Responsible Investment Policy – July 2024

1. Introduction and objectives of this policy

The Trustee of the John Lewis Partnership Pensions Trust invests on behalf of the beneficiaries of the Scheme. The Trustee invests the assets responsibly to deliver financial performance in a way that considers Environmental, Social and Governance ("ESG") issues. The Trustee considers these factors to be material financial risks that could impact the value or future performance of an investment.

This document sets out the Trustee's policy on responsible investment ("RI") and how it deals with ESG risks and opportunities. This policy has been developed taking into account its members and stakeholders, including its sponsor the John Lewis Partnership.

This policy covers both the Defined Benefit (DB) and Defined Contribution (DC) sections of the Trust.

The Trustee is a signatory to the Principles for Responsible Investment (PRI). The PRI is a leading proponent of responsible investment. Being a PRI signatory allows the Trust to publicly demonstrate its commitment to incorporating ESG factors into its investment decision making and ownership practices. In 2023 the Trust completed its most recent annual PRI submission, during which it achieved a score above the peer average for 5 out of the 6 categories that were relevant to the Trust. For the remaining category the Trust was in line with median score.

In order to limit global warming to well below 2°C, consistent with the goals of the 2015 Paris Agreement, it is widely believed that global greenhouse gas emissions will need to meet 'net zero' by the middle of this century across all sources of emissions.

We welcome members' and stakeholder feedback and will consider this as we continue to develop our policy for Responsible Investment. If you have feedback on the policy, please let us know by contacting the Trustee Services Team Trustee.Services@johnlewis.co.uk

GLOSSARY OF TERMS USED IN THIS POLICY

Responsible investment

The integration of environmental, social and corporate governance (ESG) considerations, including climate change, into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

ESG

Environmental, Social and Governance factors could impact the value of an investment. The key areas covered are as follows:

- **Environment**: including climate change, the transition to a low carbon economy. Pollution, Waste, Nature and Biodiversity.
- **Social**: including human rights; modern slavery, pay & safety in the workforce and supply chains, workforce diversity and abuses in conflict zones.
- **Governance**: including focus on management structure, business ethics, employee relations, diversity and inclusion, and executive compensation.

Paris Agreement

An international treaty on climate change with the goal of limiting global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Net Zero

Net zero refers to achieving a balance between the amount of greenhouse gases produced and the amount that is removed from the atmosphere (e.g. by carbon capture or planting of forests).

Stewardship

The responsible allocation, management, and oversight of capital to create long-term value for investors and beneficiaries leading to sustainable benefits for the economy, environment and society".

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2. Trustee beliefs on Responsible Investment issues

The Trustee's key Responsible Investment beliefs, and the implications for the management of the Trust, are set out below.

I. **Recognising the positive impact of Responsible Investment in the governance process is important, reflecting market best practice and stakeholder views where appropriate to do so.** Publishing this RI policy, and continued development and implementation is consistent with this principle.

II. **Climate change is a systemic risk to the global economy and the investments of the Trust.** The Trustee has agreed to target 'Net Zero' carbon emissions by 2050. The Trustee will continue to develop its strategy and implementation plan to achieve this objective across the DB and DC sections of the Trust.

III. **Investment managers should effectively integrate ESG considerations into their investment management approach; their ability to do so is a key factor by which they should be evaluated.** ESG capabilities are considered a key factor when appointing and monitoring the Trust's investment managers. We provide clear direction on our expectations of the investment managers we select and to who we delegate investment management and stewardship.

IV. **The Trustee prefers to engage (via its investment managers) to change the actions of investee companies rather than adopt upfront exclusions to prevent investment in certain companies.** The Trustee believes in the power of engagement and believes this can result in greater 'real world' impact as an investor compared to divestment. Voting activity (where relevant) is assessed annually and the Trustee engages with managers to ensure their voice is being heard on key RI issues.

V. **The Trustee's approach to Responsible Investment should take into account the approach of the Partnership, with the reasons for differences understood.** The Trustee and the Partnership recognise that it may not be appropriate for the Trustees to fully mirror the approach of the Partnership due to different circumstances and objectives. However, both the Partnership and the Trustee have established a Net Zero objective, and as such are philosophically aligned in this key area.

3. How the Trustees' views on Responsible Investment implemented

The Trustee has established subcommittees that oversee the investments of the DB and DC sections of the Trust. These subcommittees are responsible for reflecting the RI policy within the Trust's investments. The Trustee will review its RI policy annually.

The Trustee receives regular training on responsible investment and integrates its beliefs into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance. The Trustee considers the financial and risk impact of ESG factors, including climate change, on its investments and also, where it is consistent with its legal obligations (including its fiduciary duties), takes account of the impact of its investment practices on the economy, society and the environment.

4. Achieving Net Zero by 2050 or earlier

This aim was agreed by the Trustee in 2024, and the key next step will be to understand how this can be implemented in practice, noting that this will differ between the DB and DC sections of the Trust.

The Trustee will develop more detailed decarbonisation targets (for example, targets for reducing emissions intensity over the next 5/10 years), that will help guide future investment strategy and implementation decisions, and enable the Trustee to assess and report on progress over time.

When deciding which asset classes to invest in, the Trustee will consider the possible assets from a climate-related perspective as well as other perspectives. The Trustee prefers assets that have a favourable climate-related impact but does not focus exclusively on this, for example taking into account the potential financial rewards and risk associated as well as other impacts such as biodiversity.

Reporting

The Trust produces an Annual Climate Report, consistent with the requirements of the Taskforce on Climate-Related Financial Disclosures ("TCFD"). As part of this reporting, the Trustee measures its investments using a range of climate-related metrics and has adopted a target in relation to one of these metrics (see below). The Trust's net zero target, and the work that will be completed to better define what this means in practice and how this should be implemented, will be set out in the Trust's next TCFD report.

The Trust has established climate targets related to the quality of climate data for both the DB and DC sections of the Trust. The rationale for this is that setting a credible plan to decarbonise requires measurable, reliable and consistent data. The Trust's performance against these targets is evaluated and reported annually:

a. DB Section – target 100% data quality (scope 1 & 2 emissions[1]) by 2032
b. DC Section – target 100% data quality (scope 1 & 2 emissions) by 2027

5. How the Trustee engagement and stewardship is carried out

Whenever an investment manager is chosen, ESG credentials will be a key factor in their selection, considered alongside other important factors.

A bespoke ESG questionnaire is completed by the Scheme's investment managers on an annual basis (and by potential new managers prior to their appointment) in order to assess, monitor and track changes in ESG processes. If available, ratings from the Trust's investment advisors will be used to support this process. Any potential concerns will be discussed with the Trust's investment managers; if responses are not satisfactory and this is considered to represent a material financial risk, this could result in a change in investment manager.

As a key part of their overall stewardship activity, the Trustee has agreed a number of voting and engagement priorities that will form part of the monitoring of the underlying investment managers. Significant activity related to these priorities (and wider activity) is monitored by the Trustee on an annual basis as part of its Implementation Statement.

[1] Scope 1 emissions refer to all direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles. Scope 2 emissions refer to the indirect emissions from the generation of electricity purchased and used by an organisation.

The Trustee believes that active ownership (i.e. voting and engagement activity) can enhance the value of the Trust's underlying portfolio and help manage ESG-related risks. This means engaging with the companies that are held in the Trust's portfolios to try and improve practices; given the nature of the investment arrangements, this is done by the Trust's investment managers.

The Trustee recognises that there are some limitations to this; for example, a significant proportion of the DB Section's assets (and a small proportion of the DC section's assets) are invested in UK government debt and associated instruments. The Trustee's ability to influence the UK government is limited, even as a large UK asset owner. Nonetheless, the Trustee is still able to review the UK Government's commitment to net zero as part of the overall assessment of the impact of climate risk on the investment strategy.

The Trust's managers use a variety of methods, including discussions with senior management and the exercise of voting rights at Company AGMs to express their views on key ESG issues.

6. The Trustees' views on excluding investments in certain industries or asset classes

The Trustee does not automatically exclude investments in certain sectors or companies and considers this question from time to time in light of its legal obligation to invest in the beneficiaries' best financial interests.

This is a topical area of discussion and the Trustee will continue to review its approach here over time. The Trustee does see the value in focusing on investments in companies that have committed to evolve their businesses to reflect investor ESG concerns (e.g. an oil & gas company that is supporting the transition to a low carbon economy, by setting credible decarbonisation targets and investing in renewable energy). In addition, the Trustee notes that engagement and divestment are not mutually exclusive; even if exclusions are not mandated for certain sectors and companies as a matter of course, the Trustee may expect its investment managers (where mandates are actively managed) to consider disinvesting from companies if engagement on ESG issues cannot be completed satisfactorily, and this is considered to represent a material risk.

7. ESG Alignment of the Pension Scheme and the Partnership

The John Lewis Partnership has set its own Net Zero objectives. The Partnership's overarching target is to reach net zero greenhouse gas emissions across the value chain by 2050, and net zero across their own operations (known as scope 1 & 2) by 2035.

The Partnership has also set interim 2030 targets to drive near-term action, as well as a 2025 zero deforestation target. The Partnership is among the first companies to set specific targets focused on greenhouse gas emissions from forests, land and agriculture (FLAG).

Further details of the Partnership's Net Zero objective can be found here.

It would not be possible for the Trust to exactly mirror the Partnership's targets; for example, targeting net zero by 2035 would result in a very significant restriction in the investment opportunity set, because the vast majority of companies (and governments) globally will not be in a position to achieve net zero by these timescales.

However, the Trustee believes that the approach being taken is philosophically aligned with the Partnership's objective to target net zero when practical.

8. The Trustees ESG priorities in the short and medium term

The Trustee has established an action plan related to key RI issues. The key priorities over the next 12-18 months are as follows:

- Review the investment strategies for both the DB and DC Sections, with a focus on incorporating ESG and climate considerations where appropriate to do so.
- Define a ‘decarbonisation pathway’ to achieve the 2050 Net Zero objective, with a focus on setting shorter term targets to help guide investment strategy and implementation decisions.
- Conduct refreshed analysis of the impact of different potential climate scenarios on the investment strategies of both the DB and DC Section.

The Trustee has agreed their main focus for training over the next year should be on the following:

- ‘Impact’ investment opportunities.
- Social Factors.
- Nature and Biodiversity.