

# **ML PENSION SCHEME**

## **Annual Engagement Policy Implementation Statement**

### **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 March 2025. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant version of the SIP that was in place for the Scheme Year, which was the SIP dated May 2024.

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

The Trustee believes it is important to consider the engagement policies in place in the context of the investment objectives they have set.

As included in the SIP, the Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to existing members are provided as and when they fall due. Given the strength of the funding position, the Trustee and Sponsoring Employer are increasingly considering the long term 'destination' for the Scheme and focusing on protecting the position rather than targeting material levels of investment growth.

During the reporting year, it was highlighted whilst the Scheme is considering a 'buy-in' with an insurer as a long-term objective, it is not feasible in the short to medium term due to the significant allocation to private market mandates and the existing ABCs. Considering the focus on protecting the funding position, the Trustee met with Wellington in December 2024 to reassess their conviction in holding Buy & Maintain Credit. With credit spreads narrowing to their lowest levels since the Global Financial Crisis, creating uncertainty to 20% of the Scheme's target allocation, the Trustee taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")) redeemed the allocation with the proceeds currently invested in the Schroders LDI mandate.

### **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. This was last reviewed in February 2021 and is set out below. The SIP was agreed in May 2024 to reflect changes to the investment strategy and objectives

The Trustee believes that good stewardship and ESG issues may have a financially material impact on investment returns, 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 increasingly may require explicit consideration. The Trustee has taken into account the expected lifetime of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustee has given the Investment Managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments. Similarly, the Scheme's voting rights are exercised by its 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.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The following sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

## **Engagement**

The Trustee reviewed the investment manager mandates in relation to ESG factors and responsible investing. This included monitoring investment managers' engagement activity and their level of ESG integration, based on the investment consultant's assessment of each manager's ESG capabilities. The Scheme's investment reporting is reviewed by the Trustee on a periodic basis and includes ratings (both general and ESG specific) from the investment consultant. The Scheme's managers remained generally highly rated during the period.

The Trustee and investment consultant have also met investment managers over the year and discussed their progress on integrating ESG factors as part of those sessions.

The Trustee has requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. All of the Scheme's investment managers have confirmed that they are signatories of the current 2020 UK Stewardship Code, with the exception of Elementum, who as a US based investment manager, has instead confirmed involvement in other coalitions and groups such as the Standards Board for Alternative Investments ("SBAI").

The Trustee also received details of relevant engagement activity for the year from each of the Scheme's investment managers. The Scheme's investment managers engaged with companies over the year on a wide range of different issues including Environmental, Social and Governance factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).

The Scheme's managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome, an

example of engagement activity undertaken by Schroders is shown below. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers invest in or by voting on key climate-related resolutions at companies' Annual General Meetings. Where the nature of the investments means that voting rights are not attached to the holdings (e.g. holdings in the fixed income space), engagement initiatives are driven mainly through regular engagement meetings with the company's management and sponsors and monitoring of operational reports.

### **Engagement Example: Emission reductions and net zero plan at Multinational Manufacturer**

Over the reporting period, Wellington have had the opportunity to engage all of the 10 largest issuers (by MV%) in the ML portfolio and 7 in the Eternit portfolio, covering a broad spectrum of ESG issues. Wellington's climate-focused dialogue with Enel SpA is one such engagement that aligns with the Scheme's definition of a significant engagement:

Enel SpA, a global integrated electricity and gas operator, has been a focus of Wellington's ongoing dialogue with Enel is centred around their emissions reductions and net zero plan. The recent engagement has provided them with valuable insights into Enel's trajectory towards a sustainable future. The company remains on track to exit coal by 2027, with major closures expected in 2025. The shutdown of the Sardinia coal plant by 2027 will necessitate significant transmission investment, aligning with Italy's ambitious decarbonisation goals to divest all thermal assets before 2040. Enel's end goal is to ensure the security of supply, which includes plans to convert some coal stations to gas facilities, reflecting a pragmatic transition strategy.

Wellington also discussed Enel's renewables buildout. Enel's strategic review of renewable project returns has influenced their decision to incrementally invest less in solar and more in onshore wind, showcasing the company's adaptive and pragmatic approach to maximising investment returns while supporting the energy transition.

Wellington's engagement with Enel has reaffirmed the company's strong progress and clear plans for the future. Enel's role as a key player in supporting the energy transition in Europe is well-established, and we view the Environmental, Social, and Governance (ESG) risks at Enel SpA to be lower than its peers.

### **Voting and Engagement Disclosures**

The Trustee has delegated their voting rights to the investment managers. As a result, the Trustee does not use the direct services of a proxy voter, although the investment managers may employ the services of proxy voters in exercising their voting rights on behalf of the Trustee.

During the year under review, the Trustee did not consider it necessary to actively challenge the investment managers on their voting activity. Investment managers are expected to provide voting summary reporting on a regular basis, at least annually.

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022, updated Guidance was produced which was effective for all scheme year ends on or after 1 October 2022. The most material change is that the Statutory Guidance provides an update on what constitutes a "significant vote". The updated Guidance requires trustees to include a description of what they believe to be a significant vote within the Implementation Statement. The voting information is also expected to include details

explaining why each vote was categorised as most significant, what the vote was, and why the manager voted in the way it did. Following this, the Trustee has decided to consider the following areas of focus for the Scheme:

- Votes relating to top holdings: Votes relating to the mandates' 10 largest holdings;
- Votes relating to the topic of climate change;
- Votes relating to board governance topics including diversity and inclusion.

To be deemed a "most significant" vote, the vote needs to be one of the mandates' 10 largest holdings and meet one of these criteria above (climate change or board governance). The Trustee will keep this definition under consideration based on emerging themes within internal discussions and from the wider industry.

As part of this monitoring, the Trustee will engage with the Scheme's investment managers where appropriate to understand the activity undertaken in relation to these topics. Given the nature of the underlying assets, there was no voting activity undertaken within the following mandates during the year:

- Infrastructure;
- Private Debt;
- Insured-Linked Securities;
- Buy & Hold Credit;
- Liability Driven Investment ("LDI").

The Trustee did inform managers of what they considered to be the most significant themes in their view.