

BlackRock

The Sulzer UK Defined Benefit Pension Scheme

Engagement Policy Implementation Statement

31 December 2022

1. Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustees are required to produce an annual Engagement Policy Implementation Statement (“EPIS”). This statement outlines how, and the extent to which, the policies relating to stewardship, voting and engagement as outlined in the Statement of Investment Principles (“SIP”) have been followed.

This statement covers the Scheme’s accounting year to 31 December 2022. It is intended to meet the updated regulations and will be included in the Scheme’s Report & Accounts. In preparing this statement, the Trustees have taken advice from their professional advisers.

This statement details some of the activities taken by the Trustees, the Manager and the investment managers during the period, including voting statistics, and provides the Trustees’ opinion on the stewardship activities over the period.

2. Policies

The relevant policies regarding stewardship, voting and engagement are outlined in the SIP. The most recent version of the SIP is publicly available being published online and will be updated from time-to-time.

The Trustees have appointed BlackRock as the adviser and Fiduciary Manager (“the Manager”) for the Scheme. The Trustees delegate the day-to-day investment decisions and asset allocation to the Manager. The Trustees retain responsibility for the strategic investment objective and oversight of the Manager.

During the year to 31 December 2022 the Trustees updated the SIP once, in the January 2022. The policies contained in the January 2022 SIP are those which are relevant to this Statement, which can be accessed online.

The Trustee notes the “Guidance issued by the DWP relating to Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement” in July 2022. Due to the timing of this Guidance and the proximity to the Scheme year-end the Trustee plans to develop its policies and build more elements of this guidance into future iterations of this statement.

3. Scope of this statement

The Trustees acknowledge that the extent to which the policies in relation to stewardship, voting and engagement can be applied varies across the portfolio. For example, in general, voting rights are not attached to fixed income securities, while the applicability to the LDI (liability-driven investment) portfolio is limited. Nonetheless, the Trustees and the Manager expect all investment managers to take an active role in the stewardship of investments where relevant.

4. Scheme activity

In 2021, the Trustees appointed BlackRock as the Scheme’s investment advisor and fiduciary manager. The assets were transitioned to the BlackRock fiduciary mandate at the beginning of 2022, with the majority of trading taking place in January 2022.

The SIP includes the Trustees’ policy on Environmental, Social and Governance (“ESG”) factors and stewardship. This policy sets out the Trustees’ beliefs on ESG and the processes followed by the Trustees in relation to voting rights and stewardship.

The Trustees receive ESG reporting in the quarterly investment report, which includes aggregate and asset class level reporting of ESG scores relative to an appropriate benchmark. The Trustees use this to measure how the overall Scheme assets are invested and assess the metrics over time.

The Manager now rates each underlying strategy based on the strength of their ESG policies and actions and provides a summary of the ESG scores to the Trustees on a quarterly basis, as part of the investment report. This allows the Trustees to establish how each underlying manager scores from an ESG perspective as well as measure relative improvements quarter on quarter.

As of year-end, 6 of the 12 active strategies had an ESG score of “Advanced”, the highest rating. The remaining strategies scored “Aligned”. The Trustees are comfortable that these scores are a strong reflection

of their beliefs with all managers having the two highest scores (Advanced and Aligned). Furthermore, the Trustees recognise that the Manager is engaging with the underlying managers to ensure they work to further improve their ESG policies and actions over time. As part of the Trustees' ESG policy, the Manager is required to request the underlying managers' policies and their adherence to them. The Manager reviews the policies of each underlying manager to ensure that these are appropriate.

The Trustees expect the Manager to continue to work with underlying managers in order to ensure those on the weaker side of voting and engagement take action to make improvements. The Manager has acknowledged that all managers have been taking steps to improve both their voting and engagement and "best in class" continues to evolve. The Trustees will be closely monitoring developments over the coming years.

5. Voting and Engagement

The Trustees have delegated to the Manager the responsibility of collecting the stewardship and engagement reports of the underlying managers and assessing the suitability. The Trustees also expect the Manager to monitor the underlying manager's activity to ensure compliance and confirm that it remains a suitable investment for the Scheme. The Trustees are comfortable that under the governance structure the responsibility sits with the Manager to communicate with the underlying managers and on a regular basis collect information as required.

The Manager has noted that there is variability between managers in the extent of their engagement and voting policies, with equity managers generally having made more progress than fixed income. This Implementation Statement focuses on the Scheme's equities managers. It is intended that in future years there will be greater focus on other asset classes, in particular the fixed income managers.

The section below details the investment managers' approach to voting and engagement as well as some examples of significant engagements these managers have made over the 12 months in respect to the funds in which the Scheme is invested.

In addition, summary voting statistics in respect of the Scheme's equities funds over the year to 31 December 2022 have been included. Due to the timing of the transition voting statistics have been reported over the one-year period to 31 December as this likely to result in greater coverage across investment managers and also provide greater comparability and consistency going forwards.

BlackRock:

The Scheme has a portion of its Growth assets invested in funds managed by the Manager. Given the Manager's appointment as both the fiduciary manager as well one of the investment managers, the Trustees recognise the importance of ensuring that the Manager's own policies and actions are appropriate for the Scheme. The Manager publicises its own policies as well as quarterly updates online (which can be accessed [here](#)) which the Trustees have visibility of. This includes details of any changes to policies and also reports at an aggregate level the impact of its voting and engagement. The Trustees are comfortable that the transparency of the Manager in publicising reports and developments online ensures alignment with the interests of the Scheme.

Whilst it is important to monitor the activities of the Manager at a high level through this publicly available information, it is also important to monitor the voting and engagement activities undertaken on behalf of the Trustees by the Manager on a more granular level.

With the exception of the BlackRock European Equities fund, the Scheme's BlackRock equities funds are passive (i.e. index) strategies. In respect of passive strategies, there is a wide universe of underlying companies which may number in the hundreds if not thousands. Where strategies are actively managed, investments are typically more concentrated. As such, ownership is more concentrated for actively managed strategies and therefore there will be fewer resolutions in which to vote. In addition, actively managed strategies have the option to sell holdings in companies at its discretion. For these reasons, in the context of passive strategies, it is important that voting and engagement rights are exercised and that this is monitored. Examples of a significant vote in respect of the BlackRock holdings are included below. The summary voting statistics below illustrate that the voting rights attached to the underlying investments in these instances have been exercised to a large extent.

The Manager's approach to voting is described in the table below, along with summary voting statistics for the Manager's equities funds.

Approach to voting

BlackRock sees its investment stewardship program, including proxy voting, as part of its fiduciary duty to and enhance the value of clients' assets, using our voice as a shareholder on their behalf to ensure that companies are well led and well managed.

The BlackRock Investment Stewardship team does this through engagement with management teams and/or board members on material business issues including environmental, social, and governance matters and, for those clients who have given BlackRock authority, through voting proxies in the best long-term economic interests of its clients.

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team ("BIS"), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") – located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

Whilst BlackRock subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into its vote analysis process, and it does not blindly follow their recommendations on how to vote. BlackRock does not follow any single proxy research firm's voting recommendations. It subscribes to two research providers and uses several other inputs in its voting and engagement analysis, including a company's own disclosures, public information and ESG research.

BlackRock uses Institutional Shareholder Services' (ISS) electronic platform to execute vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock works with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to us any meetings where additional research and possibly engagement might be required to inform our voting decision.

**BE
Semiconductor
Industries N.V
(Besi)
(Dutch
manufacturer)**

Besi is a Dutch multinational company that designs and manufactures semiconductor equipment. BIS has regularly engaged with Besi due to poor remuneration practices.

In 2022, BIS voted against Besi's remuneration for generous discretionary rewards to the CEO that had no compelling rationale. The proposed rewards included an additional 103,000 shares worth 5.7m euros. As a result, BIS believed the CEO's overall pay package was excessive and almost 9 times above the company's peer group.

In addition, the company did not submit a new remuneration policy after the former was rejected in 2021. Questions have also been raised on the appropriateness of some of the company's performance metrics where there is double counting of the same performance.

However, following a constant dialogue with the company, BIS and BlackRock's European Equity team have noted significant improvements in the remuneration practices, including:

- Transparency on the approach with a more structure approach in determining pay
- Introducing a cap that is applicable as a percentage of base salary
- Introducing share ownership requirements

BIS look forward to seeing the result of the changes to remuneration practices at the 2023 AGM.

Samsung Electronics Co.
(South Korean manufacturer)

Samsung Electronics Co. is South Korea’s largest company in market capitalization and one of the world’s largest manufacturers of electronics and computer peripherals. Samsung is included in the BIS climate focus universe and BIS has conducted multiple engagements with the company that often involve discussions about climate change and energy transition risks.

In October 2020, the South Korean government announced its commitment to achieve carbon neutrality by 2050 and in 2021, the government enhanced its 2030 Nationally Determined Contribution (NDC) target. Since then, Samsung’s current sustainability reporting and disclosures indicate that they have not yet stated any carbon neutrality goals. Additionally, Samsung’s greenhouse gas emissions target of 70% reduction from 5.17 tonnes of CO2e/KRW 100 million in 2009 expired in 2020 and this has not been refreshed.

Due to the absence of meaningful targets and lack of disclosures, investors are limited to assess the company’s ability to navigate the energy transition and how this might impact their long-term economic interests. A vote was proposed in March 2022 to elect directors. The Board recommended voting FOR this shareholder proposal. BlackRock voted FOR the proposal because the company indicated that it was in the final review stage of a revised climate strategy and thus the election of directors would allow the plan to be released in the months after the vote.

Rio Tinto Group (Rio Tinto plc and Rio Tinto Limited)
(Anglo-Australian metals and mining corporation)

The Rio Tinto Group engages in the exploration, mining, and processing of minerals globally.

BIS has a long history of engagement with Rio Tinto Group where they have discussed topics including board quality and company impacts on people. In addition, Rio Tinto Group will play a critical role in the global energy transition. BIS continues to develop an understanding of their approach to climate-related risks and opportunities, as well as their strategy to transition to a low-carbon economy.

At the 2022 AGM there were ten shareholder proposals and a number of key resolutions. One management proposed vote was on the group’s Climate Action Plan as set out in the group’s report “Our Approach to Climate Change 2021”. The Climate Action Plan articulates the steps the group will take to align their commitment to net zero by 2050. For example, the group aims to reduce their scope 1 and scope 2 emissions by 15% in 2025 and 50% in 2030 in line with the Paris Agreement. The Climate Action Plan also considers a \$7.5 billion capital investment between 2022 and 2030 to deliver the group’s decarbonization strategy.

The Board recommended voting FOR this shareholder proposal. BlackRock voted FOR this shareholder proposal because as the world transitions to a low-carbon economy, BIS seeks to hear from companies on how they are assessing and managing the risks and opportunities from the global energy transition, while also managing a reliable energy supply.

BIS are encouraged by the actions the group has taken to improve their transparency in their long-term climate change strategy. BIS will continue to engage with the group to further assess their progress.

	Year to 31 December 2022	
BlackRock Europe Equities	Votable proposals	906
	% of resolutions voted	79%
	% of resolutions voted against management	8%
	% of resolutions abstained	2%
BlackRock US Equities	Year to 31 December 2022	
	Votable proposals	7,013
	% of resolutions voted	99%
	% of resolutions voted against management	2%
	% of resolutions abstained	0%

BlackRock UK Equities		Year to 31 December 2022
	Votable proposals	14,904
	% of resolutions voted	96%
	% of resolutions voted against management	4%
	% of resolutions abstained	2%
BlackRock Asia Pacific Equities		Year to 31 December 2022
	Votable proposals	3,310
	% of resolutions voted	100%
	% of resolutions voted against management	12%
	% of resolutions abstained	0%
BlackRock Japan Equities		Year to 31 December 2022
	Votable proposals	6,200
	% of resolutions voted	100%
	% of resolutions voted against management	3%
	% of resolutions abstained	0%
iShares S&P 500 ETF <i>(Bought in October 2022)</i>		Year to 31 December 2022
	Votable proposals	6,700
	% of resolutions voted	99%
	% of resolutions voted against management	2%
	% of resolutions abstained	0%
iShares FTSE MIB ETF <i>(Sold in July 2022)</i>		Year to 31 December 2022
	Votable proposals	487
	% of resolutions voted	100%
	% of resolutions voted against management	18%
	% of resolutions abstained	0%
BlackRock Factor Equities <i>(Bought in March 2022)</i>		Year to 31 December 2022
	Votable proposals	2,162
	% of resolutions voted	95%
	% of resolutions voted against management	4%
	% of resolutions abstained	1%
BlackRock Thematic Equities		Year to 31 December 2022
	Votable proposals	3,866
	% of resolutions voted	91%
	% of resolutions voted against management	5%
	% of resolutions abstained	1%

Other investment managers

The approach to voting and engagement of the Scheme's other equities managers, Schroders, Wellington, JP Morgan, and American Century are detailed below. These managers are appointed in relation to the Scheme's equity holdings.

Schroders:

Approach

The overriding principle governing Schroders' approach to voting is to act in the best interests of its clients. Schroders' voting policy and guidelines are outlined in its publicly available Environmental, Social and Governance Policy. Schroders evaluates voting issues arising and, where it has the authority to do so, votes on them in line with its fiduciary responsibilities in what it deems to be the interests of its clients. In applying the policy, Schroders considers a

range of factors, including the circumstances of each company, performance, governance, strategy and personnel.

It is Schroders' policy to vote all shares at all meetings globally, except where there are onerous restrictions – for example, share blocking. Schroders utilises the services of ISS and the Investment Association's Institutional Voting Information Services ('IVIS') in conjunction with its own research and policies when formulating voting decisions. With regards to abstaining from votes, Schroders' preference is to support or oppose management and only use an abstention sparingly. Schroders may abstain where mitigating circumstances apply, for example where a company has taken some steps to address shareholder issues.

For certain holdings of less than 0.5% of share capital in the USA, Australia, New Zealand, Japan, and Hong Kong, Schroders has implemented a custom policy that reflects the views of its ESG policy and is administered by Schroders' proxy voting provider, ISS. Schroders votes on both shareholder and management resolutions.

**Bank Mandiri
(BMRI)**
(Indonesian
Bank)

The Schroders investment team contacted BMRI to discuss the bank's approach to deforestation risk. Schroders discussed the company's large exposure of palm oil within their lending book, which accounts for 11% of the loan book. BMRI responded that since it is the largest bank in Indonesia, it is difficult to not have lending exposure to palm oil. However, BMRI has adopted a No Deforestation Policy to address deforestation risk.

This policy requires that all new palm oil related borrowers be ISPO and/ or RSPO certified, and BMRI encourages existing borrowers to become certified. As a result, there has been an overall increasing in the trend of certification. In 2019, 60% of borrowers were certified, that has now increased to 93% of corporate borrowers and 87% of commercial borrowers in 2022. BMRI confirmed they have a target of 100% of borrowers being certified by 2025 or 2026. Schroders acknowledges BMRI's efforts to increase the certification percentage and continues to monitor the progress against their deforestation targets.

**Grupo
Mexico**
(Mexican
mining,
transportation,
infrastructure
company)

As part of Schroders' ongoing engagement efforts with Grupo Mexico, the investment team engaged on ESG topics including gender diversity in the board. Grupo Mexico did not respond to Schroders' Q1 2022 survey on board gender diversity in emerging markets. The company has no female board members and Schroders has encouraged the company to consider gender balance since Schroders have been voting against companies in Latin America without female board representation.

Grupo Mexico is behind in most aspects of ESG but in recent years it has been making several improvements. Improvement in areas include:

- ESG oversight
- Engagement with third party agencies
- Community relations and relations with the Mexican government
- Communications on ESG topics with some progress toward sustainability reporting

Grupo Mexico is at the start of their ESG journey however Schroders are confident that the with a gender balanced Board structure, it will bring their journey to be in line with international best practice.

In addition, Schroders has continued to further their climate change campaign efforts and has written to multiple emerging market companies setting out their Net Zero expectations, asking them to decarbonise business models and set targets covering Scope 1, 2, and 3 emissions. Schroders asked companies to report their climate-related risks annually and report on how companies expect to manage the risks.

		Year to 31 December 2022
Schroders EM Equities	Votable proposals	1,875
	% of resolutions voted	99%
	% of resolutions voted against management	10%
	% of resolutions abstained	7%

Wellington:

Approach	Wellington votes according to its Global Proxy Voting Guidelines and employs a third-party vendor, Glass Lewis, to perform administrative tasks related to proxy voting. Wellington does not automatically vote proxies either with management or in accordance with the recommendations of third-party proxy providers, ISS and Glass Lewis. Wellington has its own ESG Research Team, which provides voting recommendations. Based on these resources and in conjunction with Wellington's Global Proxy Voting Guidelines, individual portfolio managers have authority to make final decisions on voting. There is no "house vote". Wellington's proxy voting system allows different votes to be submitted for the same security. Various portfolio managers holding the same securities may arrive at different voting conclusions for their clients' proxies.
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Levi Strauss & Co (American fashion retailer)	Levi Strauss & Co. is an American textiles and apparel company well known for its Levi brand of jeans. At the April annual general meeting Robert Eckert, Levi's chair, was up for a vote. Wellington decided to withhold support for Eckert because of his overcommitment. In addition to being chair of Levi's board and the chair of Levi's nomination and governance committee, Eckert also serves on McDonald's, Amgen, and Uber's boards. Eckert is additionally compensation committee chair at both Amgen and Uber. This combination of roles equates to Eckert being overboarded, thus Wellington withheld support to signal concern for Eckert's overcommitment.
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		Year to 31 December 2022
Wellington Small Cap Equities	Votable proposals	1,354
	% of resolutions voted	33%
	% of resolutions voted against management	3%
	% of resolutions abstained	0%

J P Morgan:

Approach	<p>JP Morgan has an explicitly stated investment stewardship philosophy, believing that the companies they engage with will produce better long-term financial results, while simultaneously contributing to an improved society. JP Morgan's stewardship activities are based on proprietary environmental, social and governance research, driven by both their broad investment teams in addition to a dedicated Sustainable Investing team.</p> <p>JP Morgan subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS), GES International (Sustainalytics) and Glass Lewis.</p> <p>JP Morgan's Sustainable Investing Oversight Committee is made up of chief investment officers and leaders from its sustainable investing and control functions, and serves as a single point of strategic oversight, decision-making, review and assurance. The business employs regional heads of stewardship to work with local teams, while the Global Head of Sustainable Investing, Jennifer Wu, oversees the global stewardship effort. With regards to engagement, JP Morgan conducts approximately 500 dedicated ESG engagement meetings per year.</p>
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AU Optronics is a Taiwanese company that specializes in optoelectronics solutions.

AU Optronics Corp. (AUO)

(Taiwanese electronics company)

JP Morgan engaged with the company in March 2022 and discussed ESG matters in their continued engagement efforts. JP Morgan followed up with their suggestion they made to the company in 2021 to join the RE100 initiative to showcase climate leadership. AUO joined the RE100 initiative in March 2022. The company aims to 1) achieve 30% renewable energy procurement by 2030 and 100% by 2050, 2) reduce absolute carbon emissions by 25% by, and 3) reach carbon neutrality for all office locations by 2030 mainly through ongoing investments in its solar business portfolio.

		Year to 31 December 2022
JPM China Equities	Votable proposals	1,138
	% of resolutions voted	100%
	% of resolutions voted against management	11%
	% of resolutions abstained	0%

American Century:

American Century's (ACI) Guiding ESG Principle are outlined in its ESG Policy and are as follows:

ACI's primary mission is to deliver superior, long-term, risk-adjusted returns for clients. ACI focuses on material ESG issues, which are financially material. ACI seeks to integrate the analysis of potential risks and opportunities associated with ESG issues into its fundamental research process. ACI's goal is to mitigate downside risks and capture upside potential without compromising its fiduciary duty to act in the best interest of clients.

Approach

ACI states that *"in addition to conducting business with the highest ethical standards and complying with all applicable laws and regulations, our ESG approach is regularly reviewed against industry investment stewardship and governance standards and other ESG methodologies to ensure alignment with our processes."*

American Century subscribes to the proxy voting services of Institutional Shareholder Services ("ISS"), including their proxy voting platform, voting advisory services, and vote disclosure services. While American Century reviews and considers ISS's research, analysis, and recommendations, it votes proxy using the ISS voting platform in accordance with the ACI's proxy voting policies, which can differ from those of ISS.

Bloomin' Brands, Inc.

(American Restaurant Holding Company)

Bloomin' Brands, Inc. is a restaurant holding company that owns several American restaurant chains, which is based in Florida, USA. At the annual meeting on 18 May 2021 there was a proposal which would require the Board to issue a report, within a reasonable time, outlining if and how it could increase the scale, pace, and rigor of its efforts to reduce its total contribution to climate change, including emissions from its supply chain.

American Century voted for the proposal. It was of the view that shareholders would benefit from additional information on how the company is managing its climate related risks, including its supply chain's impact on greenhouse gas emissions and deforestation.

The vote was passed in April 2022.

		Year to 31 December 2022
American Century Small Cap Equities	Votable proposals	1,467
	% of resolutions voted	94%
	% of resolutions voted against management	12%
	% of resolutions abstained	2%

6. Concluding remarks

The Trustees are comfortable that the policies in the SIP have been followed over the year to 31 December 2022. The Trustees expect that the format and content of this statement will continue to evolve over time, in line with guidance and to reflect any future changes in the SIP.

The Trustees recognise the responsibility that institutional investors have to promote high standards of investment stewardship and will continue to use the influence associated with the Scheme's assets in order to positively influence the Scheme's investment managers.