

Magnet Group Pension Scheme

Annual Engagement Policy Implementation Statement – October 2023

Introduction

This 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 October 2023. 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 2019 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives that have been set. The objectives of the Scheme included in the SIP are as follows:

- To make sure that the Trustee can meet its obligations to the beneficiaries of the Scheme, principally on an ongoing, i.e. "Technical Provisions" basis.
- To operate funding and investment strategies in a coordinated approach. Variation in the funding position (in particular improvements) may be reflected in the level of risk in the investment strategy.
- To pay due regard to the Scheme Sponsor's interests on the size and incidence of employers' contribution payments and the impact of the Scheme on the Scheme Sponsor's accounts.

Given the nature of the liabilities, the investment time horizon of the Scheme is potentially long-term (i.e. several decades). However, any future opportunities to transfer liabilities (fully or partially) to an insurance company (e.g. through the purchase of bulk annuities with an insurance company) may shorten the Scheme's investment horizon significantly.

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. The policy was last updated in March 2024.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by its investment consultant on responsible investment, which covered ESG factors, stewardship, climate change and ethical investing. This training was provided on 11 July 2019. The Trustee keeps its policies under regular review.

The Trustee is satisfied that its engagement policy was followed during the year. The following summarises how the Trustee's engagement and voting policies were followed and implemented during the year accordingly:

Engagement

- An investment performance report was reviewed by the Trustee on a quarterly basis – this included ratings (both general and specific ESG) from the investment consultant. The investment performance reports included how each investment manager was delivering against its specific mandate. Through its investment consultant, the Trustee reviewed the mandates of Apollo Global Management (“Apollo”), MFS Investment Management (“MFS”), Royal London Asset Management (“RLAM”), Ruffer LLP (“Ruffer”) and Mercer Limited (“Mercer”) (together the “Investment Managers”) in relation to ESG factors including climate change.
- The majority of the Scheme's Investment Managers (c.92% of assets under management as at 31 October 2023) confirmed that they are signatories of the current UK Stewardship Code. However, one of the Scheme's managers confirmed that while it supports the principles of the code, it is viewed that it is not relevant to the assets and asset classes they manage hence is not a signatory. The Trustee will continue to engage with this manager on the UK Stewardship code and its relevance.
- The Trustee also received details of relevant engagement activity for the year from the Scheme's investment managers, as part of regular reporting.

Voting and engagement activity undertaken by the investment managers

The Trustee has delegated its voting rights to the investment managers, principally through being invested in pooled funds (noting that in this case votes are cast on behalf of the pooled fund not the Trustee, who does not own the underlying assets directly). The Trustee does not use the direct services of a proxy voter and over the prior 12 months the Trustee has not actively challenged its managers on voting activity.

In Q3 2022, new legislation was published by the Department of Work & Pensions (“DWP”) which has come into effect for the Scheme this year. The Trustee is now required to provide a definition of what it considers a “significant vote”.

The Trustee has agreed that its definition of a significant vote is *“a vote that relates to material holdings (a company that represented at least 1% of the year-end market capitalisation of any fund in which the Scheme was invested during the majority of the year), in the areas of climate change (“E”), human rights (“S”) and diversity, equity and inclusion (“G”).”*

Where applicable, Investment managers are expected to provide voting summary reporting on at least an annual basis. Each manager has been asked to confirm key voting activity on behalf of the Trustee (or in relation to the pooled funds in which the Trustee invests), over the year to 31 October 2023. The votes outlined below have been provided to the investment advisor by the Scheme's investment managers and have been tailored to prioritise those in which the underlying theme / topic is one that the Trustee has identified as being significant based on the above definition.

MFS – Global Equity

- MFS used Institutional Shareholder Services, Inc. (“ISS”) to perform various proxy voting-related administrative services, such as vote processing and record-keeping functions. MFS also received research reports and voting recommendations from ISS and Glass, Lewis & Co., Inc.. MFS analyses all proxy voting issues within the context of the internally-developed MFS Proxy Policies. MFS has due diligence procedures in place to help ensure that the research it receives from its proxy advisory firms is accurate and to reasonably address any potentially material conflicts of interest of such proxy advisory firms.
- There have been 89 votable meetings over the year. In these meetings, there were a total of 1,506 votable items;
- In 94.2% of these votes for proposal, MFS has indicated its support to the companies’ managements, while voting against in 5.8% of the proposals and withholding their vote in 0.1% of the resolutions.

Significant Votes

Company (holding size): Kubota Corp. (1.03%)

Date of Vote: 24/03/2023

Summary of the resolution: Elect Director Kitao, Yuichi

Rationale for the voting decision: MFS voted against the top executive due to what they consider to be insufficient gender diversity on the board of directors. Specifically, less than 10% of the board comprises gender-diverse directors.

Implication of the outcome: MFS embrace opportunities to engage with issuers on issues such as this, and seek productive dialogues around gender diversity and the broader diversity among directors.

Significance: This is a vote for diversity and inclusion, and is aligned with the Trustee’s priority in the area of diversity, equity and inclusion (“G”).

Company (holding size): Linde Plc (2.71%)

Date of Vote: 24/07/2023

Summary of the resolution: Elect Director Joe Kaeser

Rationale for the voting decision: MFS voted against the nominee, as the nominee is the Chair of the Nominating Committee, and the board is comprised of less than 22% female directors.

Implication of the outcome: MFS embrace opportunities to engage with issuers on issues such as this, and seek productive dialogues around gender diversity and the broader diversity among directors.

Significance: This is a vote for diversity and inclusion, and is aligned with the Trustee's priority in the area of diversity, equity and inclusion ("G").

Engagement Activity Example

Company: Colgate Palmolive Co

Summary of the engagement: MFS discussed various environmental, social and governance topics, including net zero/Science-Based Targets initiatives, human capital and succession planning.

MFS's multi-year engagement horizon typically allows them to develop strong relationships with their portfolio companies. As a result, they are able to have more candid and insightful discussions as they foster these long-term dialogues. They continue to focus on identifying what swift and measurable changes their portfolio companies can make in direct response to shareholder feedback.

Apollo – Multi-Asset Credit

As debt holders, Apollo does not have equity holder voting rights in general. Voting information is not available for the very small proportion of assets in the portfolio that do have voting rights.

Engagement Activity Example

- Company: Energy Transfer LP

Summary of engagement: Apollo discussed the company's balance sheet, recent merger and LNG development at Lake Charles. They also discussed prospects for a terminal with state of the art technology to lessen environmental impacts. In addition, there was a governance discussion around the potential for an up-C corp structure and improved governance score to satisfactory vs. fair.

Ruffer – Absolute Return

- Ruffer uses ISS for proxy voting research in line with internal voting guidelines in order to assist analysts in their assessment of resolutions and identification of contentious issues. Ruffer does not delegate or outsource stewardship activities when deciding how to vote on its clients' behalf.
- There have been 67 votable meetings over the year. In these meetings, there was a total of 1,059 votable items;
- Ruffer has participated in the vote for 1,059 of the 1,059 votable items (i.e. 100% of the votable items). In 95.1% of these votes Ruffer has indicated its support to the companies' managements, while voting against 3.4% of the proposals and abstaining from voting in 1.5% of proposals.

Significant Votes

There were no votes considered significant as the size of the holdings were less than 1% of the fund in which the Scheme is invested.

Engagement Activity Example

Company: BP

Summary of engagement: The engagement with BP was characterized by mixed messages and negative media attention regarding the company's strategic progress. While there were concerns about a shift towards oil and gas production, conversations with BP's CFO and EVP highlighted a pragmatic and flexible approach to meet short-term demand while prioritizing resource efficiency. The company aims to extend the life of existing assets rather than investing in new projects. Overall, the engagement emphasized the importance of adaptability in achieving a sustainable transition to a low-carbon world.

RLAM – Fixed Interest Non-Gilts and Currency Hedging

- There are no equity holdings in the RLAM corporate bond and currency hedging mandates. Therefore, within these mandates RLAM does not have any equity holder voting rights.

Engagement Activity Example

Company: British Land

Summary of engagement: RLAM met with the Head of Environmental Sustainability at British Land to discuss their approach to Biodiversity Net Gain (BNG), governance, integration of biodiversity, and risk mitigation. Given British Land's operations primarily in London, where regulatory compliance is relatively easier, RLAM expects a higher standard of implementation. The insights gathered from this engagement, along with research on other companies, will be used to publish investor expectations and guidance on best practices and engagement around BNG in the coming months.

Mercer – Liability Driven Investment (“LDI”)

- The Mercer LDI funds provide fully and partially funded exposure to fixed and index-linked gilts and cash/liquidity. Therefore, within this mandate Mercer does not have any equity holder voting rights.

The Trustee has not included information in relation to the Scheme's AVC arrangements as these are a small proportion of the Scheme's total assets.