

# Annual Engagement Policy Implementation Statement

## Basell Polyolefins UK Pension Scheme

### **Introduction:**

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 March 2023 (the "Scheme Year"). 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 subsequent amendments, and the guidance published by the Pensions Regulator.

### **Changes to the investment arrangements during the Scheme Year:**

In May 2022, in light of funding level improvements, the Trustees discussed the opportunity to de-risk the Scheme's investment strategy by switching a proportion of the equity investments into bonds. The Trustees were supportive of the proposal in principle, subject to a review of the Scheme's investment strategy.

The Trustees formally reviewed the Scheme's investment strategy on 10 June 2022, and agreed to the proposed strategy of increasing the allocation to the bond portfolio by 15%. Within the bond portfolio, the allocation to fixed interest gilts was increased by 15%. In terms of the equity portfolio, the allocation was reduced to 25% of total Scheme assets in such a way as to adjust the regional split to be more closely aligned with developed market cap (where the allocation to each region is based on the total market value of the stocks allocated to that region within a developed market cap index). Implementation was completed in late June 2022.

The SIP was updated in June 2022 to reflect the revised investment strategy. This statement is based on the relevant versions of the SIP that were in place during the Scheme year, which were the SIP dated September 2020 and the SIP dated June 2022.

During the year under review, the DC Section of the Scheme was terminated on 15 March 2023 and the assets were transferred to Aviva as provider of the Trustee buy out arrangement. This Engagement Policy Implementation Statement therefore focuses solely on the remaining DB Section of the Scheme.

### **Investment Objectives of the Scheme:**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the SIPs in place during the Scheme Year are as follows:

- To make sure that the Trustees can meet their obligations to the beneficiaries of the Scheme.

- To pay due regard to the Company's requirements with regards to the size and incidence of contribution payments.

The Trustees' long-term objective is to reach 105% funded on a self-sufficiency basis (defined as "gilts+0.5% p.a.") by 31 December 2025. This includes a buffer to allow for the potential impact of longevity risk.

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

The Trustees keep their policies under regular review with the SIP subject to review at least triennially. The Scheme's SIP includes the Trustees' policy on Responsible Investment and Corporate Governance, which includes Environmental, Social and Governance ("ESG") factors as well as stewardship. 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. This was reviewed during the Scheme Year in June 2022.

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.

### **Engagement**

The Scheme's investment performance reports were received by the Trustees on a quarterly basis during the year under review and considered in more detail at the Trustees meetings on 26 September 2022 and 10 March 2023 – these included ratings (both general and ESG specific) from the investment consultant. All of the pooled funds remained highly rated during the year where relevant. The Trustees acknowledge that the fixed income pooled funds did not have ESG ratings assigned by the investment consultant during the year under review. However, in May 2023, the investment consultant assigned ESG ratings to the fixed income strategies invested in by the Scheme.

The Trustees were comfortable with the ratings applied to the funds, and continue to closely monitor these ratings and any significant developments at the investment manager.

The Trustees also challenge the investment manager directly on ESG policies and practices. The Trustees kept LGIM's capabilities under review during the year and remained comforted it is a market leader in ESG matters and uses its scale to change corporate behaviours and drive change.

LGIM confirmed that it is a signatory to the UK Stewardship Code 2020, following the submission and approval of the required reporting to the Financial Reporting Council.

The Trustee's investment consultant had requested, on behalf of the Trustees, details of relevant engagement activity for the period from LGIM. LGIM engaged with companies on a wide range of different issues including ESG matters such as climate change, social and financial inclusion, and board structure. LGIM provided the following examples:

## **Environmental**

As one of the world's largest diversified mining companies, with strong exposure to metals needed to decarbonise the global economy, LGIM believe Glencore has a key role to play in the energy transition. Nevertheless, the company's exposure to thermal coal is material and, given the need to rapidly phase out coal to meet the company's own 1.5°C target, LGIM expressed concerns about the lack of time-bound commitments to reduce or exit this business line entirely during their six engagements with the company since 2020.

LGIM welcomed the company's commitment to prioritise investments in metals that support the energy transition and to strengthen its interim emissions reduction targets. But LGIM's concerns regarding its thermal coal exposure and future plans led LGIM to vote against the company's climate transition plan at its 2022 AGM. Additionally, in line with LGIM's 'engagement with consequences' approach, LGIM identified the company as a 'leading laggard' as part of their Climate Impact Pledge programme, and applied voting sanctions against the chair at the same AGM.

## **Social**

Over the last 18 months, LGIM have engaged with Amazon eight times, independently and collaboratively, to discuss the company's approach to, and policies on, various human capital topics. One of the risks identified by the company in its Human Rights Impact Assessment (HRIA) is freedom of association. This includes the right to form and join trade unions. In 2021, Amazon had been accused of interfering with efforts by its workers to unionise. Upon investigation, the US National Labor Relations Board declared Amazon's conduct to be inappropriate and not in line with International Labour Organisation (ILO) standards.

Amazon workers decided against unionisation at a second, close vote. Nevertheless, ahead of the vote result, in a second collaborative letter signed in January 2022, LGIM requested the company immediately adopt a global policy of neutrality, commit to negotiate with the union in good faith should workers vote for unionisation, and initiate dialogue with relevant trade unions at a national and global level on implementation of its labour rights commitments.

Having pre-declared their voting intentions on their blog, LGIM supported many of the shareholder proposals at Amazon's AGM, including requesting a report on Protecting the Rights of Freedom of Association and Collective Bargaining, which gained 38.5% support. This issue remains on the agenda for LGIM's future engagement meetings and they continue to push for further transparency.

## **Governance**

As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies such as Toyota Motor Corporation, to improve their corporate governance and sustainability practices. At Toyota, LGIM have identified key issues around:

1. Capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure); and
2. Board independence, diversity and effectiveness.

LGIM met with Toyota’s investor relations team and chief sustainability officer to discuss these issues, amongst others. Given the company's size and influence at Japan's largest business federation and in industry associations, and since Toyota’s first inclusion in LGIM’s Climate Impact Pledge engagement in 2017, LGIM have questioned the company's lobbying stance and its alignment with a 1.5°C world. LGIM were delighted to see improved transparency from the company in its climate public policy published in December 2021. While LGIM consider corporate transparency a good first step, they hope that this will enable them to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.

In September 2022, LGIM spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors can add value to the board and the quality of board discussions. LGIM will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

### **Voting Activity**

The Scheme is invested in multi-client pooled funds therefore the Trustees do not have direct voting rights in relation to the Scheme’s investments. The Trustees have delegated their voting rights to the Scheme’s investment manager. Where applicable, the investment manager is expected to provide voting summary reporting on a regular basis, at least annually. The Trustees do not use the direct services of a proxy voter. The Trustees have not actively challenged LGIM on its voting activity.

The Trustees had equity exposure through the following LGIM funds during the relevant period;

- UK Equity Index Fund
- North American Equity Index Fund
- Europe (ex-UK) Equity Index Fund
- Japan Equity Index Fund
- Asia Pacific (ex-Japan) Developed Equity Index Fund

The table below highlights key metrics as to how LGIM has exercised the voting rights and/or engagement activity on behalf of the Trustees covering the period 1 April 2022 to 31 March 2023.

<b>Fund</b>	<b>Votable meetings</b>	<b>Total votable proposals</b>	<b>No. of proposals voted on behalf of investors</b>	<b>Participation rate</b>	<b>% votes against management</b>
<b>UK Equity Index</b>	733	10,870	10,863	99.94%	5.5%
<b>North America Equity Index</b>	676	8,543	8,492	99.41%	34.6%
<b>Europe (ex-UK) Equity Index</b>	618	10,391	10,384	99.93%	18.5%
<b>Japan Equity Index</b>	505	6,267	6,267	100.00%	11.3%
<b>Asia Pacific (ex-Japan) Developed Equity Index</b>	503	3,590	3,590	100.00%	29.2%

## **Significant votes**

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote" and that Trustees were required to include details on why a vote is considered significant and rationale for the voting.

The Trustees deem significant votes as votes on climate change related resolutions, such as a vote requiring publication of a business strategy that is aligned with the Paris Agreement, and votes that have the potential to substantially impact financial outcomes.

The Trustees also considered size of holding when determining significant votes, given the passive management approach of the equity funds and the considerable number of underlying companies within each fund. Based on the respective proportions of the Scheme's overall equity portfolio, the Trustees focused on the largest three holdings for the North America Equity Index Fund and the top holding for each of the other funds (based on the approximate size of the fund's holding as at the date of the relevant vote).

The Trustees will keep this definition under consideration based on emerging themes within internal discussions and from the wider industry. The Trustees did not inform LGIM of what they considered to be a 'significant vote' in advance of voting.

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;
- 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.

The Trustee has reviewed the voting information provided by LGIM and views the votes overleaf as the most significant in accordance with the Trustees' significant votes definition.

Company / Date of vote	Why it is significant / Size of holding	Summary of Resolution / Vote cast	Rationale for voting decision	Outcome
<b>North America Equity Fund (Target Allocation: 12.5%)</b>				
<b>Amazon.com, Inc.</b>  25/05/2022	Top 3 Holding / Financial Outcomes  2.8%	Elect director Daniel P. Huttenlocher  Against*	A vote against is applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.	Passed – 93.3% voted for
<b>Alphabet Inc.</b>  01/06/2022	Top 3 Holding / Climate Change  1.8%	Report on Physical Risks of Climate Change  For	A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.	Failed – 17.7% voted for
<b>Meta Platforms, Inc.</b>  25/05/2022	Top 3 Holding / Financial Outcomes  1.2%	Require Independent Board Chair  For	A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair.	Failed – 16.7% voted for
<b>Europe (ex UK) Equity Index Fund (Target Allocation: 5%)</b>				
<b>LVMH Moët Hennessy Louis Vuitton SE</b>  21/04/2022	Top Holding / Financial Outcomes  2.2%	Reelect Bernard Arnault as Director  Against*	A vote against is applied as LGIM expects companies not to combine the roles of Board Chair and CEO. These two roles are substantially different and a division of responsibilities ensures there is a proper balance of authority and responsibility on the board.	Passed – 92.0% voted for
<b>UK Equity Index Fund (Target Allocation: 2.5%)</b>				
<b>Royal Dutch Shell Plc</b>  24/05/2022	Top Holding / Climate Change  6.7%	Approve the Shell Energy Transition Progress Update  Against*	A vote against is applied, though not without reservations. LGIM acknowledged 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 remained 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.	Passed – 79.9% voted for
<b>Asia Pacific (ex Japan) Developed Equity Index (Target Allocation: 2.5%)</b>				
<b>Rio Tinto Limited</b>  05/05/2022	Top Holding / Climate Change  0.95%	Approve Climate Action Plan  Against*	LGIM recognise 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 acknowledge the challenges around the accountability of scope 3 emissions and respective target setting process for this sector, they remain 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.	Passed – 84.3% voted for

<b>Japan Equity Index Fund (Target Allocation: 2.5%)</b>				
<b>Shin-Etsu Chemical Co. Ltd</b>	Top Holding / Financial Outcomes	Elect Director Kanagawa	<p>A vote against is applied due to the lack of meaningful diversity on the board.</p> <p>A vote against has been applied as the Company has not provided disclosure surrounding the use of former CEO as Advisor to the Board.</p> <p>A vote against is applied due to the lack of independent directors on the board. Independent directors bring an external perspective to the board. Bringing relevant and suitably diverse mix of skills and perspectives is critical to the quality of the board and the strategic direction of the company. LGIM would like to see all companies have a third of the board comprising truly independent outside directors.</p>	N/A
29/06/2022	1.5%	Against*		

\* LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.

In terms of next steps following the outcomes of the above votes, LGIM will continue to engage with the investee companies, publicly advocate its position on the issues raised and monitor company and market-level progress.

### **Investment Manager Performance and Fees**

The investment performance reports were received by the Trustees on a quarterly basis during the year under review, and considered in more detail at the Trustees' meetings on 26 September 2022 and 10 March 2023. Over the 3 year period to 31 March 2023, the Scheme returned -1.9% p.a. (net of fees).

The Trustees have reviewed the performance of both the overall investment strategy and each of the underlying funds against suitable benchmarks. The Trustees did not draw any concerns around the performance of the investment manager.

The Trustees periodically review investment manager fee levels to ensure the Scheme achieves value for money. Over the Scheme Year, there were no changes to the remuneration arrangements with LGIM.