

# Engagement Policy Implementation Statement for the Year Ended 30 November 2022

## Baxenden Chemicals Limited Retirement Benefits Scheme (“the Scheme”)

### 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 Scheme’s investments during the one-year period to 30 November 2022 (the “Scheme 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 Scheme 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 Scheme’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.

The Trustees base their engagement policy on Mercer’s own engagement policy and expect Mercer to follow best practice in this regard. The publicly available [Sustainability Policy](#) sets out how Mercer look to address sustainability risks and opportunities and considers Environmental, Social and Corporate Governance (ESG) factors in decision making across the investment process. The [Stewardship Policy](#) provides more detail on Mercer’s beliefs and implementation on stewardship specifically. Under the arrangements in place, the Trustees accept that they do not have the ability to directly determine the engagement or voting policies or arrangements of the specialist third party investment managers of the Mercer Funds. However, 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 Scheme Year.

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

Taking the analysis included in Sections 2 to 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 Scheme Year.

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

### Policy Summary

The Trustees believe stewardship plays an important role in managing sustainability risks and other ESG factors, and helps the realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets consistent with long-term investor timeframes. Consequently, an approach that integrates effective stewardship is in the best interests of the Scheme. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities, including non-financial performance that require the Trustees' explicit consideration.

It is the Trustees' policy that the specialist third party investment managers appointed by Mercer, via MGIE, report in line with established best practice such as the UK Stewardship Code 2020, to which Mercer is a signatory, including public disclosure of compliance via an external website, when managing the Scheme's assets. Further, in appointing the specialist 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 Scheme Year

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

<b>Policy Updates</b>	<b>Climate Change Reporting and Carbon Foot-printing</b>	<b>ESG Rating Review</b>
<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 third party managers in the monitoring process. Mercer provide reporting to the Trustees on a regular basis.</p> <p>The Mercer <u>Sustainability Policy</u> is reviewed regularly and changes communicated to the Trustees. In March 2021 there was an update in</p>	<p>The Trustees believe climate change poses a systemic risk and recognise that limiting global average temperature increases this century to "well below two degrees Celsius", as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors. Mercer supports this end goal and is committed to achieving net-zero absolute carbon emissions by 2050 for the Scheme's portfolio of</p>	<p>Where available, 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 and compares the Mercer funds overall ESG rating with the appropriate universe of strategies in</p>

relation to the Sustainable Finance Disclosure Regulation (SFDR) implementation. In August 2022 the Policy update reflected enhancements to the approach to climate change modelling and transition modelling, additional detail on how the Policy is implemented, monitored and governed and, as part of the commitment to promote diversity, finalising MGIE's signatory status to the UK chapter of the 30% Club (the 30% Club is a campaign group of business chairpersons and CEOs taking action to increase gender diversity on boards and senior management teams).

In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Stewardship Policy to specifically address the requirements of the directive. This Policy was also updated in August 2022 to reflect enhancements made to Mercer's stewardship approach including an introduction of Engagement Dashboards and Trackers, an enhanced UN Global Compact engagement and escalation process and a client engagement survey.

growth assets. To achieve this, Mercer plans to reduce portfolio carbon emissions by at least 45% from 2019 baseline levels by 2030. This decision was supported by insights gained from Mercer's Investing in a Time of Climate Change (2015 and 2019) reports, Mercer's Analytics for Climate Transition (ACT) tool and advice framework, and through undertaking climate scenario analysis and stress testing modelling. Mercer's approach to managing climate change risks is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD), with Mercer's inaugural Climate Change Management report, highlighting Mercer's approach to the TCFD framework in more detail, including example analysis on strategy and targets and metrics. The Trustees note that, as at 31 December 2021, Mercer are ahead of target year-on-year and that there has been a notable 21% reduction since 2019 baseline levels, resulting in the absolute 45% reduction by 2030 being well within range.

Mercer's Global Investment Manager Database (GIMD). Engagements are prioritised with managers where their strategy's ESG rating is behind that of their peer universe.

As at 31 December 2021, in the annual ESG review provided by Mercer, the Trustees noted that 89% of Mercer Funds had an ESG rating equal to or above their asset class universe and 64% have seen an improved ESG rating over the past 4 years. Please see Mercer's Guide to ESG Ratings for more information <https://www.mercer.com/our-thinking/mercer-esg-ratings.html>

## Approach to Exclusions

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

The Trustees note that manufacturers of controversial weapons are excluded from some equity and fixed income funds that the Scheme invests in. In addition tobacco companies (based on revenue) are excluded from actively managed

## Sustainability-themed investments

An allocation to sustainable equities is included within the Scheme's portfolio of growth assets, with the strategic allocation to this strategy now accounting for c.10% of the Growth portfolio.

A detailed standalone sustainability monitoring report is produced for the strategy on a semi-annual basis for the Trustees to consider, including a more detailed breakdown of the fund against ESG metrics, for example the UN Sustainability Development Goals.

## Diversity

Whilst Mercer consider broader forms of diversity in decision-making, Mercer's reporting to the Trustees is currently focused on gender diversity. The Trustees note that, as at 30 September 2021, 33% of the Key Decision Makers (KDMs) within Mercer fiduciary team were non-male, and Mercer's long term target is 50%. For third party specialist investment managers, the average for fixed income managers and active equity managers is 8% and 12% non-male KDMs respectively. For the corresponding Mercer Funds the Trustees note that the figures are 9% and 13% respectively.

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equity and fixed income funds. The Trustees also note that their investments in Mercer's sustainability-themed funds have additional exclusions, covering, for example, gambling, alcohol, adult entertainment and fossil fuels.

In Q3 2022 MGIE was confirmed as a signatory of the UK Chapter of the 30% Club.

Mercer expanded exclusions to further promote environmental and social characteristics across the majority of the multi-client building block funds over the second half of 2022, in line with EU SFDR Article 8 classification, as well as aligning Mercer's existing active and passive exclusions across their fund range. In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues.

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### **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 Scheme's investments to the specialist 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 are typically best placed to exercise voting rights and prioritise particular engagement topics by security, given they are expected to have detailed knowledge of both the governance and the operations of the companies and issuers they invest in. However, the Trustees expect Mercer to play an important role in monitoring the managers' stewardship activities and promoting more effective stewardship practices, including ensuring attention is given to more strategic themes and topics. As such, proxy voting responsibility is given to the appointed equity investment managers with an expectation that all shares are to be voted in a timely manner and a manner deemed most likely to protect and enhance long-term value. Mercer and MGIE carefully evaluates each investment manager's capability in ESG engagement and proxy voting, as part of the selection process to ensure it is representing the Trustees' and Mercer's commitment to good governance, integration of sustainability considerations. Managers are expected to take account of current best practice such as the UK Stewardship Code 2020, to which Mercer is a signatory. 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 the managers of the companies they invest in 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). Typically, votes exercised against management can indicate a thoughtful and active approach by the managers. This is particularly visible where votes have been exercised to escalate engagement objectives. 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 2022 for a range of Mercer Funds that the Scheme was invested in (this may include information in relation to Funds that the Scheme was 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 the custodian of the Mercer Funds). The expectation is for all shares to be voted.

Fund Name	Total Proposals		Vote Decision					For/Against Mgmt	
	Eligible Proposals	Proposals Voted On	For	Against	Abstain	No Action	Others*	For	Against
Mercer Multi-Asset Credit Fund <sup>(1)</sup>	11	11	100%	0%	0%	0%	0%	100%	0%
Mercer Passive Emerging Markets Equity Fund	25,612	24,839	79%	18%	3%	0%	0%	82%	18%
Mercer Passive Climate Transition Listed Infrastructure UCITS CCF	3,711	3,533	71%	24%	3%	1%	0%	74%	26%
Mercer Passive Global REITS UCITS CCF	3,146	3,010	79%	16%	0%	4%	0%	80%	20%
Mercer Passive Global Small Cap Equity UCITS CCF	47,790	46,270	83%	13%	0%	3%	0%	84%	16%
Mercer Passive Low Volatility Equity UCITS CCF	3,953	3,856	83%	14%	0%	2%	0%	81%	19%
Mercer Passive Sustainable Global Equity UCITS CCF	16,171	15,700	79%	18%	1%	2%	0%	78%	22%
MGI Eurozone Equity Fund	4,839	4,712	84%	13%	3%	0%	0%	85%	15%
MGI UK Equity Fund	1,052	1,051	99%	1%	0%	0%	0%	99%	1%

<sup>(1)</sup> Voting Activity figures for the Mercer Multi-Asset Credit fund relate to a small number of equity holdings within the fund's underlying segregated mandates. Please note this does not include voting activity from any underlying pooled strategies within the fund over the period. "Eligible Proposals" reflect all proposals of which managers were eligible to vote on over the period.

- "Proposals Voted On" reflect the proposals managers have voted on over the period (including votes For and Against, and any frequency votes encompassed in the "Other" category)"
- "No Action" reflects instances where managers have not actioned a vote. MGIE may follow up with managers to understand the reasoning behind these decisions, and to assess the systems managers have in place to ensure voting rights are being used meaningfully
- "Other" refers to proposals in which the decision is frequency related (e.g. 1 year or 3 year votes regarding the frequency of future say-on-pay).

**Significant Votes:** Mercer has based the 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.

The significant votes below were assessed on the following criteria:-

1. Proposal topic relates to an Engagement Priority (*climate change, human/labour rights, or diversity*)
2. Proposal proponent is Shareholder (*as opposed to Management*)
3. Size of holding (*e.g. top 10 holdings within the fund*)
4. Industry controversial / topical proposals

## Sample of the most significant votes

Fund	Shareholder Proposal (SHP)	Issuer	Date of the Vote	Outcome of the Vote	Vote Decision (For/Against Proposal)
<b>Mercer Passive Climate Transition Listed Infrastructure UCITS CCF</b>	SHP Regarding Child Labour Linked To Electric Vehicles	Firstenergy Corp.	2022-05-17	3% For	Against
	SHP Regarding Disclosure of a Board Diversity and Skills Matrix	NextEra Energy Inc.	2022-05-19	25% For	For
	SHP Regarding Employee Diversity Data Reporting	NextEra Energy Inc.	2022-05-19	Withdrawn	For
<b>Mercer Passive Global REITS UCITS CCF</b>	Management Proposal Regarding the Election of Executive Committee Members	Prologis	2022-05-04	85% For	Against
	SHP Proposal Regarding Right to Call Special Meetings	Equinix, Inc.	2022-05-25	39% For	For
	Management Proposal Regarding the Election of Directors	VICI Properties Inc	2022-04-27	99% For	Against
<b>Mercer Passive Global Small Cap Equity UCITS CCF</b>	SHP Regarding Report on GHG Targets and Alignment with Paris Agreement	Skechers U S A, Inc.	2022-05-26	75% For	For
	SHP Regarding Aligning Business Strategy to the Paris Agreement	Electric Power Development	2022-06-28	26% For	For
	SHP Regarding Board Diversity Report	Badger Meter Inc.	2022-04-29	25% For	For
<b>Mercer Passive Low Volatility Equity UCITS CCF</b>	SHP Regarding Median Gender and Racial Pay Equity Report	Microsoft Corporation	2021-11-30	40% For	For
	SHP Regarding Report on Access to COVID-19 Products	Johnson & Johnson	2022-04-28	33% For	For
	SHP Regarding Report on Freedom of Association	Amazon.com Inc.	2022-05-25	39% For	For

Sample of the most significant votes

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Mercer Passive Sustainable Global Equity UCITS CCF	SHP Regarding Median Gender and Racial Pay Equity Report	Microsoft Corporation	2021-11-30	40% For	For
	SHP Regarding Report on Board Diversity	Alphabet Inc.	2022-06-01	5% For	For
	SHP Regarding Report on Effectiveness of Supply Chain Policies on Forced Labour	Apple Inc	2022-03-04	33% For	For
MGI Eurozone Equity Fund	Management Proposal Regarding Opinion on 2022 Sustainability and Climate Progress Report	Total Energies SE	2022-05-25	89% For	For
	Management Proposal Regarding Appointment of Auditor (PricewaterhouseCoopers)	Air Liquide S.A	2022-05-04	96% For	For
MGI UK Equity Fund	Management Proposal Regarding Approval of Climate Action Plan	Rio Tinto plc	2022-04-08	82% For	Against
	SHP Regarding Fossil Fuel Financing	Standard Chartered plc	2022-05-04	12% For	Against
	Management Proposal Regarding Endorsement of Pathway to Net Zero	<b>Standard Chartered plc</b>	<b>2022-05-04</b>	<b>83% For</b>	<b>For</b>
Mercer Passive Emerging Markets Equity Fund	SHP Regarding Disclosure of GHG Emissions	Standard Bank Group Ltd.	2022-05-31	99% For	For
	SHP Regarding GHG Reduction Targets	Standard Bank Group Ltd.	2022-05-31	99% For	For