

# Engagement Policy Implementation Statement for the Year Ended 31 December 2021

## Fresenius Health Care Group Pension Scheme (“the Scheme”)

### 1. INTRODUCTION

This Engagement Policy Implementation Statement (the “Statement”) sets out the Trustees’ assessment of how, and the extent to which, they have followed their engagement policy and their policy with regard to the exercise of rights (including voting rights) attaching to the Scheme’s investments during the year to 31 December 2021 (the “Scheme Year”). The Trustees’ policies are set out in their Statement of Investment Principles (“SIP”) dated September 2020. A copy of the Trustees’ SIP is available online.

This Statement has been produced in accordance with the *Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018* and the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019* along with guidance published by the Pensions Regulator.

The Trustees invest the assets of the Scheme in a fiduciary arrangement with Mercer Limited (“Mercer”). Under this arrangement Mercer are appointed as a discretionary investment manager and day-to-day management of the Scheme’s assets is by investment in a range of specialist pooled funds (the “Mercer Funds”). Management of the assets of each Mercer Fund is undertaken by a Mercer affiliate, Mercer Global Investments Europe Limited (“MGIE”). MGIE are responsible for the appointment and monitoring of suitably diversified portfolio of specialist third party investment managers for each Mercer Fund’s assets.

Under these arrangements, the Trustees accept that they do not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds, However, the Trustees have made Mercer aware that they expect MGIE to manage assets in a manner, as far as is practicably possible, that is consistent with the Trustees’ engagement policy and their policy with regard to the exercise of rights attaching to the Scheme’s investments. The Trustees review regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether their policies are being properly implemented.

Section 2 of this Statement sets out the Trustees’ engagement policy and assesses the extent to which it has been followed over the Scheme Year.

Section 3 sets out the Trustees’ policy with regard to the exercising of rights (including voting rights) attaching to the Scheme’s investments and considers how, and the extent to which this policy has been followed during the Scheme Year. This Section also provides detail on voting activity undertaken by the Scheme’s third party investment managers during the Scheme Year.

Sections 4 provides detail on engagement activity undertaken by the Scheme’s third party investment managers during the Scheme Year.

**Taking the analysis included in Sections 2 to 4 together, it is the Trustees’ belief that their policies with regard to engagement and the exercise of rights attaching to investments has been successfully followed during the Scheme Year.**

## 2. TRUSTEES' POLICY ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES, INCLUDING CLIMATE CHANGE

### Policy Summary

The Trustees believe that good stewardship and the incorporation of ESG factors into their investment decision-making processes can have a material impact on the financial and non-financial performance of the Scheme's assets over the medium and longer term. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustees' explicit consideration.

It is the Trustees' policy to require that the third party investment managers appointed by Mercer, via Mercer Global Investments Europe (MGIE), to manage the Scheme's assets comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website, when managing the Scheme's assets. Further, in appointing the third party asset managers, the Trustees' expect MGIE to select managers where it believes the managers will engage directly with issuers in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party asset managers' compliance with this expectation, the Trustees consider regular reports from Mercer that include an assessment of each third party manager's engagement activity.

Should the Trustees consider that Mercer, MGIE or the third party asset managers, have failed to align their own engagement policies with those of the Trustees, the Trustees will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

### How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change.

<b>Policy Updates</b>	<b>Climate Change Reporting and Carbon Footprinting</b>	<b>ESG Rating Review</b>
<p>The Trustees consider how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, have provided reporting to the Trustees on a regular basis.</p> <p>The Mercer <u>Sustainability Policy</u> is reviewed regularly. In August 2020 the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section</p>	<p>Mercer undertake climate scenario modelling and stress testing on the Mercer multi sector funds used by the Fund, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The results of the latest climate scenario modelling are within the TCFD compliant <u>Climate Change Management Report</u>. The findings of the modelling are integrated into the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for</p>	<p>ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration. Since Q3 2020 the quarterly performance report has included the Mercer funds overall ESG rating compared to the appropriate universe of strategies in Mercer's global investment manager database.</p>

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to include the implementation of certain exclusions across passive funds from 1 October 2020. In March 2021 there was a further update in relation to Sustainable Finance Disclosure Regulation (“SFDR”) implementation.

In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone [Engagement Policy](#) to specifically address the requirements of the directive.

consistency with the Paris Agreement on Climate Change.

Carbon Footprint analysis of all equity funds is completed on a six monthly basis with the latest analysis as at 30 June 2021. Whilst the approach focusses on the headline Weighted Average Carbon Intensity (“WACI”) of the funds, the top 5 carbon emitters and the top 5 contributors to the WACI is also reported to give the Mercer and MGIE investment team additional information to drive engagement with managers.

As at 31 December 2020, in the Annual ESG review provided by Mercer, the Trustees noted that 95% of Mercer Funds now have an ESG rating equal to or above their asset class universe, a 10% improvement on 2019.

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### Update to Exclusions

As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.

Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainability-themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.

In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (“UNGC”) Principles that relate to human rights, environmental and corruption issues.

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### Sustainability-themed investments

An allocation to Sustainable Equities is included within the Fund’s portfolio of Growth assets, with the strategic allocation to Sustainable Equities increased by c.5% of the Growth Portfolio over the year.

A detailed standalone report sustainability monitoring report is produced for the passive Sustainable Global Equity fund on a semi-annual basis, including a more granular breakdown of the fund against ESG metrics, for example the UN Sustainability Development Goals.

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### Diversity

From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader Mercer diversity policy.

### 3. TRUSTEES' POLICY ON EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO SCHEME INVESTMENTS

#### Policy

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the third party investment managers appointed by Mercer on the Trustees' behalf.

This is because any voting rights that do apply with respect to the underlying investments attached to the Mercer Schemes are, ultimately, delegated to the third party investment managers appointed by MGIE. In delegating these rights, MGIE accepts that managers may have detailed knowledge of both the governance and the operations of the investee companies and so permits the managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustees do not use the direct services of a proxy voter.

Voting: As part of the monitoring of managers' approaches to voting, MGIE assesses how active managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers note in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

Set out below is a summary of voting activity for the year to 30 September 2021 for a range of Mercer Funds that the Scheme invests in. The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

"Unvoted" reflects instances where managers have not actioned a vote – these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned. "Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present. "Mixed" refers to occasions where underlying managers have voted differently for the same proposal. Vote decisions of this nature are monitored and fed into the wider engagement process with manager.

Mercer Fund	Total Proposals	Vote Decision					For/Against Management	
		For	Against	Abstain	Did not vote	Others*	For	Against
Multi-Asset Credit	25	64%	0%	36%	0%	0%	58%	42%
Passive Emerging Markets Equity	24,889	84%	14%	2%	0%	0%	85%	15%
Passive Fundamental Indexation Global Equity	2,498	83%	15%	0%	0%	2%	82%	18%
Passive Global REITS UCITS CCF	3,006	82%	14%	0%	0%	4%	82%	18%
Passive Global Small Cap Equity UCITS CCF	42,084	82%	14%	0%	0%	3%	83%	17%
Passive Low Volatility Equity UCITS CCF	3,966	84%	14%	0%	0%	2%	82%	18%
Passive Sustainable Global Equity UCITS CCF	15,947	80%	17%	1%	0%	2%	80%	20%

Eurozone Equity	4,471	85%	12%	3%	0%	0%	85%	15%
UK Equity	1,074	98%	2%	0%	0%	0%	98%	2%

**Significant Votes:** Mercer has based its definition of significant votes on its Beliefs, Materiality and Impact (“BMI”) Framework. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering priority areas identified by the BMI Framework.

Mercer Fund	Shareholder Proposal (“SHP”)	Issuer	Vote Decision
<b>Passive Fundamental Indexation Global Equity</b>	SHP Regarding Annual Vote and Report on Climate Change	Hennes & Mautitz ZB	For
	SHP Regarding Lobbying Activity Alignment with the Paris Agreement	RIO Tinto Ltd.	For
	SHP Regarding Climate Change Proxy Voting Practices	T. Rowe Price Assoc Inc.	For
	SHP Regarding Report on Plastic Packaging	Amazon.com Inc., Kroger Co.	For
<b>Passive Global Listed Infrastructure UCITS</b>	SHP Regarding Annual Shareholder Vote on Climate Action Plan	Canadian Pacific Railway Ltd	For
	SHP Regarding Formation of a Human Rights Risk Oversight Committee	American Tower	Against
	SHP Regarding Lobbying Activity Alignment with the Paris Agreement	Norfolk Southern Corp., Sempra Energy	For
	SHP Regarding Decarbonisation of Power Generation Business	Kansai Electric Power Company Incorporated	For
<b>Passive Global Small Cap Equity</b>	SHP Regarding GHG Emissions Report	Bloomin Brands Inc.	For
	SHP Regarding Increasing Renewable Energy	Shikoku Electric	Against
	SHP Regarding Report on Climate-Related Activities	PNM Resources Inc	Against

<b>Passive Low Volatility Equity UCITS CCF</b>	SHP Regarding Climate Report	Berkshire Hathaway	For
	SHP Regarding Deforestation Report	Proctor & Gamble	For
	SHP Regarding Report on Climate related Activities	Walmart	Against
	SHP Regarding Formation of a Human Rights Risk Oversight Committee	American Tower Corp	Against
<b>Passive Sustainable Global Equity UCITS CCF</b>	SHP Regarding Aligning Business Strategy to the Paris Agreement	Mitsubishi UFJ Financial Group, INc.	For
	SHP Regarding Exclusion of Fossil Fuels as Investment Objects	Scandinaviska	Against
	SHP Regarding Lobbying Activity Alignment with the Paris Agreement	RIO Tinto Ltd., Delta Air Lines, Inc.	For
	SHP Regarding Report on Plans to Reduce Total Contribution to Climate Change	United Parcel Service, Inc.	For
<b>Passive Emerging Markets Equity Fund</b>	Management Proposal Regarding The Company's Eligibility for the public issuance of green corporate bonds	Shanghai Lingang Holdings Corporation Limited	For
	Management Proposal Regarding Implementation of a Green Production Base Construction Project by a Company	Angel Yeast Co., Ltd.	For
<b>Eurozone Equity Fund</b>	SHP Regarding GHG Reduction Targets	BP plc.	Against
<b>UK Equity Fund</b>	SHP Regarding Industry Association COVID-19	BHP Group plc.	Against
	SHP Regarding Cultural Heritage Protection	BHP Group plc.	Against
	Management Proposal Regarding Advisory Vote on Climate Transition Action Plan	Unilever plc.	For