

Annual Engagement Policy Implementation Statement (to 31 March 2021)

Volvo Penta UK Retirement Benefits Scheme

1. Introduction

This Engagement Policy Implementation Statement ('the 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 2021. 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, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

The next section of this Statement provides detail of the actions taken by the Trustee to meet the Scheme's engagement policies set out in the SIP over the year.

By adopting Mercer's Cashflow Driven Financing (CDF) Solution, Mercer Limited (Mercer) in the UK has been appointed as discretionary investment manager by the Trustee. Pursuant to that appointment, Scheme monies are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

2. 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.

In order to establish the Trustee's beliefs and produce the policy in the SIP, the Trustee considered the approach undertaken by MGIE, in its capacity as investment manager to the collective investment schemes in which Scheme's assets are invested. The Trustee has also reviewed the approach undertaken by Mercer and MGIE on responsible investment which covers ESG factors, stewardship and climate change.

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

Policy Updates

- The Trustee considers 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, have provided reporting to the Trustee on a regular basis.
- The Mercer [Sustainability Policy](#) is available to be reviewed by the Trustee. 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 March 2021, there was a further update in relation to sustainability-related disclosures in the financial services sector ("SFDR") implementation.
- 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.

Climate Change Reporting and Carbon Footprinting

- Mercer undertake climate scenario modeling and stress testing on the Mercer multi sector funds used by the Scheme on an annual basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 31 March 2020.
- The results of the climate scenario modelling and carbon footprinting are within the [TCFD compliant Climate Change Management Report](#).
- The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.

ESG Rating Review

- ESG ratings assigned by Mercer (and its affiliates') global manager research team, are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee.
- 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. Since Q3 2020, the quarterly performance report has included the Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer's global investment manager database.
- For information, as at 31 December 2020 the Trustee noted that 95% of all Mercer Funds now have an ESG rating equal to or above their asset class universe, a 10% improvement on 2019.
- As at 31 March 2021, all Mercer Funds utilised by the Scheme, had an ESG rating equal to or above their asset class universe.

Update to Exclusions

- As an overarching principle, Mercer and MGIE, as the Trustee's discretionary investment manager, prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
- Controversial and civilian weapons, and tobacco are excluded from all active fixed income funds.
- In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues.

Engagement

- The Trustee has 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, investment managers appointed by MGIE 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 Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, MGIE's and the Mercer Fund underlying managers' investment processes in the monitoring process. Mercer and MGIE are expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics. The Trustee reviewed this report covering the calendar year 2020, and will review the reporting pertaining to the calendar year of 2021 accordingly in the future.

3. Voting Activity

The Trustee's investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE. MGIE accepts that managers may have detailed knowledge of both the governance and the 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 Trustee does not use the direct services of a proxy voter. The MGIE Engagement Policy outlines this framework.

However, the nature of the Scheme's investment strategy assets (fixed income-orientated investment strategy) means that there are no voting rights to exercise.