

# SOLVAY UK DEFINED BENEFITS PENSION SCHEME ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 31<sup>st</sup> March 2023

## Introduction

This statement sets out how, and the extent to which, the engagement policy in the Statement of Investment Principles ('SIP') produced by the Trustee, has been followed during the year to 31<sup>st</sup> March 2023. 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 2019 and the guidance published by the Pensions Regulator.

## Trustee Investment Objectives

The objectives set out here, and the risks and other factors referenced are those that the Trustee determines to be financially material considerations in relation to the Scheme.

The Trustee's primary objectives are to invest the Scheme's assets in the best interests of the members and beneficiaries and pay due regard to the interest of the Company on the size and incidence of contribution payments, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of secondary objectives to help guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed.

The secondary objectives are as follows:

- to restore the Scheme's funding position on an ongoing (i.e. Technical Provisions) basis to at least 100% and to achieve over the long-term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme; and
- to meet its obligation to the beneficiaries of the Scheme, including ensuring that sufficient liquid assets are available to meet benefit payments as they fall due.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

The Trustee understands, following discussions with the Company, that the Company is willing to accept some degree of volatility in its contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

## Statement of Investment Principles

During the year to 31 March 2023, no changes were made to the Scheme's SIP.

## **Policy on ESG, Stewardship and Climate Change**

The Trustee believes that financially material factors, including environmental, social, and corporate governance (ESG) factors, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may apply over the Scheme's investment time horizon and increasingly may require explicit consideration.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Scheme's assets are invested in pooled vehicles and the day-to-day management of the Scheme's assets has been delegated to investment manager(s), including the selection, retention and realisation of investments within their mandates. In doing so these investment manager(s) are expected and encouraged to undertake engagement activities on relevant matters including ESG factors (including climate change considerations) and to 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 Trustee engages with existing investment manager(s) on these issues through (amongst other things) meetings and periodic correspondence. Managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis. This applies to both equity and debt instruments, as appropriate, and covers a range of matters, including the issuers' performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

Notwithstanding the above, the Trustee recognises that in passive mandates the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material as part of stock selection decision-making. The Trustee accepts that the primary role of its passive manager(s) is to deliver returns in line with the market and believes this approach is in line with the basis on which the current strategy has been set.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers, monitoring existing investment managers and retaining or withdrawing from investment managers. The relative importance of these factors compared to other factors will depend on the asset class being considered. Monitoring of the existing investment managers is undertaken on a regular basis and this makes use of the investment consultant's ESG ratings. This is documented at least annually and The Trustee is informed of any changes to ESG ratings usually on a quarterly basis. The Trustee will challenge managers who it believes are taking insufficient account of ESG considerations in implementing their mandates. The Trustee will also monitor investment manager engagement activity (such as voting) at least annually.

The Trustee has not set any investment restrictions on the appointed investment manager(s) in relation to particular products or activities, but may consider this in future.

The Trustee will not consider the ESG policies of Additional Voluntary Contributions provider(s) and associated investment funds as these are a small proportion of total assets.

## **Assessment of voting, stewardship and engagement activity for the year to 31 March 2023**

The following sections outline the information reported by the Scheme's investment managers to the Trustee in respect of their voting, stewardship and engagement activities during the year. Engagement activity is provided at a firm-wide level whilst voting activity is for the specific mandates in which the Scheme was invested over the 12 month period to 31 March 2023.

During 2023 the Trustee has undertaken a review of the ESG and engagement activities of the Scheme's DGF managers, to gain a deeper understanding of how ESG is embedded in the decision-making and implementation process, as well as to better understand firm-wide commitments made by the managers on their ESG and engagement policies.

The Trustee and the investment advisor have analysed the voting policies of the Scheme's DGF managers, including how they have voted on key themes that align with the Trustee's ESG Investment Beliefs Statement. Further information on significant votes and the process to determine how and why votes are cast for each manager can be found under the "Voting Activity" section below.

## Engagement

### Ruffer (Absolute Return)

- Ruffer's engagement activities are usually conducted jointly by the ESG representative and the research analyst, with support from the responsible investment team. They consider this collaborative approach to engagement to be particularly powerful. It ensures detailed, well-informed discussions with companies on issues they deem to be material, helping to build relationships that enable to push for significant change.
- During the Scheme year, the Trustee identified a high carbon footprint within Ruffer's equity portfolio. The Trustee has questioned Ruffer on this and is satisfied that Ruffer is proactively and extensively engaging with companies that will be critical to a successful long-term transition in a way that is aligned with the Trustee's ESG beliefs.
- Ruffer recognises that ESG considerations are important drivers of investment performance, representing both sources of value and investment risks, and believes that investing responsibly will lead to better long-term outcomes for investors.
- Ruffer systematically integrates ESG considerations throughout its investment process, from top down idea generation continuing through to bottom up stock selection. The Trustee believes that Ruffer has a strong approach to stewardship and engagement, including its participation in collaborative initiatives on ESG issues.
- Ruffer frequently engages with companies on corporate governance issues, such as executive remuneration and mergers and acquisitions. Ruffer votes all proxies and subscribes to the Institutional Shareholder Service (ISS), but will not necessarily follow its recommendations. If an analyst does want to vote differently to an ISS recommendation, then he or she can escalate the decision to a more senior individual(s) for approval. Ruffer produces an annual ESG report which details its voting statistics and highlights specific engagements, as well as covering some of the broader ESG issues that have arisen during the year.
- There are occasions when collaboration with other investors may be the most productive way to engage and Ruffer is open to working alongside other investors on both policy and company-specific matters. This could be in situations where other investors share the same concerns or independent engagement has not produced a desirable outcome. The decision to collaborate on company specific matters will be judged on a case-by-case basis by the responsible investment team with input from research analysts and portfolio managers, as well as the legal and compliance teams. Examples of this include the several climate-change initiatives Ruffer is involved with, including the Institutional Investors Group on Climate Change (IIGCC), the Transition Pathway Initiative, Climate Action 100+, and Aiming for A.
- Ruffer is a signatory to the 2020 UK Stewardship Code, and the Japan Stewardship Code.

### LGIM

- LGIM has established a fully integrated framework for responsible investing to strengthen long-term returns. LGIM's framework is based on stewardship with impact and active research across asset

classes. These activities enable LGIM to deliver responsible investment solutions to clients and conduct engagement with the aim of driving positive change.

- In the face of looming challenges like climate change, ageing populations or technological disruption, LGIM believes an approach to managing capital is required where ESG impact is considered alongside the traditional metrics of risk and return.
- Evolving its capabilities to assess and engage with companies on ESG criteria is a vital objective for LGIM. LGIM believes this activity will be crucial to determine those that survive and thrive as change accelerates.
- LGIM is a signatory to the 2020 UK Stewardship Code.

## Voting Activity

The Trustee has delegated its voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case, votes are cast on behalf of the pooled fund not the Trustee, who do not own the underlying assets directly). The Trustee does not use the direct services of a proxy voter.

In Q3 2022, new legislation was published by the Department of Work & Pensions (“DWP”) which provided new requirements for pension scheme SIP and Implementation Statements, which has come into effect for the Fund this year. The Trustee is now required to provide a definition of what it considers a “significant vote”.

The Trustee has agreed that its definition of a significant vote is “a vote that relates to and aligns with the Trustee’s key priority themes as provided within the Trustee’s ESG Investment Beliefs Statement”. The votes outlined below have been provided to the investment advisor by the Fund’s investment managers and have been tailored to prioritise those in which the underlying theme / topic is one that the Trustee has identified as being significant based on the above definition.

A summary of the key voting activity over the financial year can be found below:

### Ruffer (Absolute Return)

Ruffer’s proxy voting advisor is Institutional Shareholder Services (ISS). Ruffer has developed its own internal voting guidelines, however it takes into account issues raised by ISS, to assist in the assessment of resolutions and the identification of contentious issues. Although Ruffer is cognisant of proxy advisers’ voting recommendations, it does not delegate or outsource its stewardship activities when deciding how to vote on clients’ shares.

Ruffer defines ‘significant votes’ as those that it thinks will be of particular interest to its clients. In most cases, these are when they form part of continuing engagement with the company and/or Ruffer has held a discussion between members of the research, portfolio management and responsible investment teams to make a voting decision following differences between the recommendations of the company, ISS and Ruffer’s internal voting guidelines.

Key votes undertaken over the year are summarised below:

There have been 1,305 votable proposals over the year, which Ruffer has voted on behalf of the Trustee.

- Ruffer voted with management on 94.2% of the proposals, against management on 5.7% and abstaining on 0.1%.

Significant vote examples:

Date of Vote	Company	Size of holding (%)*	Summary of the Resolution	How you voted	Outcome	Rationale for the voting decision	Why Vote is Significant
12 May 2022	BP Plc	3.10	Environmental - Approve Shareholder Resolution on Climate Change Targets	Against	Fail	Ruffer voted in line with ISS and management. Ruffer have done extensive work on BP's work on the energy transition and climate change and we think they are industry leading. Ruffer support management in their effort to provide clean, reliable and affordable energy and therefore Ruffer voted against the shareholder resolution.	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".
27 April 2022	Cigna Corporation	1.54	Governance – Report on Gender Pay Gap	Against	Fail	Cigna uses an "equal pay for equal work" statistic and reports that there are no material differences in pay data related to gender or race. Although the equal pay for equal work statistic is subjective in that it allows the company to define what it considers an "equal job," the company does report its gender representation statistics and it additionally set a parity goal for leadership positions. As such, shareholders have enough information to assess how effectively company practices are working to eliminate discrimination in pay and opportunity in its workforce. Therefore, support for this resolution is not warranted at this time.	The governance nature of this resolution is aligned with the Trustee's key priority theme of "Corporate governance – inclusive, diverse decision-making".
11 May 2022	Equinor ASA	0.54	Environmental - To approve the company's energy transition plan	For	Pass	Ruffer are supportive of the company's efforts to decarbonise. Ruffer stated that "Equinor is at the forefront of offshore wind developments and we have been impressed by their business success in that area. We have engaged with the company and discussed their plan and disagree with ISS's assessment. Equinor are one of few companies who have been profitable in aiming to decarbonise and we will support that."	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".
25 May 2022	Meta Platforms, Inc	0.29	Social - Publish Third Party Human Rights Impact Assessment	For	Fail	Facebook has received substantial media backlash over the use of its targeted advertising to discriminate against marginalized groups. Although the company has recently tightened its restrictions for targeting options, it still appears to be facing scrutiny on the topic. It has faced a number of legal risks due to lawsuits from the ACLU, HUD, FTC, and others. Given the large amount of company revenue that comes from advertisements, a third-party human rights impact assessment on the company's policies and practices related to targeted advertising could help shareholders assess Meta's management of human rights related risks.	The social nature of this resolution is aligned with the Trustee's key priority theme of "Human rights".
25 May 2022	Meta Platforms, Inc	0.29	Social - Provide Report on Child Sexual Exploitation Online	For	Fail	The company has experienced some recent controversy related to its alleged failure to catch hundreds of cases of child exploitation on its platform. There are also concerns that the company's plans to apply	The social nature of this resolution is aligned with the Trustee's key priority theme of "Human rights".

						<p>end-to-end encryption by default across its messaging platforms will severely hinder investigations of child predators. Although the company says that in some instances, Facebook Safety Advisory Board members are informed about future product launches in order to share their insights on the company's approach to safety before the products are released, the company does not provide indication that this includes the safety of end-to-end encryption technologies as they are developed. Given the potential financial and reputational impacts of potential controversies related to child exploitation on the company's platforms, shareholders would benefit from additional information on how the company is managing the risks related to child sexual exploitation, including risks associated with end-to-end encryption technologies.</p>	
25 May 2022	Exxon Mobil	0.21	Environmental - Approve Shareholder Resolution on Climate Change Targets	Against	Fail	<p>Voting against setting GHG emissions reductions targets consistent with Paris Agreement Goal. The title of this shareholder proposal is misleading. Exxon have already set targets that they believe are consistent with the Paris Agreement. These however do not include Scope 3 emissions as this would effectively force the company to sell key emitting assets to parties that will not be able to manage these down. Exxon are focused on progressing the transition by reaching Net Zero in scope 1 &amp; 2 and also progressing carbon capture and storage, hydrogen and biofuels and Ruffer (and the company) would argue they are world leading in these initiatives.</p>	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".
4 May 2022	Barclays Plc	0.04	Environmental - Approve Barclays' Climate Strategy, Targets and Progress 2022	For	Pass	<p>Ruffer have had a number of meetings with Barclays over the last 18 months with respect to their climate strategy, existing targets, data analysis and the plans for setting new targets on a number of new sectors. Ruffer supported the group's climate resolution in 2020 and voted against a too narrow Market Forces resolution at last year's AGM. The new progress reports, set out ahead of this "Say on Climate" vote makes further intermediate commitments, targets and hurdles to be achieved as part of its membership of the Net- Zero Banking Alliance which has a headline 2050 target. Ruffer have assessed the progress made in the context of its discussions with the company and whilst there are certain elements (phase out of thermal coal financing; financing unconventional oil and gas, amongst others) which remain unsatisfactory, the overall policy, new targets and tracking warrant a Vote FOR this resolution. Ruffer will continue its engagement with the company on this topic.</p>	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".

\*The size of holding has been provided as a % of the investment manager fund at the date of the resolution, and votes provided have been organized by size.

The Trustee has undertaken a review of Ruffer from an ESG perspective, including a combination of desktop analysis and a presentation / discussion session with Ruffer to answer the Trustee’s questions on its voting and engagement activity. The Trustee concluded that Ruffer undertakes a high level of in-house due diligence when deciding how to vote on resolutions.

Ruffer has a relatively high concentration of high-GHG investee companies, for example BP and Vopak are both in the top 5 holdings within the equity allocation of the fund. Ruffer has made it clear that, rather than disinvesting from these companies or refusing to hold them, it uses its position to actively engage with the aim of assisting the transition towards a low-carbon future in a safe and timely manner. This is evident from the voting rationale provided above, e.g. the Equinor ASA vote.

**LGIM (DGF)**

LGIM’s Investment Stewardship team uses Institutional Shareholder Services (ISS)’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and it does not outsource any part of the strategic decisions. To ensure LGIM’s proxy provider votes in accordance with its position on ESG, LGIM has put in place a custom voting policy with specific voting instructions.

In determining significant votes, LGIM’s Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where they note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

Key votes undertaken over the prior year are summarised below:

- There have been 99,252 votable proposals over the year and LGIM has voted on 99.8% of these on behalf of the Trustee.
- LGIM voted with management on 77.4% of the proposals, against management on 21.9% and abstaining on 0.7%.

Significant vote examples:

Date of Vote	Company	Size of holding (%)*	Summary of the Resolution	How you voted	Outcome	Rationale for the voting decision	Why Vote is Significant
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24 May 2022	Royal Dutch Shell Plc	0.29	Environmental - To approve the Shell Energy Transition Progress Update	Against	Pass	A vote against was applied, though not without reservations. LGIM acknowledges the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products, demonstrating a strong commitment towards a low carbon pathway. However, LGIM remains concerned of the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".
12 May 2022	BP Plc	0.13	Environmental - Approve Net Zero - From Ambition to Action Report	For	Pass	A vote FOR is applied, though not without reservations. Whilst LGIM notes the inherent challenges in the decarbonisation efforts of the Oil & Gas sector, LGIM expects companies to set a credible transition strategy, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. It is LGIM's view that the company has taken significant steps to progress towards a net zero pathway, as demonstrated by its most recent strategic update where key outstanding elements were strengthened. Nevertheless, LGIM remains committed to continuing its constructive engagements with the company on its net zero strategy and implementation, with particular focus on its downstream ambition and approach to exploration.	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".
13 May 2022	Sempra Energy	0.12	Governance - Require Independent Board Chair	For	Fail	A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.	The governance nature of this resolution is aligned with the Trustee's key priority theme of "Governance – aligned remuneration and incentives".
8 April 2022	Rio Tinto Plc	0.11	Environmental - Approve Climate Action Plan	Against	Pass	LGIM recognises the considerable progress the company has made in strengthening its operational emissions reduction targets by 2030, together with the commitment for substantial capital allocation linked to the company's decarbonisation efforts. However, while LGIM acknowledges the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, LGIM remains concerned with the absence of quantifiable targets for such a material component of the company's overall emissions profile, as well as the lack of commitment to an annual vote which would allow shareholders to monitor progress in a timely manner.	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".



25 May 2022	TotalEnergies SE	0.10	Environmental - Approve Company's Sustainability and Climate Transition Plan	Against	Pass	A vote against is applied. LGIM recognizes the progress the company has made with respect to its net zero commitment, specifically around the level of investments in low carbon solutions and by strengthening its disclosure. However, LGIM remains concerned of the company's planned upstream production growth in the short term, and the absence of further details on how such plans are consistent with the 1.5C trajectory.	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".
1 June 2022	Alphabet Inc.	0.10	Environmental - Report on Physical Risks of Climate Change	For	Fail	A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.	The environmental nature of this resolution is aligned with the Trustee's key priority theme of "climate change".

\*The size of holding has been provided as a % of the investment manager fund at the date of the resolution, and votes provided have been organized by size.

The Trustee has undertaken a review of LGIM from an ESG perspective, including a combination of desktop analysis and a presentation / discussion session with LGIM to answer the Trustee's questions on its voting and engagement activity. The Trustee concluded that LGIM has a well-resourced team and an active programme of policy engagement activity which evidences challenge of corporate management teams, supported by its voting activity.