

L'ORÉAL (UK) LIMITED RETIREMENT BENEFITS PLAN

11. Engagement Policy Implementation Statement ('EPIS') For the year ended 5 April 2022

The Engagement Policy Implementation Statement ("EPIS") has been prepared by the Trustees and covers the Plan year 6 April 2021 to 5 April 2022.

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustees produce an annual statement which outlines the following:

- Explain how and the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles ("SIP").
- Describe the voting behaviour by or on behalf of the Trustees (including the most significant votes cast) during the Plan year and state any use of third-party provider of proxy voting services.

Executive summary

Based on the activity over the year by the Trustees and their investment managers, the Trustees believe that the stewardship policy has been implemented effectively. The Trustees note that most of its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement. In particular, the Trustees expect improvements from LGIM, Invesco and Threadneedle on their reporting of fund-level engagement examples. The Trustees' investment adviser, Aon, will continue to engage LGIM, Invesco and Threadneedle to encourage improvements in their disclosures.

Plan stewardship policy

The below bullet points summarise the Plan's stewardship policy in force over the Plan year to 5 April 2022.

The full SIP can be found here:

<https://www.loreal.com/-/media/project/loreal/brand-sites/corp/master/lcorp/7-local-country-folder/uk/documents/loreal-uk-ltd-retirement-benefits-plan-sip--sept-2020--final-signed.pdf>

- The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.
- If an incumbent investment manager is found to be falling short of the standards the Trustees have set out in the policy, the Trustees undertake to engage the investment manager and seek a more sustainable position but may look to replace the investment manager.
- The Trustees review the stewardship activities of their investment managers on an annual basis or more frequently, if deemed appropriate, covering both engagement and voting actions. This includes receiving annual stewardship reports from the managers.

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Training

Over the year, the Trustees had responsible investment training sessions with their investment advisor, which provided the Trustees with updates on the evolving regulatory requirements and the developments of ESG integration across the appropriate asset classes. The first training session was provided to the Investment Sub Committee ("ISC") in August 2021 where the ISC was made aware of potential ESG opportunities within their LDI mandate through the inclusion of green gilts. Following discussions with the wider group, the Trustees agreed to give their LDI manager discretion to invest a small proportion of the LDI assets in green gilts, subject to not exceeding the pre-specified parameters.

At the March 2022 meeting, the Trustees received an introductory training session on property which outlined the key drivers and investment opportunities of ESG within the space. The Trustees also reviewed their property managers to better understand how ESG was being integrated at both a strategy and manager level. Following the training session, the Trustees agreed to evaluate the ESG status of all the funds held by the Plan. As part of this, the Trustees will further assess how their property managers compare against their peers from an ESG perspective.

Cost Transparency Reporting

Over the year, the Trustees appointed ClearGlass to collate cost transparency information on the Plan's investment managers for the period 1 January 2020 to 31 December 2020. The ClearGlass cost transparency report was presented to the ISC in November 2021. The Trustees subsequently instructed their investment advisor to investigate one of the property managers who noted a large cost under the "other expenses" category. Following a deeper review of the category, the investment advisors concluded the other expenses to be reasonable given the fund structure and the impact of Covid-19 on cleaning and marketing costs.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustees by their investment advisor (Aon). The reports include ESG ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

On an annual basis, the Trustees also conduct an in-depth annual ESG health check to better understand how their investment funds and portfolio managers evaluate and integrate ESG data in the investment decision-making process (both on a strategy and manager level). This was collated by the investment advisors and presented to the Trustees via the annual ESG dashboard at the March 2022 Trustee meeting.

Discussions with the sponsor to align applicable ESG objectives

The views of the sponsor, where applicable, have been aligned to the Plan's ESG objectives. For example, this includes changes to the SIP and the Plan's approach to the new TCFD regulations. Furthermore, the Trustees take into consideration the Company Charter when determining the Plan's investment strategy and manager appointments. The Company Charter includes responsible investment and ESG considerations.

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Voting and Engagement activity – Equity and multi-asset funds

Over the year, the material equity investments held by the Plan were:

Aon Investments Limited	Global Impact Fund
Legal & General Investment Management	Developed Balanced Factor Equity Index Fund

In this section, there is a summary of voting information and examples of significant voting activity for each of the Plan's relevant managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has their own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustees consider inappropriate or based on an inappropriate rationale
- a vote that has significant relevance to members of the Plan

The Trustees consider a significant vote as one which the voting manager deems to be significant.

Legal & General Investment Management ("LGIM") - Developed Balanced Factor Equity Index Fund

Voting

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. LGIM also receives research from the Institutional Voting Information Service ("IVIS"). This augments LGIM's own research and proprietary Environmental, Social and Governance ("ESG") assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

Voting example:

In June 2021, LGIM voted against a resolution to elect the Chief Executive Officer ("CEO") of retailer Target Corporation to the role of chair of the company's board as well. It is LGIM's policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences due to risk management and oversight. Further, LGIM expects a CEO or non-executive director not to hold too many board positions to ensure they can undertake their duties effectively. 93.7% of shareholders voted in favour of the resolution. LGIM considered this vote to be significant because it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

LGIM monitors several ESG subjects and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy.

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LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

More information can be found on LGIM's engagement policy

https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

At the time of writing, LGIM had not provided engagement examples for the funds. Aon has engaged at length with LGIM regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this in the first half of 2022. The example provided below is at a firm level, i.e. it is not specific to the fund the Plan is invested in.

Engagement example (firm level)

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria and viruses change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

Aon Investments Limited ("AIL") - Global Impact Fund

The Plan is invested in the AIL Global Impact Strategy, a fund of funds arrangement. The fund invests in multiple strategies addressing a range of impact themes that contribute to the transition to a more sustainable economy. The strategic objective of the fund is to generate capital growth over the long-term while generating a positive impact on society through:

- Active investments in global companies whose business products or services are addressing the planet's long-term challenges, and
- Investing in funds where the manager engages with portfolio companies to encourage business improvement on ESG issues.

The Trustees delegate the monitoring of ESG integration and stewardship quality of the underlying managers in the Global Impact Strategy to AIL. AIL confirmed that the underlying managers received an ESG rating of 'Integrated' or higher on Aon's ESG rating system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

AIL has carried out a considerable amount of engagement activity over the year. AIL held a number of ESG focussed meetings with the underlying managers across all of its strategies. At these meetings, AIL discussed ESG integration, and voting and engagement activities undertaken by the investment managers. This allowed AIL to form an opinion on each manager's strengths and areas for improvement. AIL provided feedback to the managers following these meetings with the goal of improving the standard of ESG integration across its portfolios. AIL continues to execute its ESG integration approach and engage with managers.

This section provides an overview of the voting and engagement activities of some of the underlying managers.

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Baillie Gifford – Positive Change Fund

Voting

Baillie Gifford views voting as an important part of its long-term investment process. It sees this ability to vote its clients' shares as a method of strengthening its position when engaging with investee companies.

Baillie Gifford's governance and sustainability team oversees its voting analysis and execution in conjunction with its portfolio managers. It uses research from proxy voting advisers, ISS and Glass Lewis, for information but does not delegate any of its stewardship activities or rely upon its proxy advisers' recommendations when deciding how to vote. Baillie Gifford analyses all meetings with underlying companies in line with its governance and sustainability principles and guidelines and strives to vote on all its clients' holdings.

Voting example:

In August 2021, Baillie Gifford voted against a proposal from the management of medical device company, Abiomed, regarding an executive compensation package. Baillie Gifford opposed the proposal due to concerns about one-off equity awards granted during the year. Ahead of voting, Baillie Gifford had a call with the company to discuss the proposal in more detail. Following discussions with the company and internally, Baillie Gifford decided to oppose the resolution and Baillie Gifford communicated its decision to the company. The resolutions passed. Baillie Gifford continues to engage with the company on compensation and other ESG issues.

Engagement

Baillie Gifford engages through regular meetings with portfolio companies to monitor performance. Baillie Gifford states that its strategy is to steer change through active engagement rather than immediate disinvestment. This may take the form of approaching the company with concerns, meetings with management, or voting against management. Baillie Gifford may decide to disinvest or reduce holdings in a company if it continually falls short in its ESG practices and goals.

Baillie Gifford usually addresses specific governance and sustainability concerns by engaging directly with a company. Its research informs the topics on which it engages. When appropriate, Baillie Gifford engages collaboratively with other shareholders through a range of industry organisations and initiatives.

Further information can be found here: <https://www.bailliegifford.com/jp/japan/professional-investor/literature-library/corporate-governance/governance-and-sustainability-principles-and-guidelines/>

Engagement example:

In September 2021, Baillie Gifford engaged with the Chief Financial Officer ("CFO") of Nibe, a manufacturing company specialising in sustainable energy systems like heat pumps. The aim of the engagement was for Baillie Gifford to understand more about Nibe's ESG impact reporting practices and to encourage improved disclosure of the carbon emissions avoided from the use of its products.

Nibe confirmed that its emissions calculations were still in progress, made more complicated by the decentralised systems used in its products. Nibe also said that is not ready to set science-based targets but it is actively considering them. Baillie Gifford also discussed the proactive role Nibe is playing in the promotion of heat pumps as a climate solution. Baillie Gifford will continue to monitor the company's progress and engage accordingly.

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Nordea Asset Management ("Nordea") – Global Climate and Environmental Fund

Voting

Nordea's policies and principles define how it approaches corporate governance-related matters, the incorporation of ESG considerations in its investment processes and how shares are voted. A committee has been set up to ensure appropriate handling of governance matters, and the operational responsibility rests with the Corporate Governance function. The Corporate Governance function and the Responsible Investment team work together closely.

Nordea uses proxy voting adviser, ISS, for proxy voting, vote execution and research. Generally, Nordea focuses its stewardship efforts on companies on which it can have an impact, such as firms in which it has a substantial ownership share. In addition, Nordea puts extra emphasis on companies which it owns in its ESG-enhanced products.

Voting example:

In May 2021, Nordea voted against the management of Republic Services Inc., by voting in support of a shareholder resolution to report on integrating ESG metrics into executive compensation. Nordea is strongly in favour of including ESG metrics in executive compensation. Further, other similar companies have started integrating ESG metrics into their executive performance evaluations. The resolution did not pass but Nordea will continue to vote for such proposals. Nordea considered this vote to be significant based on the portfolio weight of the company at the time of voting and on its alignment to Nordea's corporate governance principles.

Engagement

Nordea sees engagement as a crucial part of its Responsible Investment philosophy and framework. Nordea's engagement activities combine the views of its portfolio managers, financial analysts and ESG specialists to establish engagement objectives. Nordea conducts engagements with companies through face-to-face meetings, conference calls, letters or field visits. Nordea uses engagements to improve its understanding of the companies it invests in and to influence them.

Nordea has established six principles which guide its engagements:

- Act in the long-term interest of shareholders
- Safeguard the rights of all shareholders
- Ensure efficient and independent board structure
- Align incentive structure of employees with the long-term interest of shareholders
- Disclosure information to the public in a timely, accurate and adequate manner
- Ensure social, environmental and ethical accountability

More information on Nordea's engagement policy can be found here: https://www.nordea.lu/documents/static-links/NIM_AB_Engagement_Policy.pdf/

Engagement example:

In 2021, Nordea engaged with the waste management company, Cleanaway, to better understand the company's diversity strategy and environmental agenda. Nordea had several calls with the CEO and the Chair of the company. The engagement helped Nordea understand the potential areas of development, such as the adoption of science-based targets as well as a thorough analysis of the company's current sustainability profile. Nordea encouraged the company to set long-term environmental and diversity goals. Nordea will continue to monitor progress and engage further if necessary.

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Engagement activity – Real Estate

Over the year, the Plan was invested in the following real estate strategies:

Invesco Asset Management Limited	Real Estate UK Residential Fund ("IRERF")
BlackRock	UK Property Fund ("BRUKPF")
Schroder Investment Management	UK Real Estate Fund ("SREF")
Threadneedle Asset Management Limited	Property Unit Trust ("TPUT")

The Trustees acknowledge that the ability of property managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see from the information they provided for the EPIS that the managers are aware and active in their role as stewards of capital.

The following section demonstrates some of the engagement activity being carried out by the Plan's property managers over the year.

Invesco Asset Management Limited ("Invesco") – Real Estate UK Residential Fund

Engagement

In the case of real assets, which can be significant contributors to global risk, Invesco recognises the importance of ESG issues, in particular its key role (as an investment manager) in respecting, protecting, and in so much as possible, enhancing the environment and wider social prosperity. The manager has identified numerous themes that impact property development from a sustainability perspective.

There are many criteria for identifying a "sustainable" building and it believes every element of ESG should be incorporated into this process. As such, recognition of asset quality, sustainable financing, long term corporate strategy and wider consideration around the impact of the built environment on society and the natural world are factors which are considered within its investment process.

The manager has set four primary sustainability targets for its real estate team:

1. 3% annual reduction in energy and emissions by 2030 from a 2018 baseline
2. Net zero carbon emissions by 2050
3. 1% annual reduction in water consumptions
4. 1% annual increase in water diversion rate

The team discloses its ESG strategy and performance to investors via Global ESG Benchmark for Real Estate ("GRESB"), which aims to assess and benchmark the ESG and other related performance of real assets across the market. Invesco has also joined a number of other industry initiatives.

Further information regarding Invesco's firm-wide stewardship and engagement policies and activities can be found in its ESG Investment Stewardship Report, which can be found here:

<https://www.invesco.com/corporate/about-us/esg>

Threadneedle Asset Management Limited ("Threadneedle") – Property Unit Trust

Engagement

Threadneedle engages with stakeholders, such as companies or tenants, to gain deeper research insights, build relationships with companies and influence for change. It believes engagement enhances its own research and investments by detecting long-term trends and influencing companies' standards of ESG risk management and sustainability.

When deciding whether to engage, Threadneedle considers various factors including:

- The material significance of an issue to the tenant.

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- The risk to its clients.
- The size of its holdings.
- Its opportunity to collaborate.
- Its ability to effect change.

Threadneedle sets clear objectives ahead of each engagement meeting and tracks them on a regular basis. It shares the research and outcomes from its engagements globally across the firm.

At the time of writing, Threadneedle had not provided engagement examples for the fund. The Trustees' investment adviser, Aon, will engage with Threadneedle to encourage it to report on its engagement activities in line with its peers. The example provided below is at a firm level, i.e. it is not specific to the fund the Plan is invested in.

Engagement example (firm level):

In 2020, one of Threadneedle's tenants was struggling to meet its rental payments during the pandemic. Threadneedle had a constructive discussion with the tenant and a temporarily reduced rental payment plan that was affordable for the tenant was agreed. It was agreed that the tenant would pay no rent for 3 months followed by another 3 months at a reduced rental rate rent and in return, the tenant would waive the break clause in its rental contract. Further, the balance of the arrears would be covered by the rental deposit, on the understanding that the deposit would be topped back up to the full amount during 2021.

Schroder Investment Management ("Schroders") – UK Property Fund

Engagement

Schroders's engagement with regards to its property investments is primarily its relationship with tenants, where it seeks regular and ongoing engagement to ensure a good occupational experience to help and retain tenants. Its sustainability requirements for property managers include key performance indicators on tenant engagement for those who are responsible for the day-to-day relationship with tenants. Alternatively, engagement could be through Schroders's membership in industry groups such as the Better Buildings Partnership.

Schroders's engagement activities are prioritised based on the materiality of its exposure to the individual funds (either by the total size of assets invested on behalf of clients or by the percentage of shares held) and by the materiality of the issue. Schroders prefers to engage confidentially with managers to discuss issues because it believes this is the most constructive and effective approach. However, if Schroders feels that its voice is not being heard, it may express these concerns to the Association of Real Estate Funds.

Schroders Real Estate Sustainability Policy can be found here:

<https://prod.schroders.com/en/sysglobalassets/email/uk/realestate/2021/schroder-real-estate-sustainability-policy-2021.pdf>

Engagement Example

Since May 2021, Schroders has engaged with the occupiers of Davidson House in Reading, a purpose-built office building. Schroders's objective for the engagement was to ensure that all stakeholders were working to reduce the amount of waste sent to landfill to zero. The managing agent of the property, CBRE, is responsible for waste collection services at Davidson House.

At an initial meeting between Schroders, the occupiers and CBRE, it was agreed that CBRE would receive quarterly reports on waste collection from tenants to monitor progress and collaborate on how to increase recycling. The resultant quarterly reports showed that there was a reduction in the amount of waste sent to landfill but levels were not yet at zero. The engagement led to a reduction in waste contamination costs and increased awareness of recycling. Schroders aims to roll this strategy out to other properties.

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BlackRock – UK Property Fund

Engagement

When BlackRock invests directly in real estate, its ESG integration process includes a detailed review of social factors including the health and safety of employees, users and local communities. Where applicable, BlackRock's Real Assets team reviews factors such as land rights, and community impact and rights. Its Real Assets team regularly monitors on-site health and safety, and wider community engagements and impacts. BlackRock aims to comply with all relevant jurisdictional laws and expects its appointed contractors to do the same.

Blackrock also reviews environmental factors, including environmental protection, pollution prevention, and the conservation of biodiversity. BlackRock partners with specialist environmental and ecological consultants to undertake environmental risk assessments.

BlackRock reports annually on its property funds to the Global ESG Benchmark for Real Estate ("GRESB"), which aims to assess and benchmark the ESG performance of real assets across the market.

Engagement example:

Sustainability campaigns have been implemented at various properties in the BlackRock UK Property Fund. In these campaigns BlackRock engages with tenants on a range of sustainability topics including energy efficiency and carbon reduction, sustainable transport and travel, waste management and recycling, wildlife conservation, and health and well-being.

One of the properties in the fund is the Birmingham Business Park, a large office campus with over 130 occupants. BlackRock has carried out engagement activity at Birmingham Business Park which has resulted in the following actions:

- The establishment of three onsite beehives with the proceedings from the sale of the honey going to local charities.
- Onsite pond dipping, woodland walks and 'wildlife awareness' talks being offered regularly.
- The provision of shared 'pool bikes' for the use of all tenants.

As a result, the Birmingham Business Park was awarded the Transport for West Midlands Top Cycling Award and Top Walking Award in 2017 in recognition of the efforts to encourage more sustainable modes of transport for all occupiers.

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Appendix

Voting Statistics for the year ending 31 March 2022

	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	Of the resolutions on which the fund voted, % that were voted against management	Of the resolutions on which the fund voted, % that were abstained from
LGIM - Developed Balanced Factor Equity Index Fund GBP Hedged	11,660	99.8%	19.1%	0.2%
Baillie Gifford - Positive Change Fund	333	93.7%	2.6%	0.3%
Nordea Asset Management - Global Climate and Environmental Fund	711	98.3%	14.0%	0.0%

Source: Managers

Please note that managers generally collate voting information on a quarterly basis. The voting information provided above is for the year to 31 March year