Air Products PLC Pension Plan – Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees, has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Plan (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Members should be aware that this Statement is part of a wider set of information available on the Plan's governance and investment responsibilities undertaken by the Trustees:

- Members can view the SIP (mentioned above) on the company's website which disclose, in detail, the investment principles, policies, objectives, and strategy followed.

- Members can request a copy of the Annual Report and Financial Statements of the Plan, which contains certain information on the management of the Plan, its governance, investment risks management and level of Trustees' knowledge and understanding.

Investment Objectives of the Plan

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The primary objective of the Plan included in the SIP is to invest the Plan's assets in the best interests of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. This objective is in line with the Statutory Funding Objective, which states that the Plan must have sufficient and appropriate assets to cover the expected costs of providing members' past service benefits on a technical provisions basis.

The secondary Funding Objective for the Plan is to have sufficient and appropriate assets to be able to meet all future costs and support a buy-in without taking on any additional company contributions (self-sufficiency basis). In moving towards this objective, the Plan has invested in a range of credit based asset classes, broadly designed to generate income to meet pension outgo as it falls due.

Over the 12 months to 5 April 2021, the SIP was updated to reflect the changes to the Plan's investment strategy, which saw the Plan significantly reduce its strategic allocation to UK Equities in favour of an increased allocation to assets which better match the interest rate and inflation sensitivities (and cashflow expectations) of the Plan. The SIP was also updated to reflect the change in the Plan's target hedge ratio to 80% of the liabilities on a Technical Provisions basis.

Wording was also included within the SIP in regards to the Trustees' policies on ESG, Stewardship and Climate Change, as well as the Trustees' position on member views relating to the Plan's investments.

<u>Assessment of how the policies in the SIP have been followed for the year to 5 April 2021</u>

The information provided in the following section highlights the work undertaken by the Trustees during the year, and longer term where relevant, and sets out how this work followed the Trustees' policies in the SIP.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The changes to the investment strategy made over the year to 5 April 2021 served to reduce risk within the portfolio in light of the strengthened funding position, as well as to better match the interest rate and inflation sensitivities of the Plan's liabilities, and improve Cashflow generation. **These changes are in line with the investment objectives of the Plan as outlined in the previous section.**

<u>Policies in relation to the Plan's investment strategy, day-to-day management of the assets, and associated risks</u>

Please refer to Sections 5, 6, 7, 10 and 11 of the SIP for the Plan's policies around its investment strategy, the day to day management of the assets, and the associated risks.

The Trustees reviewed the Plan's investment strategy over the year, considering the Plan's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk (including financially material risks such as Environmental, Social and Governance risks, including climate change), the views of the Sponsoring Employer on investment strategy, the Sponsoring Employer's appetite for risk, and the strength of the Sponsoring Employer's covenant. The Trustees also received written advice from their Investment Adviser.

The basis of the Trustees' strategy for the Plan, is to divide the Plan's assets between a "growth" portfolio, comprising equities and a "matching" portfolio, comprising buy and maintain credit and liability driven investments ("LDI"). The Trustees regard the basic distribution of the assets to be appropriate for the Plan's objectives and liability profile, and the funds in which the Plan invests are expected to provide an investment return commensurate with the level of risk being taken.

The Trustees use Trustees' meetings and Investment Sub Committee meetings to ask questions of the investment advisor, and also will invite managers to present directly to the Trustees from time to time.

The Trustees recognise risk (both investment and operational) from a number of perspectives in relation to the investments held within the DB Section. As detailed in Section 5 of the SIP, the Trustees consider both quantitative and qualitative measures for these risks when deciding investment policies, strategic asset allocation, and the choice of fund managers.

As the Plan invests in pooled investment vehicles, the Trustees accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. For the bespoke pooled fund mandate which invests the Plan's matching strategy of buy and maintain credit and LDI, the Plan is able to tailor (to a certain extent) the guidelines around the holdings. As such, the Trustees have set these in line with the advice received from the investment advisor, with the prime objective being to match the sensitivity of the Plan's liabilities.

The Trustees recognise the need to hold investment managers and advisers to account. Whilst the day-to-day management of the Plan's assets is delegated to the Investment Managers, all other investment decisions including strategic asset allocation and selection and monitoring of Investment Managers is based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

In November 2019, the Trustee put in place investment objectives for its Investment Consultancy Provider, Mercer, and its performance will be reviewed on a regular basis. The objectives may be revised at any time but will be reviewed at least every three years, and after any significant change to the Plan's investment strategy and objectives.

The intention of these objectives is to ensure the Trustee is receiving the support and advice it needs to meet its investment objectives. The objectives set covered both short and long term objectives across strategy, monitoring, compliance and regulation, client servicing and relationship management and member engagement and communications.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This was last reviewed in March 2021.

In order to better inform these beliefs and produce this policy, the Trustees undertook investment training in June 2019 provided by their investment consultant on responsible investment which covered what ESG factors were, and why ESG integration within investment processes was important. The training also covered the requirements from the Trustees from a legal standpoint in regards to responsible investment within the Plan's investment portfolio. The Trustees keep their policies under regular review with the SIP subject to review at least triennially.

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising 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. The Trustees will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis by receiving updates from investment managers and by Mercer providing the Trustees with ESG ratings for the strategies in which the Plan invests.

The Trustees requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. Both managers confirmed that they are signatories of the current UK Stewardship Code and have submitted the required reporting to the Financial Reporting Council in order to be on the first list of signatories for the UK Stewardship Code 2020 that took effect on 1 January 2020.

LGIM believe that they have fully applied each of the principles in its investment stewardship activity during 2020, and they have submitted the 2020 Active Ownership Report to the FRC as its response to the UK 2020 Stewardship Code. The FRC will publish the list of confirmed 2020 Signatories to the 2020 Stewardship Code after assessing the reporting by each applicant.

The Plan's performance is reviewed by the Trustees on a quarterly basis, and any changes to investment manager ratings (both general and specific ESG) are communicated by the investment advisers. Both of the Plan's investment managers remained generally highly rated during the year. Where managers may not be highly rated from an ESG perspective the Trustees continue to monitor. When implementing a new manager the Trustees consider the ESG rating of the manager.

The Trustees also received details of relevant engagement activity for the year from each of the Scheme's investment managers, which are set out in the section below.

Voting and Engagement Activity

The Trustees have delegated their voting rights to the investment managers, who are expected to provide voting summary reporting on a regular basis, at least annually. The reports will be reviewed by the Trustees to ensure that they align with the Trustees' policy.

When the investment managers present to the Trustees, the Trustees will ask the investment managers to highlight key voting activity and the impact on the portfolio.

The Trustees do not use the direct services of a proxy voter.

LGIM

LGIM note that they have established a fully integrated framework for responsible investing to strengthen long-term returns. Their framework for responsible investing is based on stewardship with impact and active research across asset classes. These activities enable

LGIM to deliver responsible investment solutions to their clients and conduct engagement with the aim of driving positive change.

LGIM describe their core responsible investment beliefs as follows:

1. *"Responsibility: We have a responsibility to many stakeholders. When we allocate capital, we conduct extensive research into potential environmental and societal outcomes.*

2. *Financial materiality: We believe ESG factors are financially material. Responsible investing is essential to mitigate risks, unearth opportunities and strengthen long-term returns.*

3. *Positive outcomes: We strive to effect positive change in the companies and assets in which we invest, and for society as a whole."*

There are 38 LGIM employees with roles dedicated to ESG activity. In addition, there are a further 58 colleagues whose roles involve a very substantial contribution to their responsible investing capabilities and whose objectives reflect this, although their responsibilities are broader than solely ESG.

A key pillar of LGIM's approach to index strategies is active ownership: encouraging companies to consider sustainability risks, develop resilient strategies and consider their stakeholders. They also seek to tackle sustainability risks in some strategies on a product level using tools such as ESG scoring, 'tilting' and exclusions, via index construction or design.

In 2020, LGIM opposed the election of 4,700 directors due to governance concerns. They engaged with 665 companies, and voted on 66,037 resolutions worldwide.

A summary of the voting activity undertaken by LGIM on behalf of the Trustees over the last 12 months is set out below. This in relation to the Plan's holdings in the UK Equity Index Fund, and the World ex UK Equity Fund.

In regards to the Plan's LDI holdings, LGIM have more limited scope for engagement as they have no voting rights. In regards to the buy and maintain credit holdings, again there is limited power as bond investors to formally vote on engagement issues. Despite this challenge, LGIM do formally engage with companies to get greater clarity and raise issues that concern them.

Key votes undertaken over the year – 1 April 2020 – 31 March 2021	
UK Equity Index Fund Over the year to 31 March 2021, LGIM voted on all 12,574 resolutions put forward at 943 meetings. LGIM voted against management for c. 7% of the total resolutions.	**Company:** *Hollywood Bowl Group* **Resolutions proposed:** *Approve remuneration report, re-elect Nick Backhouse as director, re-elect Ivan Schofield as director and re-elect Claire Tiney as director.* **LGIM vote:** *Voted against the remuneration report and escalated our concerns by a vote against all the members of the remuneration committee.* **Background:** *The bowling alley operator has been financially impacted by the COVID-19 pandemic. This resulted in staff being furloughed and the company not paying dividends to shareholders. Despite this, the remuneration committee decided to exercise its discretion to allow for the performance period of the 2017 Long-Term Incentive Plan (LTIP) award to be reduced from September 2020 to February 2020, to avoid having to factor-in the financial consequences of the pandemic into the incentive plan. This resulted in the pro-rated LTIP vesting at 81% of salary. The remuneration committee did not consult with LGIM before taking the decision to retrospectively reduce the performance period of the LTIP. LGIM applied their policy and sanctioned this practice by a vote against the remuneration report. Given the seriousness of LGIM's concerns and the precedent this could set, they decided to escalate their vote sanction by a rare vote against all members of the remuneration committee.* **Further comment from LGIM:** *LGIM took the rare step of escalating their vote against all members of the remuneration committee given the seriousness of their concerns. This highlights the importance of ensuring that executive remuneration remains in line with stakeholder experience.*

Key votes undertaken over the year – 1 April 2020 – 31 March 2021	
World ex UK Equity Fund Over the year to 31 March 2021, LGIM voted on almost all 37,840 resolutions put forward at 3,243 meetings. LGIM voted against management for c. 19% of the total resolutions.	**Company:** *Samsung Electronics.* **Resolutions proposed:** *Elect Park Byung-gook as Outside Director, Elect Kim Jeong as Outside Director, Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member.* **LGIM vote:** *Voted against all three resolutions.* **Background:** *In January 2021, Lee Jae-yong, the vice chairman of Samsung Electronics and only son of the former company chairman, was sentenced to two years and six months in prison for bribery, embezzlement and concealment of criminal proceeds worth about KRW 8.6 billion. Lee Jae-yong was first sentenced to five years in prison in August 2017 for using the company's funds to bribe the impeached former President Park Geun-hye. While Lee was released from prison, he was not acquitted of the charges. Based on the court's verdict, Lee actively provided bribes and implicitly asked then president Park to use her power to help his smooth succession. The court further commented that the independent compliance committee established in January 2020 has yet to become fully effective. LGIM engaged with the company ahead of the vote. However, they were not satisfied with the company's response that ties have been severed and were concerned that Lee Jae-yong continues to make strategic company decisions from prison. Additionally, LGIM were not satisfied with the independence of the company board and that the independent directors are really able to challenge management. LGIM voted against the resolutions as the outside directors, who should provide independent oversight, have collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company.* **Further comment from LGIM:** *LGIM will continue to monitor this company. This was a high-profile vote, which has such a degree of controversy that there is high client and/or public scrutiny and the sanction vote was a result of a direct or collaborative engagement.*
World Emerging Markets Equity Index Fund	Over the year to 31 March 2021, LGIM voted on all 36,036 resolutions put forward at 3,998 meetings. LGIM voted against management for c. 13% of the total resolutions.

Fidelity

Fidelity's stewardship activities, which include proxy voting and engagement, are spearheaded by the Sustainable Investing (SI) team, which is comprised of sustainability and stewardship professionals covering various subject matter areas and competencies. The SI team is part of Fidelity's Investment Management business and helps the firm's global team of investment analysts and portfolio managers monitor, analyse and engage with investee companies.

Fidelity pursues an active investment style through portfolio management decisions, maintaining an ongoing dialogue with the management of investee or potential investee companies and voting on resolutions at general meetings. Engagement activities are carried out by portfolio managers, investment analysts, the SI team and other investment team members throughout the investment lifecycle. The purpose is to gather information and monitor company activities, as well as to effect positive corporate change in the long-term interests of our clients.

For equities, shareholder voting is an important pillar of their engagement approach. Fidelity also regularly engage through direct dialogue with investee companies as part of their routine investment monitoring and research activities, or in response to a specific event or situation or in relation to sustainability issues. This might be a one-to-one dialogue with the company or in collaboration with other shareholders or corporate stakeholders. They also engage directly with corporates in other ways (e.g. letter writing) where appropriate. While Fidelity prefer to engage through dialogue and achieve objectives in a consensual manner, they may choose to escalate our engagement if they deem it necessary.

ESG integration is carried out at the fundamental level by Fidelity's research analysts, primarily by implementing the Fidelity Proprietary Sustainability Rating. This rating is designed to generate a forward-looking and holistic assessment of a company's ESG risks and opportunities, based on sector-specific key performance indicators (KPIs). In addition, their portfolio managers also analyse the impact of ESG factors when making investment decisions.

Fidelity believe that investing sustainably is about understanding the material non-financial factors that impact long-term value creation at the companies they invest in. The correct analysis of these factors is directly linked to the long-term investment outcomes Fidelity generate for their clients. Specifically, Fidelity state that they aim to achieve:

"1. The integration of environmental, social and governance (ESG) factors in our fundamental bottom-up investment research and security selection process, resulting in a more complete view of the true price of a company's externalities.

2. An understanding of the non-financial and Principal Adverse Impacts of our investment decisions on investee companies and their broader stakeholders, including employees, suppliers, customers, regulators and communities.*

3. A local approach to our sustainable investment process, recognizing the differences in economic systems, market structures, societal norms and business models across all the jurisdictions in which we operate and invest.

4. Measurable improvements in the behaviour of the companies we invest in or lend to, both directly and in collaboration with our peers and clients, by leveraging our tools of selection, engagement and voting."

Over the year to 5 April 2021, Fidelity engaged with 226 companies in relation to the Select Global Small Cap Plus Fund, voting on a total of 2,682 resolutions. Of these 2,682 resolutions, Fidelity voted against the management recommendation for c. 5% of the votes cast.

Where Fidelity voted against management, rationale has been given as to the reason why this is the case. In many cases, Fidelity's rationale for voting against the management decision was that the resolution was not in the best interests of the shareholders, or where there is a lack of independent outsiders on the Board of Directors for the relevant companies. Fidelity also voted against management where there was a "complete lack of information" around the resolutions proposed.

Key votes undertaken over the year – 1 April 2020 – 31 March 2021
Company: *Jyske Bank A/S* **Resolutions proposed:** *Approve Guidelines for Incentive-Based Compensation for Executive Management and Board* **Fidelity vote:** *Voted against all resolutions presented.* **Voting rationale from Fidelity:** *Executive compensation appears misaligned with shareholder interests or is otherwise problematic.*