

## **ABS Europe Ltd Pension Scheme – Annual Engagement Policy Implementation Statement**

### **Introduction**

This statement sets out how, and the extent to which, the intentions of the engagement language 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 and Modification) Regulations 2018** and the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**.

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

The Trustees consider the policies referenced in the SIP in the context of the investment objectives they have set. The objectives of the Scheme included in the SIP are as follows:

- By means of an agreed combination of investment return and funding budget from the Sponsor, maintain at least a fully funded position on a technical provisions basis, allowing for ongoing accrual.
- In doing so, to opportunistically reduce the degree of risk in the Scheme’s investment arrangements, thereby helping to protect the Scheme’s improving funding position.

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

The Scheme’s SIP includes the Trustees’ views on Environmental, Social and Governance (‘ESG’) factors, stewardship and climate change. The SIP sets out the processes followed by the Trustees in relation to voting rights and stewardship. This was last reviewed in September 2020.

In order to produce the SIP, the Trustees discussed the matter with their investment consultant, Mercer Limited (Mercer), and the approach undertaken by Mercer Global Investments Europe Limited (MGIE) in its capacity as investment manager to the Ireland-domiciled collective investment schemes in which Scheme’s assets are invested.

The Trustees review the SIP at least triennially. The following work was undertaken during the year relating to the Trustees’ views on ESG factors, stewardship and climate change, and sets out how Mercer’s (as the Trustees’ appointed fiduciary manager) engagement and voting policies were followed and implemented during the year.

**Engagement Policy Implementation Statement – ABS Europe Ltd Pension Scheme – To 31 December 2020**

- The Trustees have appointed Mercer to act as discretionary investment manager in respect of the Scheme’s assets and such assets are invested in a range of Mercer Funds managed by MGIE.
- 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 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 the investment processes of Mercer and MGIE, as well as those of the underlying asset managers. Mercer and MGIE are expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration stewardship monitoring results, and climate-related metrics.
- Mercer reviews its Sustainability Policy regularly. In August 2020, the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement, as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy to specifically address the requirements of the directive.
- The Trustees consider how ESG, including climate change, is integrated within the investment processes of Mercer and MGIE by reviewing the ESG ratings assigned by Mercer’s 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 its quarterly monitoring processes, with a more comprehensive review performed annually. Mercer’s expectations for ESG ratings are set at 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.

## Engagement Policy Implementation Statement – ABS Europe Ltd Pension Scheme – To 31 December 2020

- Climate-related metrics such as carbon footprinting for equities and/or climate scenario analysis for diversified portfolios are also reviewed at least annually by Mercer and MGIE.

### **Voting Activity**

The Trustees' investments take the form of shares or units in the various Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are delegated to the third party investment managers appointed by MGIE. MGIE expects in most cases managers have detailed knowledge of both the governance and operations of the investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such, the Trustees do not use the direct services of a proxy voter.

Set out below is a summary of voting activity for the year to 31 December 2020 relating to the relevant Mercer Funds.

**Voting:** As part of the monitoring of each manager's approach to voting, MGIE assess 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 vote in different ways for the same 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.

## Engagement Policy Implementation Statement – ABS Europe Ltd Pension Scheme – To 31 December 2020

- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, built 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.

### 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 Passive Global Equity CCF	<b>19,240</b>	84%	10%	0%	3%	2%	86%	14%	Yes
Mercer Passive Global REITs	<b>2,797</b>	83%	13%	0%	0%	4%	83%	17%	Yes

\*Proxy advisor not used by at least one underlying manager of the fund.

## Engagement Policy Implementation Statement – ABS Europe Ltd Pension Scheme – To 31 December 2020

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

Fund	Shareholder Proposal (“SHP”)	Issuer	Vote Decision
<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
	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

## Engagement Policy Implementation Statement – ABS Europe Ltd Pension Scheme – To 31 December 2020

<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
	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 Passive Global Equity CCF</b>	SHP Regarding Aligning GHG Reductions with Paris Agreement	JPMorgan Chase & Co.	For
	SHP Regarding Lobbying Activity Alignment with the Paris Agreement	Chevron, Delta Airlines and United Airlines	For
	SHP Regarding Report on Human Rights Risks	Chevron	For

**Engagement Policy Implementation Statement – ABS Europe Ltd Pension Scheme – To 31 December 2020**

	SHP Regarding Median Gender and Racial Pay Equity Report	8 Companies *	For
	Shareholder Proposal Regarding Gender Pay Equity Report	Pfizer	For
	* 8 Companies includes Adobe Inc, Amazon.com Inc., American Express Co., Bank Of America Corp., Facebook Inc, Intel Corp., JPMorgan Chase & Co. & Wells Fargo & Co.		
<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.		