

# **Kemira Growhow UK Limited Pension Fund ("the Fund"): Annual Engagement Policy Implementation Statement as at 31 December 2020 (Defined Benefit Section)**

## **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 as at 31 December 2020. 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 the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**.

## **Investment Objectives of the Fund**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives it has set.

In investing the assets within the Defined Benefit Section of the Fund, the Trustees' primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Fund can be met. In meeting, this objective the Trustees' further objectives are to:

- Reach a position such that the Fund's assets would be sufficient to meet the liabilities as determined, in the event of the Fund winding-up, on the basis of a buyout with an insurance company.
- By means of an agreed combination of investment return and funding budget from the Sponsor, move the Fund to a position of being fully funded on a de-risked funding basis within a timeframe to be set following further analysis.
- In doing so, to opportunistically reduce the degree of risk in the Fund's investment arrangements, thereby helping to protect the Fund's improving funding position.

## **Review of the SIP**

During the year, the Trustees agreed to transition the Defined Benefit Section's assets to a fiduciary arrangement with Mercer. The SIP was updated during 2020 to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019, relating to the following:

- How the arrangements with asset managers incentivise them to align what is required of them with regards to the investment strategy and decisions with the Trustees' policies in the SIP.

## **Kemira Growhow UK Limited Pension Fund Engagement Policy Implementation Statement as at 31 December 2020**

- How the arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how those managers define and monitor this.
- The duration of the arrangement with the asset managers.

### **Assessment of how the policies in the SIP have been followed as at 31 December 2020**

In 2020, the Trustees carried out a review of the Fund's investment strategy. Following that, Mercer Limited in the UK were appointed as discretionary investment manager by the Trustees. Pursuant to that appointment, Fund monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE) in Dublin. As investment manager to the Mercer Funds, MGIE appoints third party investment managers to manage the Mercer Funds. The Trustees' investments take the form of shares or units in the Mercer Funds and they have the voting rights associated with those shares or units.

In practice, therefore, given the Trustees' investment arrangements, the Trustees' voting rights are at the level of the Mercer Fund in which they invest and relate to any proposed changes to it (such as the Mercer Fund's investment objectives) rather than the underlying investments held by the Mercer Funds. No votes are cast by the Trustees (or by others on behalf of the Trustees) with respect to those underlying investments. Instead, any voting rights that do apply with respect to the underlying investments attach to the Mercer Funds and those voting rights are, ultimately, delegated to the third party investment managers appointed by MGIE.

The MGIE [Engagement Policy](#) outlines this framework. As per the policy, it is recognised that institutional investors have long-term investment horizons and consider investment governance and active ownership to be of particular importance. The policy requires all shares to be voted by sub-investment managers in a manner deemed most likely to protect and enhance the long-term value for investors in the funds. As an Irish authorised investment firm, MGIE complies with the Irish legislation transposing Shareholder Rights Directive II (SRD II) into Irish law, which came into operation on 30 March 2020. An annual report will be published on

## **Kemira Growhow UK Limited Pension Fund Engagement Policy Implementation Statement as at 31 December 2020**

the Mercer Investment Solutions website outlining how the engagement policy was implemented, include a general description of voting behaviour, a summary of significant votes taken and information on the use of the services of proxy advisors.

Notwithstanding this, Implementation Statement explains the steps taken by the Trustees, and Mercer, to monitor the voting behaviour of the third party investment managers who vote on behalf of the Mercer Funds. To support this, we have referenced the most up to date voting reporting as at 31 December.

Prior to 30 November 2020 the Fund's assets were held with a number of underlying investment managers which were appointed under the advice of the Investment Consultant employed by the Trustees at the time, XPS. Specifically these assets were held across a number of funds managed by Aegon Asset Management, Baillie Gifford, BlackRock Asset Management, Legal & General Investment Management and Schroders Asset Management.

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

The Fund's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. 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.

The Trustees keep their policies under regular review, with the SIP subject to review at least annually.

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, noting that the formal transition of assets to Mercer's fiduciary arrangement took place in Q4 2020 and there was thus a very short period over which to consider performance.

- The Trustees have appointed Mercer to act as discretionary investment manager in respect of the Fund's assets and such assets are invested in a range of Mercer Funds managed by MGIE.
- As outlined in the Mercer [Sustainability Policy](#) investment managers appointed by MGIE to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and 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

## **Kemira Growhow UK Limited Pension Fund Engagement Policy Implementation Statement as at 31 December 2020**

Code, regardless of where they are domiciled. In addition, they are expected to monitor investee companies and to report on stewardship activities and outcomes on an annual basis, as set out in a publicly available Sustainable Investment Policy.

- The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer and MGIE is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics.
- The Trustees consider how ESG, including climate change, is integrated within Mercer's and MGIE's investment processes by reviewing the ESG ratings assigned by Mercer (and its affiliates') global manager research team, which are included in the investment performance report produced by Mercer on a quarterly basis. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration. Expectations are set as ESG3 or above, where practicable and relevant to the strategy (with ESG1 being the highest rating and ESG4 being the lowest). Comparisons are also made with the appropriate universe of strategies in Mercer's global investment manager database.
- Climate-related metrics such as carbon foot- printing for equities and/or climate scenario analysis for diversified portfolios are also reviewed at least annually by Mercer and MGIE.

### **Stewardship Monitoring**

Noting the Fund was not invested in Mercer Funds for the whole year, for illustration set out below is a summary of voting activity for the year to 31 December 2020 relating to the relevant Mercer Funds the Fund was invested in as at 31 December 2020.

- **Voting:** As part of the monitoring of managers' approaches to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers note in different ways for the same

## **Kemira Growhow UK Limited Pension Fund Engagement Policy Implementation Statement as at 31 December 2020**

proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

"Unvoted" reflects instances where managers have not actioned a vote - these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned.

"Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. This is summarised in the Engagement Section of the MGIE Sustainability Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals ("SHP") relating to these priority areas and taking into account the size of holding across funds

**Kemira Growhow UK Limited Pension Fund**  
**Engagement Policy Implementation Statement as at 31 December 2020**

**Voting Activity Summary 1 January 2020 to 31 December 2020**

Fund	Total Proposals	Voted 'For'	Voted 'Against'	Abstained from voting	Unvoted	Other	For Management	Against Management	Use of Proxy Advisor
Mercer Low Volatility Equity	<b>7,683</b>	92%	6%	0%	1%	1%	93%	7%	Yes
Mercer Sustainable Global Equity	<b>5,258</b>	89%	9%	1%	0%	1%	90%	10%	Yes
Mercer Emerging Market Equity	<b>14,042</b>	75%	12%	3%	10%	0%	84%	16%	Yes
Mercer Global Small Cap Equity	<b>8,157</b>	91%	6%	1%	1%	1%	93%	7%	Yes*
Mercer Eurozone Equity	<b>4,890</b>	83%	14%	2%	2%	0%	84%	16%	Yes*
Mercer Global Listed Infrastructure	<b>680</b>	89%	10%	27%	13%	0%	89%	11%	Yes
Mercer Fundamental Indexation CCF	<b>2,055</b>	84%	9%	0%	5%	2%	87%	13%	Yes

**Kemira Growhow UK Limited Pension Fund**  
**Engagement Policy Implementation Statement as at 31 December 2020**

Mercer Passive Global REITs	<b>2,797</b>	83%	13%	0%	0%	4%	83%	17%	Yes
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*\*Proxy advisor not used by at least one underlying manager of the fund.*

**Sample of Significant Votes over the period 1 January 2020 to 31 December 2020**

<b>Fund</b>	<b>Shareholder Proposal ("SHP")</b>	<b>Issuer</b>	<b>Vote Decision</b>
<b>Mercer Low Volatility Equity</b>	SHP Regarding Aligning GHG Reductions with Paris Agreement	JPMorgan Chase & Co.	For
	SHP Regarding GHG Reduction Targets	Royal Dutch Shell Plc	For
	SHP Regarding linking Executive Pay to Sustainability and Diversity	Alphabet	Split*
	SHP Regarding Median Gender and Racial Pay Equity Report	7 Companies **	For
	* 2 managers voted for and 1 voted against		
	**7 Companies includes Amazon.com Inc., American Express Co., Bank Of America Corp. Facebook Inc, Intel Corp. JPMorgan Chase & Co., & Wells Fargo & Co.		
<b>Mercer Sustainable Global Equity</b>	SHP Regarding Deforestation Report	Procter & Gamble Co.	For

**Kemira Growhow UK Limited Pension Fund**  
**Engagement Policy Implementation Statement as at 31 December 2020**

	SHP Regarding Reporting on the Use of Non-Recyclable Packaging	Kroger Co..	Against
	SHP Regarding Report on Sugar and Public Health	McDonald`s Corp	Against
	SHP Regarding Linking Executive Pay to Sustainability and Diversity	Alphabet Inc	For
	SHP Regarding Gender and Ethnicity Pay Equity Report	Oracle Corp.	For
<b>Mercer Emerging Market Equity</b>	SHP Regarding Report on Sugar and Public Health	Pepsico	Against
	SHP Regarding Report on Response to Opioid Epidimec	Johnson & Johnson	For
	SHP Regarding Independent Chair	Johnson & Johnson	For
<b>Mercer Global Small Cap Equity</b>	SHP Regarding Deforestation and GHG Emissions Report	Bloomin Brands Inc	For
	SHP Regarding phase out of oil and gas	Beach Energy Lrd	For
	SHP Regarding Human Rights Reporting	Tesla	Against

**Kemira Growhow UK Limited Pension Fund**  
**Engagement Policy Implementation Statement as at 31 December 2020**

	SHP Regarding Management Diversity Report	IPG Photonics Corp	For
<b>Mercer Eurozone Equity</b>	Proposal to approve Remuneration Policy (vote decision taken on basis not sufficiently long term and not in line with best market practice)	Ferrari N.V	Against
	Proposal to re-appoint auditors (vote decision taken on basis auditors tenure exceeded 15 years)	Novo Nordisk	Abstain
	Proposal to Elect Director (vote decision taken on basis that the gender diversity at Board level is less than 30% and candidate was male)	Silka AG	Abstain
<b>Mercer Global Listed Infrastructure</b>	SHP Regarding Amending the Byelaws Concerning the Presentation of Climate Transition Reporting	Aena S.M.E. S.A.	For
	SHP Regarding Presentation of Climate Transition Plan	Aena S.M.E. S.A.	For
<b>Mercer Fundamental Indexation Global Equity CCF</b>	SHP Regarding Paris-Aligned Greenhouse Gas Emissions Reduction Targets	RIO Tinto Ltd.	For
	SHP Regarding Environmental Impact Report	iA Financial Corp	For

**Kemira Growhow UK Limited Pension Fund**  
**Engagement Policy Implementation Statement as at 31 December 2020**

	SHP Regarding Use of Antibiotics	Walmart Inc	For
	SHP Regarding Report on Non-Management Employee Representation on the Board	Microsoft Corporation	For
<b>Mercer Passive Global REITS UCITS CCF</b>	SHP Regarding Election of Gary Weiss	Cromwell Property Group	Split
	** Please note that there were 15 votes in favour of the above mentioned Directors and 1 vote against election of Gary Weiss.		

**Kemira Growhow UK Limited Pension Fund  
Engagement Policy Implementation Statement as at 31 December 2020**

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**Kemira Growhow UK Limited Pension Fund  
Engagement Policy Implementation Statement as at 31 December 2020**

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