

Engagement Policy Implementation Statement (“EPIS”) Eli Lilly Group Pension Plan (the “Plan”)

1st January 2023 – 31st December 2023

Introduction

Under regulatory requirements, the Plan is required to produce an annual Implementation Statement (the “Statement”) setting out:

- a) How voting and engagement policies set out in the Statement of Investment Principles (“SIP”) in respect of the Plan year from 1st January 2023 to 31st December 2023 have been followed and;
- b) A description of any voting behaviour by or on behalf of the Plan Trustee during the Plan year.

This Statement has been produced in accordance with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 as amended, and the guidance published by the Pensions Regulator.

The document sets out at a high level how the Trustee’s policy on stewardship and engagement has been implemented. Where relevant, the document describes the areas of the portfolio where the stewardship and engagement are most likely to be financially material. Disclosed is also the Trustee’s review of the outcomes of voting and engagement activity for managers where applicable.

From 1 October 2022, further Department of Work and Pensions (‘DWP’) guidance on the reporting of stewardship activities through Implementation Statements came into effect. This Statement aligns with the latest guidance and with the DWP’s updated stewardship expectations for the relevant period.

Overall, the Trustee is comfortable that the policies set out in the SIP have been properly adhered to over this period.

Summary of SIP updates over the period

Whilst there were no changes to the SIP from 1st January 2023 to 31st December 2023, the Trustee has been working closely with its Investment Consultant to complete a review of the SIP following the Plan’s recent valuation. The current version of the SIP can be found [here](#).

The Trustee’s policies on voting and engagement

The Trustee recognises that good stewardship practices, including engagement and voting activities, are important as they help preserve and enhance asset owner value over the long term. The Trustee recognises the importance of its 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.

To best channel its stewardship efforts, the Trustee has chosen to focus on key themes based on their likely financial materiality to the Plan and its members. As a result, Climate Change has been selected as the key focus area.

Engagement

The Trustee expects its fund managers to engage with issuers on relevant matters to maintain or enhance long-term value of the Plan’s investments and limit negative externalities on the planet and society.

In October 2023, the Trustee met with Insight, the Plan’s Liability Driven Investment (“LDI”) and Asset-backed Securities (“ABS”) manager, which holds a considerable proportion of the Plan’s asset allocation. The Trustee engaged with Insight on the performance, investment approach, ESG integration and stewardship for both funds respectively. Overall, the Trustee was satisfied with the fund manager’s activities and is comfortable with their approach to ESG and stewardship.

The Trustee delegates responsibility for engagement with individual issuers to the Plan’s fund managers. The Trustee understands that engagements carried out by fund managers are likely to vary in nature by asset class. With that in mind, three engagement examples across the Plan’s asset classes are given in Appendix B, including discussions of how these align with the Trustee’s chosen theme of Climate Change, and other broader ESG factors as relevant.

Within the growth assets, the Plan is largely invested in pooled funds, so the responsibility for voting and engagement is delegated to the Plan’s fund managers. The Trustee’s Investment Consultant also assessed the stewardship capabilities of its most material fund manager, Adams Street, and are comfortable with their current approach. The Trustee notes that Adams Street is a Private Equity Manager, and their engagement activities are appropriate for the asset class.

The Plan invests in a number of illiquid assets, summarised in the table below:

Manager	Mandate
Ares Capital Europe IV & V	Direct Lending
Schroders Focus II Fund	Opportunistic Illiquid Credit
CVC Credit Partners European Direct Lending Fund	Direct Lending
DRC Capital UK Whole Loan Fund	Whole Loans
Walton Street Real Estate Debt Fund II	Real Estate
Taconic European Credit Dislocation Fund	Opportunistic Illiquid Credit
Alcentra European Direct Lending Fund II	Direct Lending
GreenOak UK Secured Lending II	Whole Loans
Crestline Trent River Offshore Limited Class R1 Series Fund	Hedge Fund of Funds
Adams Street (Segregated Mandate)	Private Equity

CBRE (Segregated Mandate)	Real Estate
KKR Diversified Core Infrastructure Fund	Infrastructure
DIF Infrastructure Fund V	Infrastructure
M&G Debt Investment Opportunities IV	Opportunistic Illiquid Credit
Hewitt Risk Management Services (Segregated Mandate)	N/A (four underlying mandates)
Schroders UK & European Property	Real Estate

The Trustee recognizes that the respective investment processes and often illiquid nature of the above investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. The Trustee still expects that all their managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that are financially material.

As part of aligning to the DWP’s stewardship expectations, the Trustee plans to consider both how to best assess the engagement activities of the Plan’s managers and retain ownership of the stewardship process. The Trustee intends future engagements with the Plan’s fund managers as part of its manager monitoring, recognising that the Investment Consultant also monitors the Plan’s fund managers.

Additional Voluntary Contributions (“AVCs”) – Aegon

The Plan’s AVC arrangement are with Aegon, invested in a wide variety of managed funds. Due to the relatively small holdings of the AVCs, this Statement does not disclose the stewardship in relation to the AVC funds in detail. For more information on Aegon’s responsible investment approach, please see their website which can be found [here](#).

Significance of stewardship in appointment and monitoring of fund managers

When selecting and monitoring the Plan’s fund managers, the Trustee considers a manager’s ESG and stewardship capabilities. This information is provided by the Plan’s Investment Consultant and through direct conversations with fund managers. Over the reporting year, the Trustee monitored the performance of the Plan’s investments on a quarterly basis and received updates on important issues from both their previous and current Investment Consultants. Where possible, the Plan’s Investment Consultant works on behalf of the Trustee to monitor and improve the extent to which the Plan’s managers consider ESG issues.

As part of aligning to the DWP’s stewardship expectations, the Trustee plans to consider both how to best assess the engagement activities of the Plan’s managers and retain ownership of the stewardship process. The Trustee intends to have future engagements with the Plan’s fund managers as part of its manager monitoring, recognising that the Investment Consultant also monitors the Plan’s fund managers.

Over the year, the Plan has not appointed any new managers.

Voting

The Trustee expects its fund managers to recall lent stock as necessary, in order to carry out voting actions. Engagement with relevant persons includes the exercise of rights (including voting rights)

attaching to the Plan's relevant investments which are exercised by the fund managers of the Plan, where applicable.

The Trustee delegates responsibility for the exercise of rights (including voting rights) attaching to the investments of the Plan to the fund managers. Voting rights exist in the M&G Debt Opportunities Fund¹ and the CBRE Property Fund.

Voting statistics for these two mandates, as well as a selection of significant votes cast on behalf of the Plan over the period are shown in Appendix A.

¹Please note that M&G only provided voting information based on three equity investments. The remaining equity investments held within the mandate were not applicable for voting activities as M&G either held non-voting shares, did not have board representation or data had not been received.

Appendix A – Voting Statistics

Only two current investment mandates, CBRE Property Fund and M&G Debt Opportunities Fund, hold any assets with voting rights. The CBRE Property Fund manages indirect real estate strategies on behalf of separate accounts and pooled vehicles and will thereby exercise voting on any relevant issues that may arise. M&G has three underlying equity investments which are applicable for voting. The table below summarises the key voting statistics and significant votes for these two mandates.

Table 1 – Key Voting Statistics

Key Voting Statistics (1 January 2023 – 31 December 2023)	M&G Debt Opportunities	CBRE Property
Number of equity holdings at period end	10	N/A
Value of Trustees' Assets	£5.6m	N/A
Number of meetings eligible to vote during the period	30	29
Number of resolutions eligible to vote during the period	38	34
% of resolutions voted	100%	100%
% of resolutions voted with management	100%	100%

Table 2 – Most Significant Votes

	M&G Debt Opportunities	CBRE Property
Company	Healthcare Equipment Manufacturer	Property Trust A
Date of vote	22/08/2023	27/11/2023
Summary of the resolution	Increase the maximum number of Directors and Director appointments	Sale of nine multi-led industrials to a UK listed property company at an aggregate price of £39.85m
Manager's vote	For	For
Outcome of the vote	N/A	Passed

Rationale for the voting decision	Improve the effectiveness of the board to ensure sufficient expertise in the right areas to support the business	Transaction deemed in clients' best financial interests.
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Appendix B – Engagement Examples

Engagement

As per the Plan’s SIP, the Trustee expects their fund managers to engage with issuers on relevant matters to maintain or enhance long-term value of the Plan’s investments and limit negative externalities on the planet and society. This includes performance, strategy, risks, capital structure, conflicts of interest, and environmental, social or governance considerations.

The Trustee expects the nature of engagement to vary between asset classes. The Trustee also believes engagement can take place across all of the Plan’s investments and is not restricted to equity investments. Below are three examples of engagement within the Plan’s liquid credit and illiquid asset classes. To focus the examples of engagement to those that are most relevant to the Trustee, the examples from relevant managers were collected with a focus on those aligning to the Trustees’ stewardship priority, Climate Change. Where this was not provided, the focus is on those with a broader ESG theme.

Manager: DRC

Company: Project Clerkenwell

Background: This project was designed to offer a model for a more sustainable future, whilst respecting the area’s past, for an office space in Clerkenwell.

Actions: DRC engaged with the borrower from the initial screening stage through the ongoing lifecycle of the investment. This engagement involved requesting detailed information on the Borrower’s ESG intentions with the assets and the appointment of a third-party consultant who provided an independent report on the Environmental Aspects of the loan. Further, DRC engaged with the Borrowers to discuss the Capital Expenditure programme and budget needed in order to achieve certain requirements for the asset (i.e. Carbon Emissions, Building Certification, Waste and Water Pollution). As at the time of writing, DRC notes that the investment is performing in line with expectations.

Manager: Anonymised liquid credit manager

Background: This example highlights the direct work the manager has undertaken with issuers to improve their understanding of what matters to investors surrounding ESG and how they can improve their disclosures.

Actions: Engagement has been ongoing with this issuer. One example on a 1-2-1 engagement took place between a portfolio manager in the Secured Finance team and member of the Treasury team who was responsible for future funding plans at the issuer. The manager discussed their likely funding paths over the next 5 years and the impact that ESG requirements (amongst other factors) might have upon that. The Issuer agreed to provide EPC certification data on their new originations but confirmed that there remain issues relating to data provision on their (large) back book. The manager is continuing to monitor provision of EPC information on data tapes, as well as continuing to engage where the issuer brings new issuance to market.

Manager: CBRE

Company: applies to all the holdings within the portfolio.

Background: On an annual review, CBRE conducts a sustainability annual review of all underlying funds and their managers.

Actions: Following a review of the Sustainability Scorecard for each holding, CBRE contacted managers with specific and bespoke questions which related to each fund. Further, they used an internal tool to measure consistent performance relative to other funds. Following this, CBRE engaged with managers to enquire how they were intending to improve performance regarding specific ESG related data points. They also asked questions relating to the funds' use of green building certifications such as BREEAM², the managers' plans and roadmaps relating to their net zero carbon targets, performance in the annual GRESB³ assessment and questions on data coverage for utility consumption.

² Building Research Establishment Environmental Assessment Method

³ GRESB is a mission driven and investor led organization providing standardised and validated Environmental, Social and Governance (ESG) data to the capital markets.