

Engagement Policy Implementation Statement for the Year Ended 30 November 2021

Baxenden Chemicals Limited Family Security Plan (“the Plan”)

1. INTRODUCTION

This Engagement Policy Implementation Statement (the “Statement”) sets out the Trustees’ assessment of how, and the extent to which, they have followed their engagement policy and their policy with regard to the exercise of rights (including voting rights) attaching to the Plan’s investments during the one-year period to 30 November 2021 (the “Plan Year”). The Trustees’ policies are set out in their Statement of Investment Principles (“SIP”) dated February 2021. A copy of the Trustees’ SIP is available at <https://lanxess.co.uk/corporate-responsibility/statement-of-investment-principles-for-pension-schemes/>

This Statement has been produced in accordance with the *Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018* and the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019* along with guidance published by the Pensions Regulator.

The Trustees invest the assets of the Plan in a fiduciary arrangement with Mercer Limited (“Mercer”). Under this arrangement Mercer are appointed as a discretionary investment manager and day-to-day management of the Plan’s assets is by investment in a range of specialist pooled funds (the “Mercer Funds”). Management of the assets of each Mercer Fund is undertaken by a Mercer affiliate, Mercer Global Investments Europe Limited (“MGIE”). MGIE are responsible for the appointment and monitoring of suitably diversified portfolio of specialist third party investment managers for each Mercer Fund’s assets.

Under these arrangements, the Trustees accept that they do not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds, However, the Trustees have made Mercer aware that they expect MGIE to manage assets in a manner, as far as is practicably possible, that is consistent with the Trustees’ engagement policy and their policy with regard to the exercise of rights attaching to the Plan’s investments. The Trustees review regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether their policies are being properly implemented.

Section 2 of this Statement sets out the Trustees’ engagement policy and assesses the extent to which it has been followed over the Plan Year.

Section 3 sets out the Trustees’ policy with regard to the exercising of rights (including voting rights) attaching to the Plan’s investments and considers how, and the extent to which this policy has been followed during the Plan Year. This Section also provides detail on voting activity undertaken by the Plan’s third party investment managers during the Plan Year.

Taking the analysis included in Sections 2 and 3 together, it is the Trustees’ belief that their policies with regard to engagement and the exercise of rights attaching to investments has been successfully followed during the Plan Year.

2. TRUSTEES' POLICY ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES, INCLUDING CLIMATE CHANGE

Policy Summary

The Trustees believe that good stewardship and the incorporation of ESG factors into their investment decision-making processes can have a material impact on the financial and non-financial performance of the Plan's assets over the medium and longer term. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustees' explicit consideration.

It is the Trustees' policy that the third party investment managers appointed by Mercer, via Mercer Global Investments Europe (MGIE), report in line with established best practice such as the UK Stewardship Code and UK Corporate Governance Code, where possible, including public disclosure of compliance via an external website, when managing the Plan's assets. Further, in appointing the third party asset managers, the Trustees' expect MGIE to select managers where it believes the managers will engage directly with issuers in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party investment managers' compliance with this expectation, the Trustees consider regular reports from Mercer that include an assessment of each third party manager's engagement activity.

Should the Trustees consider that Mercer, MGIE or the third party asset managers, have failed to align their own engagement policies with those of the Trustees, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

How the Policy has been implemented over the Plan Year

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change.

Policy Updates	Climate Change Reporting and Carbon Foot-printing	ESG Rating Review
<p>The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, have provided reporting to the Trustees on a regular basis.</p> <p>The Mercer <u>Sustainability Policy</u> is reviewed regularly. In March 2021 there was an update in relation to Sustainable Finance Disclosure Regulation ("SFDR") implementation.</p> <p>In line with the requirements of the EU Shareholder Rights Directive II, Mercer have</p>	<p> Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Plan, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The results of the latest climate scenario modelling are within the TCFD compliant <u>Climate Change Management Report</u>. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.</p>	<p>ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration. The Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer's global investment manager database.</p> <p>As at 31 December 2020, in the Annual ESG review provided by Mercer, the Trustees noted that 88% of Mercer Funds now have an ESG</p>

implemented a standalone Engagement Policy to specifically address the requirements of the directive.

The headline Weighted Average Carbon Intensity (“WACI”) metric for all equity funds is reporting in the Quarterly Investment Reports whilst an in-depth analysis of top 5 carbon emitters, the top 5 contributors to the WACI, and the trends over time is completed on an annual basis. The latest in-depth analysis is as at 30 June 2021 and also used by the Mercer and MGIE investment team to drive engagement with managers.

rating equal to or above their asset class universe. This compares to 97% at the end of 2020 but it should be noted that the scope of the review expanded in 2021 to include all liquid multi-client Mercer Funds. For the **Plan**, only the active Global High Yield Bond Fund.

Approach to Exclusions

As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.

Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds, and passive equity funds. **The Mercer sustainability-themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.**

In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (“UNGC”) Principles that relate to human rights, environmental and corruption issues.

Sustainability-themed investments

An allocation to Sustainable Equities is included within the Fund’s portfolio of Growth assets, with the strategic allocation to Sustainable Equities now accounting for c.10.5% of the Growth Portfolio.

A detailed standalone report sustainability monitoring report is produced for the active/passive Sustainable Global Equity fund on a semi-annual basis, including a more granular breakdown of the fund against ESG metrics, for example the UN Sustainability Development Goals.

Diversity

From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader Mercer Investment Solutions International policy on Diversity, Equity and Inclusion, sitting alongside Mercer’s established Diversity Charter.

Mercer Investment Solutions has made a commitment to target at least 30% of all Key Decision Makers (‘KDM’s) across our Mercer funds being non-male by 2030. This commitment will apply to both the KDM within our own portfolio management team and the sub-investment manager teams. We consider broader forms of diversity in our decision-making, but the current target explicitly applies to gender diversity. As at 30 September 2021 33% of the KDM’s within Mercer IS team are non-male, and our long term target is 50%. Within the Fixed Income universe the average fund has 8% non-male KDM’s and within the average EMEA Active Equity universe the average is 12%. Figures relating to Mercer Fixed Income and Active Equity Funds are currently slightly ahead at 9% and 13%.

3. TRUSTEES' POLICY ON EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO FUND INVESTMENTS

Policy

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to the third party investment managers appointed by Mercer on the Trustees' behalf.

This is because any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE. In delegating these rights, MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and so permits the managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustees do not use the direct services of a proxy voter.

Voting: As part of the monitoring of managers' approaches to voting, MGIE assesses how managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers vote in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

Set out below is a summary of voting activity for the year to 30 November 2021 for a range of Mercer Funds that the Plan's assets are invested in. This may include information in relation to funds that the Plan's assets were no longer invested in at the year end. The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

"Unvoted" reflects instances where managers have not actioned a vote – these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned. "Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present. "Mixed" refers to occasions where underlying managers have voted differently for the same proposal. Vote decisions of this nature are monitored and fed into the wider engagement process with manager.

Fund Name	Total Proposals	Vote Decision					For/Against Mgmt	
		For	Against	Abstain	Do not vote	Others*	For	Against
Mercer Multi-Asset Credit Fund	27	67%	0%	33%	0%	0%	62%	38%
Mercer Passive Emerging Markets Equity Fund	24,750	83%	14%	3%	0%	0%	84%	16%
Mercer Passive Fundamental Indexation Global Equity	2,431	83%	15%	0%	0%	2%	82%	18%
Mercer Passive Global Listed Infrastructure UCITS	3,654	77%	19%	3%	0%	1%	79%	21%
Mercer Passive Global REITS UCITS CCF	3,090	82%	14%	0%	0%	4%	82%	18%
Mercer Passive Global Small Cap Equity UCITS CCF	42,251	82%	14%	0%	0%	3%	83%	17%
Mercer Passive Low Volatility Equity UCITS CCF	3,977	84%	14%	0%	0%	2%	82%	18%

Mercer Passive Sustainable Global Equity UCITS CCF	15,865	80%	17%	1%	0%	2%	80%	20%
MGI Eurozone Equity Fund	4,408	85%	12%	3%	0%	0%	85%	15%
MGI UK Equity Fund	1,081	99%	1%	0%	0%	0%	99%	1%

Significant Votes: Mercer has based its definition of significant votes on its Beliefs, Materiality and Impact (“BMI”) Framework. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering priority areas identified by the BMI Framework.

Sample of the most significant votes (1/2)



Fund	Shareholder Proposal (“SHP”)	Issuer	Vote Decision
Mercer Multi-Asset Credit Fund	Shareholder Proposal Regarding Proxy Access Bylaw Amendment	Nisource Inc. (Holding Co)	For
	Management Proposal Regarding Election of Directors	Nisource Inc. (Holding Co)	For
Mercer Passive Emerging Markets Equity Fund	Management Proposal Regarding Share Issuance Authority	Tencent Holdings Ltd.	Against
	Management Proposal Regarding Election of Directors	Taiwan Semiconductor Manufacturing	For
	Management Proposal Regarding Election of Independent Director to Become Audit Committee Member: KIM Sun Uk	Samsung	Against
Mercer Passive Fundamental Indexation Global Equity	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Intel Corp.	For
	Shareholder Proposal Regarding Report on Racism in Company Culture	Intel Corp.	For
	Shareholder Proposal Regarding Improvements in Executive Compensation Program	Apple Inc.	Against
Mercer Passive Global Listed Infrastructure UCITS	Shareholder Proposal Regarding Formation of a Human Rights Risk Oversight Committee	American Tower Corp.	Against
	Shareholder Proposal Regarding Annual Shareholder Vote on Emissions Reduction Plan	Union Pacific Corp.	Against
	Shareholder Proposal Regarding Diversity and Inclusion Report	Union Pacific Corp.	For

Sample of the most significant votes (2/2))



Fund	Shareholder Proposal ("SHP")	Issuer	Vote Decision
Mercer Passive Global Small Cap Equity UCITS CCF	Management Proposal Regarding Advisory Vote on Executive Compensation	Builders Firstsource Inc.	For
	Management Proposal Regarding Advisory Vote on Executive Compensation	TREX Co., Inc.	Against
	Management Proposal Regarding Advisory Vote on Executive Compensation	Marathon Oil Corp.	Against
Mercer Passive Low Volatility Equity UCITS CCF	Shareholder Proposal Regarding Amendment to Clawback Policy	Verizon Communications Inc	For
	Shareholder Proposal Regarding Report on External Public Health Costs	PepsiCo Inc	For
	Shareholder Proposal Regarding Report on Sugar and Public Health	PepsiCo Inc	For
Mercer Passive Sustainable Global Equity UCITS CCF	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Microsoft Corporation	For
	Shareholder Proposal Regarding Human Rights/Civil Rights Expertise on Board	Alphabet Inc	For
	Shareholder Proposal Regarding Linking Executive Pay to Sustainability and Diversity	Alphabet Inc	For
MGI Eurozone Equity Fund	Management Proposal Regarding Greenshoe	LMVH M.H.V SE	Against
	Management Proposal Regarding Election of Directors	Siemens AG	For
MGI UK Equity Fund	Management Proposal Regarding Approval of Climate Transition Action Plan	BHP Group plc	Against
	Shareholder Proposal Regarding Disclosure Concerning Coal, Oil and Gas Assets	BHP Group plc	Against
	Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement	BHP Group plc	For