

# Fuchs Lubricants Pension Scheme

## ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 31 December 2020

### Introduction

This statement sets out how, and the extent to which, the Stewardship policy in the Statement of Investment Principles (SIP) produced by the Trustees has been followed during the year to 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) Regulations 2019 and the guidance published by the Pensions Regulator.

### Trustee's Investment Objectives

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

The Trustees' primary investment objective for the Scheme is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due.

In doing so, the Trustees aim to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Scheme.

The Trustees also ensure that their investment objectives and the resultant investment strategy are consistent with the actuarial valuation methodology and assumptions used in the Statutory Funding Objective.

### Policy on ESG, Stewardship and Climate Change

The Trustees understand that they must consider all factors that have the potential to impact upon the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to, environmental, social and governance (ESG) factors.

The Scheme's SIP includes the Trustees' policies on ESG factors, stewardship and climate change. The policies were last reviewed in September 2020 when they received investment training on this topic and the Trustees intend to undertake further investment training in the coming year. The Trustees keep their policies under regular review, with the SIP subject to review at least triennially.

The Trustees recognise that a proportion of the Scheme's assets are invested on a passive basis, which limits the investment manager's ability to take active decisions on whether to hold securities based on the investment manager's considerations of ESG factors, including climate change. Nonetheless, the Trustees can confirm that they have acted in accordance with the SIP in relation to voting and engagement activities over the year under review.

### **Investment Structure**

The Scheme's only investment is a Trustee Investment Policy (TIP) with Mobius Life Limited (Mobius). Mobius provides an investment platform and enables the Scheme to invest in pooled funds managed by third party investment managers. The Trustees have no direct relationship with the Scheme's underlying investments managers. The Trustees have the responsibility of monitoring the pooled funds, in conjunction with advice received from their investment advisor, Mercer.

### **Engagement**

In the year to 31 December 2020, the Trustees have not actively engaged with the pooled investment managers on matters pertaining to ESG, stewardship or climate change.

However, the performance monitoring reports produced by Mercer include ESG specific ratings of the funds held (with ratings derived by Mercer) and this will help to determine whether further action should be taken. The Trustees are also working with Mercer to consider actions that can be taken to engage with the investment managers going forward.

### **Voting Activity**

The Trustees have delegated their voting rights to the Scheme's investment managers. The Trustees have not been asked to vote on any specific matters over the Scheme year.

Nevertheless, this Statement sets out a summary of the key voting activity of the pooled funds for which voting is possible.

The Trustees note 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.

The table on the following pages sets out a summary of the key voting activity over the financial year:

Fund	Proxy voter used?	Votes cast			Most significant votes (description)	Significant vote examples
		Votes in total	Votes against management endorsement	Abstentions		
<b>Threadneedle Multi Asset Fund</b>	ISS and Glass Lewis, Institutional Voting Information Service - for recommendations only.	6789 resolutions (98.5% votes cast)	5.88%	3.62%	Threadneedle consider a significant vote to be any dissenting vote i.e. where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where we support a shareholder-tabled proposal not endorsed by management.	<p><b>Facebook, Inc.:</b> Vote 'for' the organisation to report on Median Gender/Racial Pay Gap  <b>Rationale:</b> Material social risk for business and therefore in shareholders' interests.</p> <p><b>Outcome of vote:</b> Fail</p> <p><b>Implications:</b> Active stewardship (engagement and voting) continues to form an integral part of Threadneedles research and investment process.</p> <p><b>Significance:</b> See definition</p>
<b>Nordea Diversified Return Fund</b>	Institutional Shareholder Services (ISS) and Nordic Investor Services (NIS) - recommendations only.  Nordea makes its own voting decisions.	3,466 eligible for (1,381 cast)	172	6	Those that are severely against Nordea's principles, and where they feel they need to enact change in the company. The process stems from first identifying the most important holdings, based on size of ownership, size of holding, ESG reasons, or any other special reason. From there, Nordea benchmark the proposals against their policy.	<p><b>Microsoft:</b> a vote 'against' to ratify named executive officers' compensation</p> <p><b>Rationale:</b> Nordea think that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a large part of the incentive program performance targets is still lacking and for some executives extremely high. On the positive side transparency has improved a lot.</p> <p><b>Outcome of vote:</b> For</p> <p><b>Implications:</b> Nordea see less and less support at many AGMs for remuneration packages, and Nordea will continue to be critical of badly structured remuneration programs with large proportions of time based variable compensation</p>

<b>Blackrock Aquila Connect UK Equity Fund</b>	<b>Institutional Shareholder Services (ISS) and Glass Lewis</b> – recommendations only. All voting decisions are made by BlackRock and they do not outsource any part of the strategic decisions.	14622 resolutions eligible for (97.12% cast)	5.62% of votes cast	1.75% of eligible votes	During the period, BlackRock Investment Stewardship periodically published detailed explanations of specific key votes in “vote bulletins”. These bulletins are intended to explain BlackRock’s vote decision, including the analysis underpinning it and relevant engagement history when applicable, on certain high-profile proposals at company shareholder meetings. BlackRock make this information public shortly after the shareholder meeting, so clients and others can be aware of their vote determination when it is most relevant to them. BlackRock consider these vote bulletins to contain explanations of the most significant votes for the purpose of the Shareholder Rights Directive II.	<p><b>Significance:</b> See definition</p> <p><b>Exxonmobil</b> - a vote ‘against’ was cast electing Director Kenneth Frazier, Angel Braly for insufficient progress on Task Force on Climate-Related Financial Disclosures (TCFD) aligned reporting and related action. A vote ‘For’ the Independent Chair proposal on account of BlackRock’s belief that the board would benefit from a more robust independent leadership structure given the concerns noted.</p> <p><b>Rational for vote:</b> BlackRock have discussed during their most recent conversations with Exxon Mobil Corporation (Exxon), that they continue to see a gap in the company’s disclosure and action with regard to several components of its climate risk management. BlackRock see this as a corporate governance issue that has the potential to undermine the company’s long-term financial sustainability. BlackRock’s approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management’s approach to key business issues.</p> <p>When effective corporate governance is lacking, BlackRock believe that voting against the re-election of the responsible directors is often the most impactful action a shareholder can take. The directors in the Boardroom, the independence of their voices, and the value of their collective experience are meaningful determinants of their ability to provide direction and leadership to management and to oversee and drive management’s performance.</p>
<b>Blackrock Aquila Connect European Equity Fund</b>	<b>Same as above</b>	8674 resolutions eligible for (81.37% cast)	12.27% of votes cast	1.01% of eligible votes	<b>Same as above</b>	<p><b>Volkswagen AG</b> – a vote ‘against’ the discharge of a number of Management Board members</p> <p><b>Rational for vote</b> - BIS voted against the discharge of members of the Board of</p>

						Management who were serving at the time of the emissions scandal. In doing so, they are holding those individuals accountable for the deficiencies in VW's governance practices and management of its material risks.
<b>Blackrock Aquila Connect Japanese Equity Fund</b>	Same as above	6290 resolutions eligible for (100% cast)	2.03% of votes cast	0% of eligible votes	Same as above	<p><b>Mizuho Financial Group</b> - voted 'against' the shareholder proposal to amend the company's Articles of Incorporation to add a clause to disclose in its annual reporting a plan outlining the business strategy to align its investments with the goals of Paris Agreement.</p> <p><b>Rational for vote</b> - BR took into consideration the company's policies and the announcements made since the shareholder proposal was filed and determined that the company now has policies in place that address the issues raised in the proposal.</p>
<b>Blackrock Aquila Connect Pacific Rim Equity Fund</b>	Same as above	3133 resolutions eligible for (99.62% cast)	9.9% of votes cast	0.13% of eligible votes	Same as above	<p>AGL Energy Ltd. - voted 'for' the shareholders request that the company align the closure dates of the Bayswater and Loy Yang A coalfired power stations with a strategy to limit the increase in global temperatures to 1.5°C above preindustrial levels.</p> <p><b>Rational for vote</b> – support for this proposal is intended to encourage the company in its efforts to proactively and ambitiously manage the climate risk in its business model. We expect that doing so would help offset the potential financial risks, and capture some of the opportunities of the global energy transition, thus protecting the long-term economic interest of shareholders</p>
<b>Blackrock Aquila Connect US Equity Fund</b>	Same as above	7588 resolutions eligible for (100% cast)	2.5% of votes cast	0.05% of eligible votes	Same as above	<b>Exxonmobil</b> - a vote 'against' was cast electing Director Kenneth Frazier, Angel Braly for insufficient progress on Task Force on Climate-

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Related Financial Disclosures (TCFD) aligned reporting and related action.  
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**Rational for vote:** BlackRock have discussed during their most recent conversations with Exxon Mobil Corporation (Exxon), that they continue to see a gap in the company's disclosure and action with regard to several components of its climate risk management. BlackRock see this as a corporate governance issue that has the potential to undermine the company's long-term financial sustainability. BlackRock's approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues.

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