BLACK & VEATCH (UK) PENSION SCHEME

ANNUAL ENGAGEMENT POLICY IMPLEMENTATION STATEMENT
(TO 31 MARCH 2021)

INTRODUCTION

This Engagement Policy Implementation Statement (“the Statement”) sets out how, and the extent to which, the Engagement Policy in the SIP produced by the Trustee has been followed during the year to 31 March 2021. 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.

This Statement provides detail of the actions taken by the Trustee to meet the Scheme’s engagement policies set out in the SIP over the year and describes the voting behaviour on behalf of the Trustee along with the relevant statistics over the year.

By adopting Mercer’s Cashflow Driven Investment (“CDI”), Mercer Limited (“Mercer”) in the UK has been appointed as discretionary investment manager by the Trustee. Pursuant to that appointment, Scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (“MGIE”).

POLICY ON ESG, STEWARDSHIP AND CLIMATE CHANGE

The Scheme’s SIP includes the Trustee’s policy on Environmental, Social and Governance (“ESG”) factors, stewardship and climate change. This policy sets out the Trustee’s beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. The SIP was last reviewed in September 2020 and additional ESG policies were included.

In order to establish the Trustee’s beliefs and produce the policy in the SIP, the Trustee initially undertook training provided by its investment consultant, Mercer, on responsible investment which covered ESG factors, stewardship, climate change and the approach undertaken by Mercer and MGIE. The Trustee keeps its policy under regular review in line with reviews of the SIP.

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

Policy Updates

- The Trustee considered 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 Trustee on a quarterly basis.

- The Mercer Sustainability Policy (at https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Sustainability-Policy-March2021.pdf) is reviewed regularly. In August 2020 the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement, adopted by MGIE, as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020. In March 2021 there was a further update in relation to sustainability-related disclosures in the financial services sector (“SFDR”) implementation.
In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy (at https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Engagement%20Policy%20-%20MGIE%20and%20MGIM.pdf) 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 Scheme 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 (at https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Mercer%20Delegated%20Solutions%20Europe%20-%20TCFD%20Statement%20-%20DB.pdf). 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, by MGIE. 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 foot-printing metrics for Mercer equity funds have been included in the quarterly reporting reviewed by the Trustee, and a comparison of these against the metrics of their representative benchmarks.

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 and reviewed by the Trustee on a quarterly basis. 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 March 2021, all of the Mercer Funds held within the Growth Portfolio have an ESG rating equal to their asset class universe median.

Update to Exclusions

- As an overarching principle, Mercer and MGIE, as the Trustee’s discretionary investment manager, 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. 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.

Diversity

• From 31 December 2020 Gender diversity statistics have also been included in the quarterly reporting (which was shared with the Trustee) for the Mercer equity funds and this is being built into a broader investment policy.

VOTING ACTIVITY

The Trustee’s 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. MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled 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 Trustee does not use the direct services of a proxy voter.


Set out below is a summary of voting activity for the year to 31 March 2021 relating to the relevant Mercer Funds.

• **Voting:** As part of the monitoring of managers’ approaches to voting, MGIE assesses how active 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.

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.

• **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 Sustainability 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 (“SHP”) relating to these priority areas and taking into account the size of holding across funds.
Voting Activity Summary and Example Summary of Significant Votes

- **Mercer Passive Global Equity Fund**

Year to 31 March 2021

<table>
<thead>
<tr>
<th>Total Proposals</th>
<th>Voted ‘For’</th>
<th>Voted ‘Against’</th>
<th>Abstained from voting</th>
<th>Unvoted</th>
<th>Other</th>
<th>For Management</th>
<th>Against Management</th>
<th>Use of Proxy Advisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>21,551</td>
<td>83%</td>
<td>9%</td>
<td>0%</td>
<td>5%</td>
<td>2%</td>
<td>87%</td>
<td>13%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Figures may not sum to 100% due to rounding.

<table>
<thead>
<tr>
<th>Shareholder Proposal (“SHP”)</th>
<th>Issuer</th>
<th>Vote Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder Proposal Regarding Linking Compensation to ESG Criteria</td>
<td>Alimentation-Couche Tard, Inc. &amp; Saputo Inc</td>
<td>For</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Aligning Investments with The Paris Agreement</td>
<td>Mizuho Financial Group, Inc.</td>
<td>For</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Report on Plans to Reduce Total Contribution to Climate Change</td>
<td>3 companies*</td>
<td>For</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Reporting and Managing Greenhouse Gas Emissions</td>
<td>Transdigm Group Incorporated</td>
<td>For</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Diversity and Inclusion Report</td>
<td>Fortinet Inc &amp; Procter &amp; Gamble Co.</td>
<td>For</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Report on Response to Opioid Epidemic</td>
<td>Johnson &amp; Johnson</td>
<td>For</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Restriction on Investment in the Japan Atomic Power Company</td>
<td>Chubu Electric Power Co Inc</td>
<td>Against</td>
</tr>
<tr>
<td>Shareholder Proposal Regarding Health Risks of Tobacco Sales During COVID-19</td>
<td>Walgreens Boots Alliance Inc</td>
<td>For</td>
</tr>
</tbody>
</table>


- **Mercer Multi-Asset Credit Fund**

Due to the nature of the assets within the Fund, voting detail is not available. However, the sub-investment managers are able to engage with the borrowers they lend money to. Mercer have collated some examples of engagement by the sub-investment managers. These are summarised below.

Manager: Apollo

**Sector:** Media  
**Issue:** Governance - diversity and inclusion; Social - assisting local communities during the COVID-19 Pandemic; Environmental – reducing usage of paper.

**Engagement:**
At the board meeting Apollo discussed:
1. The overall health of the organisation as well as diversity and inclusion. The Company has established a Diversity Advisory Council and Employee Resources Groups to increase representation particularly among the leadership team.
2. The issuer’s new Support Local platform to help communities support and access small businesses across the nation impacted by the coronavirus pandemic.
3. The issuer’s efforts to reach 1 million digital subscribers, which reduces newsprint usage and spend as subscribers increasingly transition to digital.

Outcome:
Following Apollo’s engagement:
1. The organisation has set a goal of 50%+ workforce consisting of underrepresented groups by 2025 and increasing diversity at the director level and above.
2. Over approximately one month, the organisation has received 1.6m total page views and c. 20k clicks to buy small business gift cards as part of the platform.
3. The organisation has reached the 1m digital subscriber target by the end of 2020 as print volumes continue to decline.

Manager: Beach Point

Sector: Communications
Issue: Physical climate risk, Corporate Governance.

Engagement:
Beach Point have tracked the Company’s exposure and management of physical climate risk, particularly the potential for hurricanes to disrupt power and connectivity and negatively impact their core operations, over the past five years. Beach Point engaged the company on the potential of physical climate risks impacting their operations, while leveraging their ability to influence, to some extent, the governance of the Company as a co-lead of the ad hoc creditor committee.
In terms of physical climate risks, the organisation has exposure to California and Florida, where wildfire and hurricane risks, respective, are elevated. Due to the importance of physical climate risk to their business operations, Beach Point identified two main ameliorating factors for the organisation that supported their investment thesis, including the
1. increased fibreisation of cables; and
2. the use of underground (vs. aerial) cables, with both of these attributes fortifying their resilience in the case of an acute weather event.

Outcome:
As a co-lead of the creditor committee, Beach Point took an active role in the organisation’s restructuring process, which put them in a position to have a greater influence over outcomes post-exit. While Beach Point had confidence in the organisation’s assets and ongoing efforts to fibreise their copper network to mitigate physical climate risks, their investment thesis was predicated on an operational turnaround.

Manager: CQS

Sector: Retail
Issue: Environmental - usage of internal combustion engine (“ICE”) vehicles.

Engagement:
Understand plan for implementation of electric charging across the estate to contribute to the reduction of CO2 emissions.

Outcome:
CQS’ intention is to engage with major shareholders and partners on the organisation’s strategic plan, ability to accelerate and provide capital assistance and also to engage on vulnerability of business if action is not rapidly taken owing to rapid regulatory and asset owner-led environment changes.
Manager: Oak Hill

Sector: Energy
Issue: Environmental

Engagement:
Oak Hill used its board position to encourage the reorganised company to form an ESG Board Committee.

Outcome:
The ESG Committee oversees the company’s policies, programs and practices regarding matters related to ESG and ESG risk. It also works with the Compensation Committee to establish appropriate ESG targets and monitor the company’s performance against those goals.

The company is focused on carbon footprint reduction through investment and technology in three main areas:
1. Fuel efficiency
   - Engine optimisation by operating at higher load factor with fewer engines online
   - Increases fuel efficiency and lowers fuel costs
2. Emissions reduction
   - Reduce NOx emissions through selective catalytic reduction system
   - Retrofit of fleet in process
3. Increase use of electric power over diesel
   - Hybrid energy from stored batteries / power sourced from platform gas turbine generator or shore power

The company also developed a platform to enable real-time tracking and analytics of greenhouse gas emissions and fuel efficiency with the goal to implement the platform fleet wide by 2022.

- Mercer Tailored Credit Fund

Due to the nature of the assets within the Fund, voting detail is not available. However, the sub-investment managers are able to engage with the borrowers they lend money to. Unfortunately there is insufficient data to provide any meaningful information. Mercer continue to work with the sub-investment managers to source accurate examples of engagement activity.