

Annual Engagement Policy Implementation Statement to 31 December 2020

Hendy Group Retirement Benefits Plan

1. Introduction

This Engagement Policy Implementation Statement ('the Statement') sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees have been followed during the year to 31 December 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

Summarised below are the actions taken by the Trustees to meet the policies in the Plan's engagement policy set out in the SIP has been followed over the year and describes the voting behaviour on or on behalf of the Trustees.

The Trustees have appointed Mercer Limited (Mercer) as the discretionary investment manager for the Plan's assets. Pursuant to that appointment, scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE), Mercer Alternative AG (PIP IV) and Mercer Investments LLC (PIP III).

2. Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

In order to establish the Trustees' beliefs and produce the policy in the SIP, the Trustees undertook training provided by their investment consultant, Mercer, on responsible investment which covered ESG factors, stewardship, climate change and the approach undertaken by Mercer and MGIE during their meeting on 13 March 2019, and over 2020 had a number of training sessions regarding the regulations and Trustees' Stewardship duties during meetings on 10 March 2020, 7 July 2020 and 10 November 2020.

As noted in the SIP, the Trustees believe that ESG factors may have a material impact on long term investment risk and return outcomes, and that good stewardship can create and preserve long term value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustees have appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

Policy Updates

- 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 reported on the ESG ratings and related developments with the funds to the Trustees within the quarterly reporting.
- As part of the annual review, the Mercer [Sustainable Investment Policy](#) was updated in August 2020. The Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy to specifically address the requirements of the directive.

Climate Change Reporting and Carbon Footprinting

- Mercer undertake climate scenario modeling and stress testing on the Mercer multi sector funds used by the Plan on an annual basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 31 March 2020. The results of the climate scenario modelling and carbon footprinting are within the [TCFD compliant Climate Change Management Report](#). 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.
- Carbon Footprint analysis of all equity funds is completed on a six monthly basis. From 31 December 2019 the approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI) to give the Mercer and MGIE investment teams additional information to drive engagement with managers.
- Since Q3 2020 carbon footprinting metrics for Mercer active equity funds have been included in the quarterly reporting reviewed by the Trustees, and a comparison of these against the metrics of their representative benchmarks. Over 2020 there has been a 15% reduction in the WACI across the Mercer discretionary equity funds and, as at 31 December 2020, 100% of the active equity funds used by the Plan have a carbon intensity lower than the benchmark. In the Q4 report, this analysis was extended to include Mercer passive equity funds.

ESG Rating Review

- ESG ratings assigned by Mercer (and its affiliates') global manager research team, 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. Since Q3 2020 the quarterly performance report has included the Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer's global investment manager database.

- As at 31 December 2020 the Trustees noted that 95% of Mercer Funds now have a ESG rating equal to or above their asset class universe, a 10% improvement on 2019.

Update to Exclusions

- As an overarching principle, Mercer, as the Trustees' discretionary investment manager, prefer an engagement rather than a divestment approach. However Mercer 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. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainable 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.

Sustainably themed investments

- An allocation to Sustainable Equities and Sustainable Opportunities (private markets) is included within the Plan's Growth Portfolio, with the strategic allocation to Sustainable Equities increased by c.4% of the growth portfolio over the year.
- A detailed standalone report sustainability monitoring report is produced for the Sustainable Global Equity fund on a semi annual basis including the ESG tilts, additional exclusions and lower carbon emissions.

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 investment policy.

3. Voting Activity

The Trustees' investments take the form of shares or units in the Mercer Funds. 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. All voting rights are exercised by the Plan's investment managers in accordance with their own corporate governance policies, 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.

The MGIE Engagement Policy outlines this framework.

Set out below is a summary of voting activity for the year to 31 December 2020 relating to the relevant Mercer Funds.

- **Voting:** Statistics are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management and/or against the proxy voting adviser 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 or a valid reason for those not voted.
- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact (BMI) Framework. This is summarised in the Engagement Section of the MGIE Sustainable Investment Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals relating to these priority areas and taking into account the size of holding across funds

Voting Activity Summary 1 January 2020 to 31 December 2020

Fund	Total Proposals	Voted 'For'	Voted 'Against'	Abstained from voting	Unvoted	Other	For Management	Against Management	Use of Proxy Advisor
Mercer Low Volatility Equity	7,683	92%	6%	0%	1%	1%	93%	7%	Yes
Mercer Sustainable Global Equity	5,258	89%	9%	1%	0%	1%	90%	10%	Yes
Mercer Emerging Market Equity	14,042	75%	12%	3%	10%	0%	84%	16%	Yes
Mercer Global Small Cap Equity	8,157	91%	6%	1%	1%	1%	93%	7%	Yes*

Mercer Eurozone Equity	4,890	83%	14%	2%	2%	0%	84%	16%	Yes*
Mercer Global Listed Infrastructure	680	89%	9%	2%	0%	0%	89%	11%	Yes
Mercer Fundamental Indexation CCF	2,055	84%	9%	0%	5%	2%	87%	13%	Yes
Mercer Passive Global REITs	2,797	83%	13%	0%	0%	4%	83%	17%	Yes

*Proxy advisor not used by at least one underlying manager of the fund.

Sample of Significant Votes over the period 1 January 2020 to 31 December 2020

Fund	Shareholder Proposal ("SHP")	Issuer	Vote Decision
	SHP Regarding Lobbying Activity Alignment with the Paris Agreement	Delta & United Airlines	For
Mercer Low Volatility Equity	SHP Regarding Aligning GHG Reductions with Paris Agreement	JPMorgan Chase & Co.	For
	SHP Regarding GHG Reduction Targets	Royal Dutch Shell Plc	For
	SHP Regarding linking Executive Pay to Sustainability and Diversity	Alphabet	Split*
	SHP Regarding Median Gender and Racial Pay Equity Report	7 Companies **	For
	*2 managers voted for and 1 voted against		
	**7 Companies includes Amazon.com Inc., American Express Co., Bank Of America Corp. Facebook Inc, Intel Corp. JPMorgan Chase & Co., & Wells Fargo & Co.		
Mercer Sustainable Global Equity	SHP Regarding Deforestation Report	Procter & Gamble Co.	For
	SHP Regarding Reporting on the Use of Non-Recyclable Packaging	Kroger Co..	Against
	SHP Regarding Report on Sugar and Public Health	McDonald`s Corp	Against
	SHP Regarding Linking Executive Pay to Sustainability and Diversity	Alphabet Inc	For
	SHP Regarding Gender and Ethnicity Pay Equity Report	Oracle Corp.	For
Mercer Emerging Market Equity	SHP Regarding Report on Sugar and Public Health	Pepsico	Against
	SHP Regarding Report on Response to Opioid Epidimec	Johnson & Johnson	For
	SHP Regarding Independent Chair	Johnson & Johnson	For
Mercer Global Small Cap Equity	SHP Regarding Deforestation and GHG Emissions Report	Bloomin Brands Inc	For
	SHP Regarding phase out of oil and gas	Beach Energy Lrd	For

	SHP Regarding Human Rights Reporting	Tesla	Against
	SHP Regarding Management Diversity Report	IPG Photonics Corp	For
Mercer Eurozone Equity	Proposal to approve Remuneration Policy (vote decision taken on basis not sufficiently long term and not in line with best market practice)	Ferrari N.V	Against
	Proposal to re-appoint auditors (vote decision taken on basis auditors tenure exceeded 15 years)	Novo Nordisk	Abstain
	Proposal to Elect Director (vote decision taken on basis that the gender diversity at Board level is less than 30% and candidate was male)	Silka AG	Abstain
Mercer Global Listed Infrastructure	SHP Regarding Amending the Byelaws Concerning the Presentation of Climate Transition Reporting	Aena S.M.E. S.A.	For
	SHP Regarding Presentation of Climate Transition Plan	Aena S.M.E. S.A.	For
Mercer Fundamental Indexation Global Equity CCF	SHP Regarding Paris-Aligned Greenhouse Gas Emissions Reduction Targets	RIO Tinto Ltd.	For
	SHP Regarding Environmental Impact Report	iA Financial Corp	For
	SHP Regarding Use of Antibiotics	Walmart Inc	For
	SHP Regarding Report on Non-Management Employee Representation on the Board	Microsoft Corporation	For

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