appropriate, and covers a range of matters including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental and social impact and corporate governance.

In addition, the Trustees will review the responsible investment policies of the appointed Investment Manager. The Trustees should, where it is deemed necessary, engage the Investment Manager in discussion on the policies. It should however be made clear to the Investment Manager that any decisions taken by the Investment Manager should be in the best long term financial interest of the Plan and its members.

The Trustees keep their policies under regular review with the SIP subject to review at least triennially and following any material changes to their investment strategy or policies.

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

Through their investment consultant, Mercer Limited, the Trustees review the mandates of Legal and General Investment Management ("LGIM") in relation to ESG factors, including climate change, on an ongoing basis. This is carried out primarily through the investment consultant's ESG ratings, to which the Trustees receive notifications of any change. All of the funds remained highly rated during the year when compared to the peer group. From an ESG perspective, the Trustees will continue to monitor and engage with the investment managers if deemed appropriate.

The Trustees have requested, via their investment consultant, that the Investment Manager confirms compliance with the principles of the UK Stewardship Code 2020. LGIM confirmed that they are signatories of the current UK Stewardship Code since 31 March 2021.

The Plan's investment manager takes an index-tracking approach in the management of the Plan's fixed income assets and so does not directly take account of financially material considerations in the selection, retention and realisation of investments for these assets.

The Trustees also received details of relevant engagement activity for the year from the Plan's investment manager (including with the investee companies within both LGIM's dynamic diversified fund and corporate bond fund, in which the Plan invests). LGIM engaged with companies over the year on a wide range of issues, including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (e.g. those linked to the Paris Agreement). LGIM provided examples of instances where they had engaged with companies they were invested in / about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies in which the manager invests or by voting on resolutions at companies' Annual General Meetings.

LGIM's engagement campaign aims to use their influence to ensure that companies integrate ESG factors into their culture and everyday thinking and ensure that markets and regulators create an environment in which good management of ESG factors is valued and supported. In doing so, LGIM have stated that they seek to fulfil their purpose to create a better future through responsible investing.

When voting against management, LGIM publicly communicate their vote instructions on their website with their rationale. It is their policy not to engage with their investee companies in the three weeks prior to an Annual General Meeting as their engagement is not limited to shareholder meeting topics. After each vote, LGIM continue to engage with their investee companies, publicly advocating their positions of the issues and monitoring company and market-level progress.

The below sets out examples of the engagements made by LGIM over the Plan year that are aligned with the Trustees' stewardship priorities.

Climate Impact Pledge

In June 2022, LGIM published their annual Climate Impact Pledge update, sharing their successes and indicating where they will be putting more pressure on companies to raise their standards. Some key facts and figures include:

- Having sanctioned 130 companies in 2021 for failing to meet their minimum standards, this number decreased in 2022 to 80 companies.
- LGIM are keeping 12 companies on their divestment list, and adding two new companies.
- LGIM have removed one company from their divestment list for demonstrating actions and improvements, and have reinstated it in select funds.

Deforestation: campaign and collaboration

In the fourth quarter of 2022, LGIM continued their deforestation engagement campaign with portfolio companies. Having communicated initially with around 300 companies in deforestation-critical sectors, LGIM then followed up with direct engagements where requested. For instance, LGIM met with Colgate-Palmolive* and Sime Darby Plantation to discuss their deforestation policies and approaches. As communicated in their deforestation policy, LGIM will be sanctioning companies for not meeting their minimum expectations of having a deforestation policy or programme from 2023 onwards. LGIM will continue to work on achieving their milestones as part of the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which LGIM signed in 2021.

In response to commitments made at COP26, LGIM joined with over 30 financial institutions as part of the Finance Sector Deforestation Action ("FSDA") initiative to commit to use best efforts to eliminate agricultural commodity-driven deforestation from investment portfolios by 2025. Through their involvement in the FSDA initiative, LGIM are working with other investors to accelerate progress in key sectors and across value chains. This is a critical step towards reversing deforestation globally and aligning the financial sector with a Paris Agreement-compliant 1.5°C pathway. The initiative has set out investor expectations for companies around commitments, disclosure and actions related to deforestation.

The FSDA has also identified key companies in deforestation critical sectors to engage with, and LGIM has taken the lead on four of these engagements. The FSDA initiative outlines a clear timeline to demonstrate ‘best efforts’, including:

1. By the end of 2022: complete an assessment of deforestation risk exposure associated with investments related to forest-risk agricultural commodities, adopt policies to address deforestation risk and deepen engagement with clients and holding companies.

2. By 2023: disclose deforestation risk exposure and mitigation activities associated with investment portfolios and continue engagement activities.

3. By 2025: publicly report on progress and incorporate engagement outcomes into investment decisions.

Voting Activity

In producing this Engagement Policy Implementation Statement, one of the Trustees’ aims is to enhance their reporting on voting activity.

The Trustees have delegated their voting rights to the investment manager. Where applicable, the investment manager is expected to provide voting summary reporting on a regular basis, at least annually.

The Trustees do not use the direct services of a proxy voter, although the investment manager may employ the services of proxy voters in exercising their voting rights on behalf of the Trustees.

The voting activity of the Plan’s investment manager has been considered by the Trustees as part of this Statement and the Trustees deem it to be consistent with their responsible investment beliefs. Over the prior 12 months, the Trustees have not actively challenged the manager on its voting activity.

The key voting activity on behalf of the Trustees over the Plan year is set out below. All information is based on the investment in the LGIM Dynamic Diversified Fund, being the only fund in which the Plan invests where the underlying assets have voting rights attached. Additionally, the information below is in respect of the period in which the Plan invested in the LGIM Dynamic Diversified Fund as the Plan fully disinvested from the fund on 9 November 2022.

LGIM rely on the services of a proxy advisor, Institutional Shareholder Services("ISS"), but have developed and implemented their own custom policies and guidelines to oversee these issues. LGIM retain oversight of the decisions made with regard to voting rights.

Investment manager – Fund	Total votable Meetings	Total votable proposals	Participation rate for votable proposals	% of votes for / against management	% of votes abstained
LGIM – Dynamic Diversified Fund	9,448	98,208	99.8%	77.6% / 21.7%	0.7%

Source: Investment manager.
Data shown in this table covers the period of 1 January 2022 to 31 December 2022 due to the investment manager's data availability.

Significant votes

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote" and that Trustees were required to include details on why a vote is considered significant and rationale for the voting.

The Trustees prioritise climate change concerns and/or the transition to a low carbon economy (Paris-alignment) as key ESG topics and these areas are considered to be priorities for stewardship and for significant votes by the Trustees.

The Trustees have selected the votes listed below as being the most significant undertaken over the Plan Year, based on size of holding, from the voting information provided by LGIM for the DGF.

<u>Alphabet Inc. – 1 June 2022</u>

- **Approximate size of the holding:** 0.08% of total fund

- **Summary of the resolution:** Resolution 7 – Report on Physical Risks of Climate Change

- **How LGIM voted:** LGIM voted for the resolution. LGIM expects companies to be taking sufficient action on the key issue of climate change as it is an escalation of their climate-related engagement activity and public call for high quality and credible transition plans to be subject to a shareholder vote.

- **Outcome:** The resolution did not pass, with 17.7% of the votes in favour.

<u>Carrefour SA – 3 June 2022</u>

- **Approximate size of the holding:** 0.02% of total fund

- **Summary of the resolution:** Resolution 13 – Approve Company's Climate Transition Plan

- **How LGIM voted:** LGIM voted against the resolution. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.

- **Outcome:** The resolution passed, with 87.4% of the votes in favour.

Centrica Plc – 7 June 2022

- **Approximate size of the holding:** 0.01% of total fund

- **Summary of the resolution:** Resolution 17 – Approve Climate Transition Plan

- **How LGIM voted:** LGIM voted for the resolution. While LGIM notes the inherent challenges in the decarbonisation efforts of this sector, they expect companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. It is LGIM's view that the company has taken significant steps to progress towards a net zero pathway, however LGIM welcomes the company's review of interim targets as part of the Science Based Targets initiative validation process, as well as disclosures that are aligned to the CA100+ benchmark.

- **Outcome:** The resolution passed, with 80.0% of the votes in favour.

Additional Voluntary Contributions ("AVC") and Annuities

The Plan's assets include AVCs with Prudential and annuities with Aviva and Canada Life.

No details around significant votes that align with the Trustees' priorities were provided by Prudential.

With regards to Aviva and Canada Life annuities, the voting and engagement information was requested but not provided at the time of writing. Therefore, so as to not delay publishing this statement and on the basis of materiality relative to total Plan's assets, details are not included in this year's statement.

Prudential provided some examples of the engagements with companies made over the Plan year, one of which is outlined below:

Environment – Net Zero

M&G, as the underlying manager of Prudential With-Profits Fund, requested that Danish allergy immunotherapy specialist ALK-Abelló provide additional disclosures, including a breakdown of scope 1 and 2 emissions, which it previously provided, as well as scope 3, which it did not, and to commit to Science Based Targets to be verified by the Science

Based Targets initiative ("SBTi"), which it previously indicated was in its plans. From an impact perspective, M&G also wanted to establish the best key performance indicator ("KPI") to measure its real world impacts (this is currently looking at the number of patients treated).

M&G met with the company's chief financial officer, head of sustainability and investor relations, to make their expectations known.

As a result, the company announced scope 1 and 2 targets in 2019, for a 60% reduction by 2025, but these plans have not been validated by SBTi. ALK is currently in the process of looking at scope 3 emissions, and will report on those emissions by 2025 at the latest, while it will commit to SBTi by 2024 at the latest. In terms of impact, the company agreed that number of patients treated was most likely the best KPI, however additional suggestions included the number of healthcare professionals the company trains, or the number of drug approvals in different markets.

Investment Manager Performance and Fees

The investment performance reports were received by the Trustees on a quarterly basis during the year under review.

Since the appointment of LGIM, the Trustees have reviewed the performance of both the overall investment strategy and each of the underlying funds against suitable benchmarks. The Trustees did not draw any concerns around the performance of the investment manager.

The Trustees periodically review investment manager fee levels to ensure the Scheme achieves value for money. Over the Plan Year, there were no changes to the remuneration arrangements with LGIM.