Imerys UK Pension Scheme

Engagement Policy Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustees produce an annual implementation statement which outlines the following:

- Explain how and the extent to which they have followed their engagement policy, which is outlined in the SIP.
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by Trustee or on its behalf) during the scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The EPIS for the Imerys UK Pension Scheme ("the Scheme") has been prepared Imerys UK Pension Fund Trustees Limited as the Trustee of the Scheme ("the Trustee") and covers the Scheme year 6 April 2020 to 5 April 2021.

Scheme Stewardship Policy Summary

The below bullet points summarise the Scheme Stewardship Policy in force over the majority of the reporting year to 5 April 2021. The full SIP can be found here.

Where appropriate, the Trustee expects the Scheme's investment managers to engage with companies in which they are invested with the aim to enhance the long-term value of assets; and to exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and take advice from their investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee reviews the stewardship activities of their investment managers on an annual basis, covering both engagement and voting actions. Where the Trustee identifies significant concerns relating to performance, strategy, risks, social and environmental impact, corporate governance, the capital structure or management of conflicts of interest, of a fund manager or other stakeholder; they will consider how they would engage with such a fund manager or other stakeholders to alleviate such concerns.

Scheme stewardship activity over the year

Training

Over the first half of 2020, the Trustee had responsible investment training sessions with their investment advisor, which provided the Trustee with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making. In particular, the training focussed on the new requirements for explicit policies within the SIP on incentivising managers, costs transparency and stewardship.

Updating the Scheme Stewardship Policy

In May and June 2020, the Trustee considered a range of potential new policies and their respective implications with their investment adviser. These discussions supported the Trustee in building a consensus and finalising new policies in these respective areas. With respect to Stewardship in particular, the updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their stewardship policy.

The Trustee consulted with the sponsor ahead of implementing the revised wording and updated SIP to meet the regulatory requirements.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by Aon. The reports include ESG ratings as determined by Aon and highlight any areas of concern, or where action is required. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. Over the year to 5 April 2021, no major stewardship concerns were identified for the managers that the Scheme invests with. Most of the funds that the Scheme invests in are rated 2 out of a maximum score of 4. A score of 2 means that the investment adviser believes the fund manager is aware of potential ESG risks across its investment funds and has taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustee and its investment adviser reviewed voting and engagement information of relevant managers as part of the process of completion for this engagement policy implementation statement and no significant concerns were identified. The Investment adviser continues to engage with managers regularly on their processes and forward looking strategy with respect to ESG integration and stewardship.

Voting and Engagement activity – Equity and Multi Asset Funds

The Scheme invest in the following funds:

Manager	Fund Name
BlackRock	BlackRock Aquila Life MSCI World
	BlackRock iShares Emerging Markets Index
	BlackRock Dynamic Diversified Growth

BlackRock

<u>Voting policy</u>

BlackRock uses Institutional Shareholder Services' ("ISS") electronic platform to execute its vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. BlackRock's voting decisions are informed by internally-developed proxy voting guidelines, its pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock has increased its level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

<u>Voting example - Aquila Life MSCI World</u>

On 9 December 2020, BlackRock voted against a management recommendation of the Yanzhou Coal Mining Company that shareholders vote to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited.

In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group in seven business entities for a total cash consideration of CNY 18.4 billion. The key assets to be acquired include a coal liquefaction project, a supporting coal mine and a coal-fired power plant, as well as other ancillary facilities.

BlackRock duly noted Yanzhou Coal's rationale for making the acquisition. Namely, to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believes it is in its clients' best long-term economic interests to vote against the proposed acquisition due to two primary concerns:

1. The underlying valuation for the terms of the transaction; and
2. Management's oversight of potential stranded asset risk (where stranded assets are assets which are worth less than expected - and less than the required level of return - as a consequence of the transition to a low carbon economy)

With respect to the latter, BlackRock is cautious about the potential stranded asset risks at Yanzhou Coal following the asset purchase. The transaction was announced shortly after China pledged to achieve carbon neutrality by 2060 with carbon emissions peaking by 2030. Yet Yanzhou Coal as, a state-owned enterprise, did not say how the acquisition of these coal-related assets aligns with China's stated goals, including the new Nationally Determined Contributions to be updated at the UN Climate Change Conference (COP 26). In particular, concerns remain about Yanzhou Coal's decision to acquire a coal-fired power plant as part of this transaction. The coal-fired power sector in China is already facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. The sector is expected to become even more challenged as more provinces anticipate grid parity for renewable energy. Therefore, such an acquisition could well exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonization targets.

BlackRock has communicated the above concerns with management and requested the company considers reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures ("TCFD"). The BlackRock Investment Stewardship team ("BIS") will continue to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here.

Voting Example – Dynamic Diversified Growth Fund

In June 2020, BlackRock voted against the re-election of a Director of Evraz plc ("Evraz") due to the company's lack of progress on climate-related reporting. Evraz is a steel, mining and vanadium company listed in the UK with operations in the Russian Federation, the United States, Canada, the Czech Republic, and Kazakhstan. The company's principal activities include manufacturing steel and steel products, iron ore mining and enrichment, coal mining, manufacturing vanadium products, and trading operations and logistics. Evraz is controlled by a group of shareholders which in aggregate owns 57% of the company.

BlackRock wrote to Evraz CEO and chairman of the board, in November 2017 asking the company to closely review the TCFD framework and to consider reporting in alignment with its recommendations. Since this letter, Evraz have taken some positive steps; for example, they set a 5-year target to maintain an intensity ratio of less than two tons of carbon dioxide equivalent (tCO_2e) per ton of crude steel cast. For 2019 the company achieved 1.97 tCO_2e per ton of crude steel cast, which, while meeting the company's target, remains above the average in the steel industry (average of 1.83 tons of CO_2 were emitted for every ton of crude steel cast). The current sustainability reporting provides some insights about operational carbon emissions but is not aligned with the TCFD framework.

BlackRock voted against the re-election due to the company's limited progress in explicitly aligning its reporting with the TCFD recommendations and lack of public commitments to move towards TCFD-aligned reporting that fell short of their expectations of large carbon emitters with a previous history of engagement with BlackRock on this topic.

More detail on the vote rationale can be found at the vote bulletin here.

Voting Example – BlackRock iShares Emerging Markets Index

In July 2020, BlackRock voted against recalling and electing Supervisory Board Members for the company's lack of progress on climate-related reporting and insufficient information with regards to the identity of the directors.

For similar transparency issues, BlackRock voted against the remuneration policy, and recalling and electing the Members of the Audit Committee.

More detail on the vote rationale can be found at the vote bulletin here

Engagement Policy

BlackRock's Investment Stewardship Team ("BIS") states its key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 different companies, covering nearly 65% by value of their clients' equity investments. BIS also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the BlackRock Investment Stewardship Annual Report 2020 here.

Engagement activity – Fixed Income and Real Estate

While the Trustees acknowledge the ability to engage and influence companies of fixed income and real estate may be less direct than in comparison to equity holdings, from the information received, it is encouraging that the managers are aware and active in their role as a steward of capital. Engagement information on all managers was reviewed and the following are examples from some of the managers to demonstrate the engagement activity being carried out on behalf of the Trustee.

Fixed income

BlueBay Asset Management LLP ('BlueBay')

Engagement Example - Petroleos Mexicanos ("Pemex")

In March 2020, BlueBay joined the Climate Action 100+ ("CA100+") , agreeing to co-lead on engagement with Pemex, a Mexican state-owned petroleum company. This followed BlueBay's own engagement with Pemex in 2020, where it had a call with management to discuss how the company was addressing some of its key ESG risks, including its approach to corporate responsibility, sustaining improved health and safety performance, improving transparency and disclosure of ESG metrics and climate change.

In July 2020, the co-leads of CA100+ wrote to the Board of the Pemex to provide it with formal notice of its inclusion in the CA100+. The letter also advised that, alongside the co-lead investors and several supporting investors keen to ensure a more progressive approach to climate change from Pemex. The company responded to this letter, stating it is currently reviewing the best way to respond and engage with investors on their approach to climate change and its high levels of greenhouse gases produced. BlueBay continue to monitor Pemex.

From an investment perspective, BlueBay feels that ESG issues create a high hurdle to owning Pemex. However, it believes valuations are compelling, so as at time of writing, it is currently holding Pemex as a core position in several funds. This gives BlueBay an increased ability to engage with management, a position it is using wherever possible to influence Pemex with regard to ESG improvements.

M&G

Engagement example – Quadient

In September 2020 M&G engaged with Quadient regarding modern slavery. The objective was to encourage further disclosure and policies relating to human rights and modern slavery from automation and communications specialist Quadient, in order to recognise the importance of these issues given the nature of the supply chain. M&G's engagement with Quadient allowed the company to explain its full ESG strategy and allowed M&G to look in greater depth at its approach to supply chain management, especially relating to conflict minerals and human rights. M&G asked the company to publish full public policy documents on human rights, supplier practices, business ethics and data privacy. Quadient was extremely receptive to both M&G's questioning and suggestions for releasing public-facing policy documents. The company has assured M&G that it intends to publish these, and supplementary information, on its website in the near future. M&G will continue to monitor and follow up as appropriate.

Insight

Engagement example - Greencoat UK Wind plc (“Greencoat”)

Insight engaged with Greencoat on the topic of Public Health. The half-year report disclosed that a serious health and safety incident had occurred at one of its wind farms. Insight engaged with the company to discuss the details of the incident and what remedial actions were planned, including preventative actions to minimise the chance of a recurrence. Insight engaged with the company four times during 2020, meeting once with the Board and three times with the underlying investment manager, twice where ESG was a topic of discussion. The outcome of the engagement was that the company has reviewed relevant systems and procedures to ensure that relevant enhancements are actioned.

Greencoat subsequently shared its experiences and improvements made in safety from the incident across its portfolio and at appropriate industry forums, thus helping to minimise the potential for similar incidents elsewhere. Insight have also engaged with other portfolio holdings within renewable energy to encourage adoption of relevant learnings from the incident.

Voting statistics

Voting statistics	For the period from 1 April 2020 – 31 March 2021		
	% of resolutions voted on for which the fund was eligible	Of the resolution on which the fund voted, % of resolutions voted against management	% of resolutions abstained
BlackRock Aquila Life MSCI World	90.67%	7.28%	0.72%
BlackRock iShares Emerging Markets Index	97.1%	8.7%	3.0%
BlackRock Diversified Growth	95.84%	5.86%	0.91%

In summary

Based on the reports received over the year from its investment adviser, the Trustee is of the opinion that overall its investment managers are implementing policies for choosing investments which meet the requirements of its engagement policy and are able to disclose evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

For and on behalf of the Imerys UK Pension Fund Trustees Limited

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[ ] September 2021