Annual Engagement Policy Implementation Statement

Estée Lauder Benefit Plan

Introduction

This statement sets out how, and the extent to which, the Engagement Policy within the Statement of Investment Principles (‘SIP’) produced by the Trustee, has been followed during the year to 30 June 2023. This statement has been produced in accordance with The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator.

Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objective of the Plan included in the SIP is to provide sufficient assets to pay benefits as they fall due by maintaining a funding level on the SFO (Statutory Funding Objective) basis of at least 100%.

- The Trustee expects that over the long term the assets will produce a return sufficient to exceed the Scheme Actuary’s investment return assumptions used in the actuarial valuation.
- In order to achieve the return objective, the Trustee accepts that risk will be taken within the Plan’s portfolio. The Trustee recognises that this will fluctuate over time as the composition of the portfolio changes and levels of risk in markets change.

The policies set out in the SIP are intended to help meet the overall investment objectives of the Plan. Detail on the Trustee’s objectives with respect to the strategic and risk management are outlined in the SIP.

Over the period, the trustees fully disinvested their Macro Global Targeted Returns mandate with Invesco and incepted a Multi-Asset Credit mandate with M&G, which was completed in January 2023. In line with the trustee’s rebalancing policy, the LDI mandate underwent a refresh in April 2023 and was rebalanced back to the 100% target on interest rates and inflation.

The SIP can be found online in the following link:

https://media.elcompanies.com/files/e/estee-lauder-companies/uk/our-commitments/working-with-our-suppliers/uk-corporate-statements/benefit plan sip december 2020.pdf

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The SIP agreed in December 2020 was in force at the beginning of the period under review and was updated in March 2023 to reflect changes to the investment policies. The updated SIP includes the following policy on ESG, Stewardship and Climate Change:

- The Trustee believes that Environmental, Social, and Governance (ESG) factors do have a material impact on investment risk and return outcomes, and that good stewardship helps create and preserve value for companies and markets as a whole.

- The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

- Given the investments are in pooled funds, the Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights obligations attached to the Plan's investments.

- With regards to stewardship, the Trustee wishes to encourage best practice in terms of corporate activism. It therefore encourages its investment managers to discharge their responsibilities in respect of investee companies in accordance with relevant legislation and codes.

- The Trustee has delegated the exercise of voting rights to the Plan's appointed investment managers, on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the investment managers have produced written guidelines of their process and practice in this regard.

- The Trustee wishes to encourage best practice in terms of active engagement with entities in which they invest. The Trustee has given the investment managers full discretion when undertaking such engagement activities and encourages the Plan's investment managers to discharge their responsibilities in respect of investee companies in accordance with the principles underlying the UK Corporate Governance Code and the UK Stewardship Code, in respect of all resolutions at annual and extraordinary meetings. The Trustee will review the investment managers' policies and engagement activities (where applicable) on an annual basis. Where investments are made on a passive basis, whilst the manager has no discretion over the selection of individual shares or bond issues (as the manager seeks to match the composition of the benchmark index as closely as possible) the Trustee expects managers to have good stewardship over the investments and vote in line with their own corporate governance policy.

- The Trustee considers how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers. ESG ratings are included as part of the quarterly reporting in order for the Trustee to understand the level of ESG integration within the Plan.

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 Trustee's engagement and voting policies were followed and implemented during the year.

Trustee Engagement with Investment Managers

- The majority of the Plan's holdings are in UK government bonds managed by BlackRock, where there is little scope to consider ESG factors. The focus of ESG activity is thus across credit managers (BlueBay, M&G and T Rowe Price).

- The investment performance report is reviewed by the Trustee on a quarterly basis – this includes manager ratings (both general and specific ESG) from the investment advisers. Monthly reporting also includes information on the ESG ratings of managers.

- The investment monitoring reports also highlight the rationale for any changes in the ESG ratings.

- The Trustee asked the managers to confirm their adherence to the current UK Stewardship Code and whether they have submitted the required reporting to the Financial Reporting Council to be on the list of signatories for the UK Stewardship Code 2020. All of the Plan's investment managers are signatories to the code.

- The Trustee may choose to remove a manager if they are dissatisfied with progress the manager may be making to improve their rating. When implementing a new manager the Trustee will consider the ESG rating of each manager involved in the selection process.

Voting Activity and Manager Engagement

The Trustee has delegated their voting rights to the investment managers. Investment managers are expected to provide voting summary reporting annually. The Trustee does not use the direct services of a proxy voter.

The Trustee expects that the Plan's investment managers will vote in accordance with the guidelines set down by the UK Stewardship Code and UK Corporate Governance Code. All of the Plan's investment managers are currently signatories to the current UK Stewardship Code.

The DWP released a set of Implementation Statement requirements 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" to be adopted in all Implementation Statements for schemes with years on or after 1 October 2022. The most material change was that the Statutory Guidance provides an update on what constitutes a "most significant vote". This is only applicable to those funds with equity holdings, however, due to the fixed income mature of the fund there are currently no voting rights assigned to the plan.

If an investment manager is asked to present to the Trustee at a quarterly board meeting, the Trustee asks the investment managers to highlight key engagement activity with issuers of debt and the impact on the portfolio.

The following section summarises the processes of the relevant managers and, over the last 12 months, the key voting and manager engagement activity on behalf of the Trustee.

T. Rowe Price – Absolute Return Bonds

- The general voting policy of T. Rowe Price is as follows.
  - *The T. Rowe Price ESG Committee develops its firm's positions on all major proxy voting issues, creates guidelines, and oversees the voting process. In establishing proxy policies each year, the Committee relies upon the firm's own fundamental research, independent research provided by an outside proxy advisor, and information presented by company managements and shareholder advocates.*
  - *Once the ESG Committee establishes its recommendations, they are distributed to the firm's portfolio managers as voting guidelines. Ultimately, the portfolio managers decide how to vote on the proxy proposals of companies in their portfolios. When portfolio managers cast votes that are counter to the ESG Committee's guidelines, they are required to document their reasons in writing to the Committee.*
  - *T. Rowe Price has retained Institutional Shareholder Services ("ISS"), an expert in the proxy voting and corporate governance area, to provide proxy advisory and voting services. These services include custom vote recommendations, research, vote execution, and reporting.*
- Given the fixed income nature of the portfolio, there is limited opportunity to vote on behalf of the Trustee. However, other forms of engagement are possible, as outlined by T. Rowe below:
  - *T. Rowe Price reports its engagement activity on a yearly basis. While they engage with companies in a variety of investment contexts, ESG engagement focuses on learning about, influencing, or exchanging perspectives on the environmental practices, corporate governance, or social issues affecting their businesses. Through the course of 2022, they engaged with companies on 1,002 separate occasions, sometimes more than once with the same company.*
  - *Over the same period, T. Rowe Price has engaged 12 times with corporations directly represented in the portfolio, either via one-to-one meetings or via group presentations. This number does not include the interactions that they also have at sovereign level which are numerous in nature, as part of their sovereign analysis research approach.*

BlueBay – Multi Asset Credit

- Given BlueBay's specialist focus on fixed income assets, the number of occasions in which BlueBay will be engaged in proxy voting will be limited.
  - *Where this may occur, BlueBay will ensure it makes appropriate use of its voting rights on matters of corporate governance and corporate responsibility.*
  - *BlueBay have subscribed to Broadridge ProxyEdge which alerts them to any upcoming proxies due to be voted on, and provides a portal through which BlueBay can vote. This does not provide any research or recommendation, rather the relevant members of BlueBay's portfolio management team will be responsible for recommending how proxies should be voted, with the input from the ESG investment specialists as appropriate.*
- Other forms of engagement are possible and key engagements undertaken over the prior year are summarized below:
  - *During 2020, BlueBay formally joined the Climate Action 100+ (an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change) and agreed to co-lead on engagement with Petroleos Mexicanos (Pemex) through this initiative. The company responded to the formal letter outlining the initiative, stating it is currently reviewing the best way to engage with investors, which BlueBay have confirmed that they will continue to monitor.*

M&G – Multi Asset Credit

- The general voting policy of M&G is as follows:
- M&G's approach to stewardship is set out in their 'Annual Stewardship Report' document. An active and informed voting policy is an integral part of their investment philosophy. In M&G's view, voting should never be divorced from the underlying investment management activity. By exercising their votes, M&G seek both to add value to our clients and to protect their interests as shareholders. M&G consider the issues, meet the management if necessary, and vote accordingly.
- M&G aim to vote on all resolutions at general meetings of companies held in M&G's actively managed portfolios as well as their passive holdings. Typically, M&G votes by proxy at general meetings, but on occasion M&G will attend a general meeting where their clients' interests are best served by us doing so.
- When considering resolutions, M&G look to support management, but the ultimate decision will be determined by an assessment of the impact on their investments and the long-term interests of their

clients. In determining their vote, a number of factors will be taken into consideration including their voting policy, company-specific information and the extent to which they have been able to obtain any additional information required to make an informed decision.

- M&G will vote against proposals that compromise their clients' interests. M&G may not vote in favour of resolutions where they are unable to make an informed decision on the resolution because of poor quality disclosure, or due to an unsatisfactory response to questions raised on specific issues. They would always seek to discuss any contentious resolutions with company managements before casting their votes, in order to ensure that their objectives are understood. However, they consider it unnecessary to inform investee companies ahead of meetings of routine capital management resolutions that they typically oppose as their position is clearly disclosed.
- Any shares on loan may be recalled whenever there is a vote on any issue affecting the value of shares held, or any issue deemed to be material to the interests of our clients.
- M&G disclose their voting records on their website on a quarterly basis.

BlackRock – Liquidity Fund

- The investments in the liquidity fund are generally short-dated debt instruments, so there is limited scope for engagement. No notable engagement activities were undertaken over the previous year.