

Engagement Policy Implementation Statement (“EPIS”)

GKN Group Pension Scheme

Scheme Year End – 5 April 2023

This paper has been produced for the Trustee of the GKN Group Pension Scheme No. 1, GKN Group Pension Scheme No. 2, GKN Group Pension Scheme No. 3 and GKN Group Pension Scheme No. 4 to support the preparation of the Scheme's Engagement Policy Implementation Statement ("EPIS").

The purpose of the EPIS is for us, the Trustee Directors of the GKN Group Pension Schemes, to explain what we have done during the year ending 5 April 2023 to achieve certain policies and objectives set out in the Statement of Investment Principles (“SIP”). It includes:

1. How our policies in the SIP about asset stewardship (including both voting, where applicable, and engagement activity) in relation to the Scheme's investments have been followed during the year; and
2. How we have exercised our voting rights, where applicable, or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the ‘most significant’ votes cast over the reporting year.

Our conclusion

The fiduciary manager ("Cardano") has gathered information from the underlying asset managers and has drafted the engagement information and examples included in this document. We believe that Cardano was able to disclose good evidence of engagement activity, and what has been provided by Cardano is sufficient to give the us comfort that our Stewardship policy is being implemented.

The EPIS is more focussed than prior years following feedback from the Trustee and due to the fact the Scheme does not hold active physical equities which have attaching voting rights.

There were no material equity investment via the Scheme's other holdings during the reporting period, therefore due to immateriality details on the voting activity have been excluded from this document.

A separate Implementation Statement (IS) has been prepared for the Scheme's Defined Contribution (DC) assets.

Our fiduciary manager's engagement activity

The Trustees delegate the management of the Scheme's defined benefit assets to our Fiduciary Manager, Cardano. Cardano manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and liability matching funds. Cardano selects the underlying investment managers on our behalf.

The Trustees delegate monitoring of ESG integration and stewardship of the underlying managers to Cardano.

How engagement policies have been followed

We believe that good stewardship is in the members' best interests to promote best practice and encourage investee companies to access opportunities, manage risk appropriately, and protect shareholders' interests. Understanding and monitoring the stewardship that investment managers practice in relation to the Scheme's investments is an important factor in deciding whether a manager remains the right choice for the Scheme.

The Scheme's stewardship policy can be found in the SIP:
<https://uat.gknpensions.co.uk/index.html>.

Ongoing monitoring

The Trustee discusses a quarterly investment report at Trustee meetings. Amongst other analysis, the report includes Environmental, Social & Governance (or 'ESG') ratings which rate the manager on their approach to ESG, provide an indication of their momentum in this area, and specify whether the manager can be thought of as high or low focus with regards to ESG. These ratings are updated by Cardano on a quarterly basis to reflect the most updated information.

Through their Fiduciary Manager, the Trustee monitors the voting and engagement activity of all investment managers. Some managers don't own material exposures to assets such as physical equities, which carry voting rights, or corporate bonds and therefore stewardship is less likely to be relevant or significant. A material proportion of the Schemes assets are invested in UK Government bonds (or 'gilts') and derivative instruments which carry no voting rights and where engagement and stewardship are of limited, or no, applicability.

We believe Cardano is using its resources to effectively influence positive outcomes in the funds in which it invests. More information on the stewardship activity carried out by the Scheme's investment managers can be found in the following sections of this report.

Training

During the year, the Trustee Directors received training on ESG and stewardship topics, and updated our policies in relation to these to ensure in line with industry best practice.

The Trustees participate in responsible investment training sessions with their investment advisors as and when necessary.

The Trustee has also received training on climate risk, including the Task Force on Climate-related Financial Disclosures ("TCFD") and other regulatory changes in this area.

What is fiduciary management?

Fiduciary management is the delegation of some, or all, of the day-to-day investment decisions and implementation to a fiduciary manager. But the trustees still retain responsibility for setting the high-level investment strategy.

In fiduciary management arrangements, the trustees will often delegate monitoring ESG integration and asset stewardship to its fiduciary manager.

What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which Environmental Social Governance ("ESG") issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ between asset classes.

Source: UN PRI

Our manager's engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Scheme's Fiduciary Manager.

Manager	Number of engagements		Themes engaged on at a firm-level
	Fund specific	Firm level	
Cardano	Not provided	618	Environment – Climate change, Natural resource use/impact (e.g. water, biodiversity), Pollution, Waste
			Social – Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Inequality, Public Health
			Strategy, Financial and Reporting – Risk management (e.g. operational risks, cyber/information security, product risks), Capital Allocation

Source: Fiduciary Manager. The information above is for the most recent calendar year available.

Data limitations

Cardano has gathered information from the underlying asset managers and has drafted the voting and engagement information and examples included in this document.

This report does not include commentary on certain asset classes, such as liability-driven investments, Government bonds (such as UK 'gilts') or cash, because of the limited materiality of stewardship to these asset classes. Additionally, it does not include commentary on assets where any given underlying holdings did not constitute a significant proportion of the Scheme's assets over the reporting period, such as equities.

Appendix – Engagement Examples

The following case studies provided by the Fiduciary Manager demonstrates the types of engagement activity being carried out on behalf of the Trustee.

Wording provided directly by the Fiduciary manager.

Egerton Capital	Engagement Theme	Governance
	Industry	Industrial
	Engagement activity	<p>Egerton own a position in Norsk Hydro, an aluminium producer. Aluminium is used extensively in renewable energy and electric cars and is also infinitely recyclable.</p> <p>Egerton has been in regular and active communication with Norsk Hydro management for several years, recently this has centred on improving governance. Egerton spoke with the company in January and February 2023 to discuss the structure and absolute level of compensation of both the management team and board.</p> <p>The Norwegian government are a significant shareholder. Due to government pressure, compensation of both the management team and board is below the international norm. This is making it difficult for the company to compete for top-level talent internationally against peers. This is a non-trivial problem as the European aluminium industry faces significant economic, geopolitical and environmental headwinds which need to be actively navigated by a highly competent management team.</p> <p>As such, in May, Egerton voted to support a resolution proposed by management to align compensation for the management team and board to what is typically seen internationally.</p>
	Outcome	Engaged with the company on executive compensation to ensure that the company can attract and retain top-level talent
Sands Capital	Engagement Theme	Health and nutrition
	Industry	Food packaging
	Engagement activity	<p>Britannia is one of India's leading food companies, responsible for producing popular food brands in India. Britannia is conscious of its products' impact on the health of its consumers and has made efforts to incorporate healthier food. Due to the sugar and fat content in most Britannia's products, the company is exposed to growing concerns about obesity, ingredient safety, and nutritional value.</p> <p>Sands shared this feedback with management, who agreed with our assessment. Britannia revealed its plan to shift its product line-up to a healthier array of snacks and to improve the current product portfolio by reducing the sugar, flour, and fat content within these items. Furthermore, the company provided investors with specific quantitative targets to reduce ingredients like sugar and sodium in its products. Sands believe this level of transparency is a hallmark of good management and can lead to more productive meetings in the future.</p> <p>Last November, Sands visited Britannia's R&D centre in Bengaluru and had an extensive conversation with its head of R&D. Sands were encouraged to hear that the team is</p>

		well equipped with seasoned professionals in food technology, chemistry, nutrition, and packaging, who actively integrate ESG initiatives into product development.
	Outcome	<p>Sands engaged with company management, raising concerns regarding the health impact of their products.</p> <p>The company have shared quantitative targets with shareholders regarding reduction of sugar, salt and other unhealthy ingredients in their products</p>
Hg Capital	Engagement Theme	Environmental carbon
	Industry	N/A
	Engagement activity	<p>Hg conduct an annual carbon footprint of their entire portfolio using an external platform to collect carbon emissions activity data. The platform, which is free for all portfolio companies to use, allows companies to calculate their scope 1, 2 and 3 carbon footprint in line with the GHG protocol.</p> <p>Hg's ESG team review the results and report back to portfolio companies. Each portfolio company receives a dashboard showing their carbon emissions and a benchmark of their emissions intensity by number of employees across the portfolio.</p> <p>With oversight of the portfolio companies' carbon footprints, Hg's ESG team is able to engage with portfolio companies to help them identify areas for improvement, whether that is on how to increase data accuracy or reduce their emissions.</p> <p>As Hg's portfolio consists of technology and service companies, a key hotspot is the electricity used to power offices. To help portfolio companies reduce this, Hg encourages portfolio companies to (i) reduce electricity consumption in offices (e.g. using automatic switches, LED lights, installing insulation) and (ii) switch to renewable electricity.</p> <p>As part of Hg's compliance with the UK Energy Savings Opportunity Scheme, it further supports portfolio companies with UK premises to conduct energy audits. As on-premises data centres are less efficient than cloud services, Hg encourages companies to migrate their software onto the cloud and use cloud service providers with carbon reduction goals and Net Zero ambitions.</p> <p>Furthermore, as part of Hg's commitment to the Science Based Targets initiative (SBTi), Hg has set up partnerships with external consultancies to help portfolio companies verify their carbon footprints and set science based targets in line with the SBTi's requirements.</p>
	Outcome	The manager assesses the carbon footprint of each company annually and engages with management to drive a reduction in emissions.

Source: Fiduciary Manager