Air Products PLC Pension Plan – Annual 2023 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 2023. 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 discloses, 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 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 2023, the SIP was updated to reflect the changes to the Plan's investment strategy. These changes consisted of consolidating the Plan's Global ex-UK equity and UK equity holdings into one Global equity mandate, and further reducing the strategic allocation to equities in favor of an increased allocation to Multi-Asset Credit.

The SIP includes the Trustees' policies on ESG, Stewardship and Climate Change, as well as the Trustees' position on member views relating to the Plan's investments.

Assessment of how the policies in the SIP have been followed for the year to 5 April 2023

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 2023 served to reduce risk within the portfolio in light of the strengthened funding position, and improve cashflow generation. **These changes are in line with the investment objectives of the Plan as outlined in the previous section.**

Policies in relation to the Plan’s investment strategy, day-to-day management of the assets, and associated risks

Please refer to Sections 5-8, 11 and 12 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.

In light of the New Funding Regime put forward by The Pensions Regulator, consideration was given to the Plan’s long-term objective, and how this could be aligned with the Sponsoring Employer. Following analysis undertaken by the Investment Advisor, it was agreed that the Plan would adopt and long-term objective of achieving full funding (with a high level of confidence) on a “low-dependency” basis by 2035. This was deemed to be a sufficiently prudent approach based on prior asset liability modelling undertaken by the Plan Actuary in 2021, following the latest Actuarial Valuation.

The basis of the Trustees’ strategy for the Plan, is to divide the Plan’s assets between a “growth” portfolio, comprising equities and Multi-Asset Credit, 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 is 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 Trustees reviewed the objectives in December 2022 and concluded no changes were required.

The intention of these objectives is to ensure the Trustees are receiving the support and advice they needs to meet their 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 May 2023.

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 are supportive of the UK Stewardship Code (the "Code"). The Trustee expects its managers who are authorised in the UK to comply with the UK Stewardship Code, including public disclosure of support via an external website. All investment managers confirmed that as at 5 April 2023, they remain signatories of the current UK Stewardship Code 2020 that took effect on 1 January 2020.

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 Plan'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.

<u>LGIM</u>

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."*

In partnership with, and on behalf of, their clients, LGIM target a broad range of ESG objectives. These include:

- Reaching net-zero greenhouse gas emissions by 2050 or sooner across all assets under management
- Setting an interim target of 70% of eligible AUM to be managed in alignment with this net-zero ambition by 2030
- Achieving net-zero carbon across their real estate portfolio by 2050

In 2022, LGIM's campaigns involved expanding their work on diversity to emerging markets; efforts to tackle commodity-driven deforestation; and fighting for equal voting rights, particularly in the US.

In 2022, LGIM launched 19 new responsible investment strategies and, as at year end, managed £332.2 billion of assets in responsible investment strategies.

There are 90 LGIM employees with roles dedicated to ESG activity. In addition, there are a further 65 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.

As a major long-term investor with global coverage, LGIM engages with policymakers at an early stage to help them identify and address emerging risks, so they can take transformative steps to tackle systemic market issues and accelerate progress against complex global sustainability challenges.

LGIM's policy dialogue aims to produce real tangible change by designing, implementing and monitoring an effective and coherent policy, including a regulatory and legislative system that governs society, the environment and the economy.

In 2022, LGIM cast over 171,000 votes at over 15,750 meetings.

For the purposes of this statement, the Trustees have considered their own stewardship priorities as they relate to defining the "most significant" issues subject to voting activity during the year. The Trustees have elected to consider "most significant votes" to be those in the following areas, where the subject company of the vote constitutes one of the top 10 holdings within the relevant pooled fund:

- **Good corporate governance:** in particular board diversity and independence
- **Climate change:** for example, votes relating to low-carbon transition plans consistent with the Paris Agreement goals
  Diversity, equity and inclusion ("DEI"): including votes relating to board diversity and inclusive/diverse decision making

Below are examples of votes classified as "most significant" over the year to 31 March 2023 (latest information available prior to the Plan year end of 5 April 2023), based on the criteria as set out above.

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 World Developed Equity Index Fund, the Global Developed Small Cap Index and the World Emerging Markets Equity Index.

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.

Fund	Number of meetings LGIM were eligible to vote at	Number of resolutions LGIM were eligible to vote on	% of resolutions voted on for which they were eligible	Of the resolutions on which LGIM voted, what % did they vote with/against management?*	Of the resolutions on which LGIM voted, what % did they vote contrary to the recommendation of the proxy advisor?
World Emerging Markets Equity Index Fund	4,231	36,506	100%	80% / 18%	7%
World Developed Equity Index Fund	2,518	32,086	99.8%	79% / 21%	14%
Global Developed Small Cap Index Fund	3,985	41,691	99.8%	75% / 25%	16%

Source: LGIM. Figures subject to rounding.
**Balance refers to % of resolutions from which the manager abstained from voting.*
***Same voting data is applicable to the currency hedged versions of the funds.*

Most significant votes undertaken by LGIM to the equity holdings for the 12 months to 31 March 2023.

Below are examples of votes classified as "most significant" over the year to 31 March 2023 (latest information available prior to the Plan year end of 5 April 2023), based on the criteria as set out above. Summary voting information is also included for each relevant fund.

1 - World Emerging Markets Equity Index Fund
Company: Meituan **Size of holdings (% of total fund portfolio):** 1.3 **AGM date:** May 2022 **How the manager voted:** Against **Outcome of the vote:** Pass **Summary Of the resolution:** Elect Wang Xing as Director **Voting rationale:** A vote against is applied as LGIM expects a company to have at least one female on the board. Joint Chair/CEO: LGIM expects the roles of Chair and CEO to be separate. LGIM argues that a vote against the election of Xing Wang and Rongjun Mu is warranted given that their failure to ensure the company's compliance with relevant rules and regulations raise serious concerns on their ability to fulfil fiduciary duties in the company. **Why the vote is significant:** Under the diversity, equity and inclusion category
Company: China Construction Bank Corporation **Size of holdings (% of total fund portfolio):** 1.1 **AGM date:** June 2022 **How the manager voted:** Against **Outcome of the vote:** Pass **Summary Of the resolution:** Elect Graeme Wheeler as Director **Voting rationale:** A vote against is applied under LGIM's Climate Impact Pledge as the Company has not published a clear thermal coal policy and no disclosure of scope 3 emissions associated with investments. As members of the Risk Committee, these directors are considered accountable for the bank's climate risk management **Why the vote is significant:** Under the climate change category

2 - World Developed Equity Index Fund
Company: Amazon.com, Inc. **Size of holdings (% of total fund portfolio):** 1.9 **AGM date:** May 2022 **How the manager voted:** Against **Outcome of the vote:** Pass **Summary Of the resolution:** Elect Director Daniel P. Huttenlocher **Voting rationale:** A vote against is applied as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings. **Why the vote is significant:** Under the diversity, equity and inclusion category
Company: Alphabet Inc. **Size of holdings (% of total fund portfolio):** 1.2 **AGM date:** June 2022 **How the manager voted:** For **Outcome of the vote:** Rejected **Summary Of the resolution:** Report on Physical Risks of Climate Change **Voting rationale:** A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. **Why the vote is significant:** Under the climate change category

2 - World Developed Equity Index Fund
Company: Meta Platforms, Inc. **Size of holdings (% of total fund portfolio):** 0.82 **AGM date:** May 2022 **How the manager voted:** LGIM voted in favour of the shareholder resolution (management recommendation: against). **Outcome of the vote:** Rejected **Summary Of the resolution:** Require Independent Board Chair **Voting rationale:** Joint Chair/CEO: A vote in favour is applied as LGIM expects companies to establish the role of independent Board Chair. **Why the vote is significant:** Under the diversity, equity and inclusion category
Company: NVIDIA Corporation **Size of holdings (% of total fund portfolio):** 0.80 **AGM date:** June 2022 **How the manager voted:** Against **Outcome of the vote:** Pass **Summary Of the resolution:** Elect Director Harvey C. Jones **Voting rationale:** A vote against is applied as LGIM expects a company to have at least 25% women on the board with the expectation of reaching a minimum of 30% of women on the board by 2023. We are targeting the largest companies as we believe that these should demonstrate leadership on this critical issue. Independence: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. **Why the vote is significant:** Under the diversity, equity and inclusion category

2 - World Developed Equity Index Fund
Company: Exxon Mobil Corporation **Size of holdings (% of total fund portfolio):** 0.64 **AGM date:** May 2022 **How the manager voted:** For **Outcome of the vote:** Rejected **Summary Of the resolution:** Set GHG Emissions Reduction targets Consistent With Paris Agreement Goal **Voting rationale:** A vote FOR is applied in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5 C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5 C goal. **Why the vote is significant:** Under the climate change category

3 - Global Developed Small Cap Index Fund
Company: Jabil Inc. **Size of holdings (% of total fund portfolio):** 0.16 **AGM date:** January 2022 **How the manager voted:** Against **Outcome of the vote:** N/A **Summary Of the resolution:** Elect Director Mark T. Mondello **Voting rationale:** A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns. **Why the vote is significant:** LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

Engagement undertaken by Wellington for the 12 months to 31 March 2023.

Integrating ESG factors has played an increasingly important role in Wellington's investment process, as they believe that positive ESG alignment can contribute to their pursuit of maximizing risk-adjusting returns. ESG risks represent real drivers of a security's long-term value. As high-severity, difficult-to-quantify tail events, these risks are slow to be priced into securities markets, making them a persistent area of market inefficiency. Wellington's philosophy does not preclude them from purchasing securities with significant ESG risks when they are adequately reflected in valuations. They seek to identify underappreciated risks to minimize the impact of underappreciated downside scenarios.

The Multi-Sector Credit team employs an investment process that combines top-down strategy with bottom-up fundamental research, and ESG factors are most relevant in the bottom-up part of the process. The sector specialist teams responsible for security selection invest in individual issuers on the basis of research and recommendations from their credit analysts, who consider ESG factors in their research. Their fixed income credit analysts sit in on meetings with company management with both their equity analysts and ESG analysts at which time ESG issues may be discussed. ESG factors are less prominent in top down sector rotation strategies within Multi-Sector Credit portfolios.

In recent years, they have further developed their specialized, in-house ESG Research team to help their portfolio managers and analysts gather deeper intelligence on ESG topics and integrate these considerations in to the investment process. Core to their ESG integration philosophy is the belief that material ESG issues are strategic business issues, so they focus on understanding these material issues so that they can make more informed investment decisions for their clients.

ESG analysis is integrated throughout the investment decision making process, from the overall holistic portfolio level to the sector specialists responsible for sourcing issuer-specific investment ideas. Wellington believe that positive ESG alignment can maximize risk-adjusted portfolio returns. They seek to minimize the impact of downside ESG risks and instead favour names with positive ESG profiles. They believe that strong ESG practices can lead to strong long-term performance and therefore it is a constant consideration.

Wellington's centralized ESG Team plays a key role in their investment process and therefore their input is integrated at several points in their process. ESG analysts attend their strategy meetings where they share their perspectives on various environmental and social topics. On an annual basis Wellington's ESG analysts conduct a deep-dive portfolio review with the portfolio managers to highlight and discuss holdings with the greatest ESG risks and opportunities. Finally, their ESG analysts have developed materiality frameworks to analyse issuers and assign ESG rating signals to communicate where they have differentiated ESG research insights. Importantly, the rating is not a buy or sell signal but rather helps identify potential issues and provides a starting point for deeper analysis.

ESG analysis is a core consideration within the individual sleeves of the portfolio.

Engagement Examples

American Tower - Wellington engaged with American Tower's (AMT) sustainability team to better understand how it is thinking about emissions reduction targets and the social co-benefits of sustainable projects in emerging markets. AMT acknowledges the increasing importance to investors and customers of emissions reduction. This is evident in its work in emerging markets and candor on how greater energy efficiency can help its customers further their own goals and lower costs. Africa and Asia account for more than 90% of the company's emissions. AMT informed Wellington that while it has made notable progress on its initial 10-year goal to reduce emissions in these regions by 60%, the feasibility of setting science-based targets (SBTs) has been a challenge. Wellington were encouraged to hear

AMT has accelerated its process for setting SBTs and are eager to see the company improve. Wellington also learned of the positive social outcomes associated with AMT's significant investments in energy-efficient projects, including the use of solar power and back-up energy storage. These efforts have enabled the company to create jobs and expand online education in emerging markets. AMT was receptive to Wellington's feedback. A few weeks after the engagement, the company announced its adoption of SBTs in line with a well-below 2°C scenario. AMT's ability to work effectively with local communities, governments, and strategic partners should increase its social impact and facilitate the rollout of similar projects.

Overall, Wellington feels that the company has strong commitments and good reporting of sustainability goals and performance.