

SOLVAY UK DEFINED BENEFITS PENSION SCHEME ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 31st March 2022

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 31st March 2022. 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 2022, the Trustee reviewed the Scheme's hedging arrangements. Following the review, the Trustee agreed to increase the interest rate and inflation hedge ratios from 75% as a proportion of funded liabilities to 90% as a proportion of funded liabilities.

Further additions were made to the SIP to reflect the appointment of ndapt Ltd as the Trustee, replacing Solvay Pension Trustee Limited.

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.

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.
- They engage in several matters like for example, supporting the first say on climate vote or engaging on a company's response to the covid-19 pandemic.

LGIM (DGF)

- LGIM has established a fully integrated framework for responsible investing to strengthen long-term returns. Their framework is based on stewardship with impact and active research across asset classes. These activities enable them 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 a different approach to managing capital is required - where ESG impact is considered alongside the traditional metrics of risk and return.
- Evolving their capabilities to assess and engage with companies on ESG criteria is a vital objective for LGIM. This activity will be crucial to determine those that survive and thrive as change accelerates.

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 and over the 12 months the Trustee has not actively challenged its managers on voting activity.

The investment manager is expected to provide voting summary reporting on at least an annual basis. The investment manager has been asked to confirm key voting activity on behalf of the Trustee (or in relation to the pooled funds in which the Trustee invests), over the year to 31 March 2022 and has responded as below. Voting information is not provided for bond and/or cash holdings given the nature of the underlying investments.

The Trustee notes that best practice in developing a statement on voting and engagement activity is evolving and will take on board industry activity in this area before the production of next year's statement.

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 defined '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 prior year are summarised below:

- There have been 1,307 votable proposals over the year, which Ruffer has voted on behalf of the Trustee.
- Ruffer voted with management on 91.7% of the proposals, against management on 6.4% and abstaining on 1.8%

Significant vote example:

- Royal Dutch Shell – A vote "for" was cast on the voting on a management resolution relating to the company's climate transition plan as it aimed to increase the transparency of the company's climate transition planning and outcomes.

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 90,252 votable proposals over the year and LGIM has voted on 98.8% of these on behalf of the Trustee.
- LGIM voted with management on 78.7% of the proposals, against management on 20.5% and abstaining on 0.8%.

Significant vote example:

- NextEra Energy, Inc. – A vote "against" was cast on the election of Director James L. Robo since LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair.