MAN UK Group Pension Scheme – Annual Engagement Policy Implementation Statement year ending 5 April 2020

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 2020. This statement has been produced in accordance with **The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018** and the subsequent amendment in **The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019**.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the SIP are as follows:

The Trustees' primary objectives are to invest the Scheme'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. Within the framework, the Trustees have agreed the following general objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objectives are as follows:

- To ensure that the Scheme can meet its obligations to members and other beneficiaries.

- To pay due regard to the Principal Employer's interests in the size and incidence of employers' contribution payments.

In meeting this objective, the Trustees' further objectives are to:

- Reach a position such that the Scheme's assets would be sufficient to exceed the liabilities as determined, in the event of the Scheme winding-up, on the basis of a buyout with an insurance company.

- By means of an agreed combination of investment return and funding budget from the Sponsor, move the Scheme to a position of being fully funded on a de-risked funding basis (gilts +0.5% p.a.) by 2025-2030.

- In doing so, to opportunistically reduce the degree of risk in the Scheme's investment arrangements, thereby helping to protect the Scheme's improving funding position.

Policy on ESG, Stewardship and Climate Change

The Scheme'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. Prior to year-end this was last reviewed in September 2019 but has subsequently be updated, with the latest review at time of writing occurring in September 2020.

In order to establish these beliefs and produce this policy, investment training was provided to the Trustees by the Scheme's investment consultant, Mercer Limited (Mercer), in March 2019 at both the Investment sub-Committee and the Trustee Meeting. This training covered responsible investment, including ESG factors, stewardship, climate change and the approach undertaken by Mercer Global Investments Europe Limited (MGIE) in its capacity as investment manager to the Ireland-domiciled collective investment schemes in which scheme assets are invested. Following this training, in September 2019 the Trustees incorporated their beliefs into the Scheme's SIP. The Trustees keep their policies under regular review with the SIP subject to review at least triennially or following material changes to the any aspect of the Scheme.

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

- The Trustees continue to engage with Mercer who acts as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Investment managers appointed by MGIE to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise 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, regardless of where they are domiciled. In addition, they are expected to monitor investee companies and to report on stewardship activities and outcomes on an annual basis, as set out in a publicly available Sustainable Investment Policy.

- 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 is expected to provide reporting to the Trustees on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics.

- The Trustees consider how ESG, including climate change, is integrated within Mercer's and MGIE's investment processes by reviewing the ESG ratings assigned by Mercer (and its affiliates') global manager research team, which are included in the investment performance report produced by Mercer on a quarterly basis. 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. Expectations are set as ESG3 or above, where practicable and relevant to the strategy (with ESG1 being the highest rating and ESG4 being the lowest). Comparisons are also made with the appropriate universe of strategies in Mercer's global investment manager database. The Trustees review this quarterly, with the last review prior to year-end being at the Trustee Meeting on 25 March 2020 where Mercer presented to Investment Performance Report as at 31 December 2019.

- Climate-related metrics such as carbon foot- printing for equities and/or climate scenario analysis for diversified portfolios are also reviewed at least annually by Mercer and MGIE.

Stewardship monitoring

Mercer presented the key outcomes of the Mercer Limited Stewardship Monitoring Report to the Investment sub-Committee at the meeting on the 4 September 2019. The full report summarises and comments on the stewardship activities and disclosure of the investment managers appointed within the largest MGIE equity funds used within the Growth Portfolio, for the period 1 July 2018 to 30 June 2019 unless stated otherwise.

The Stewardship Monitoring Report provides voting statistics , together with brief commentary, based on manager disclosed information and covers votes cast in four parts: a) votes against management; b) votes against proxy adviser policy (where applicable); c) abstentions; and d) no votes. The report also provides summary reporting on engagement activities undertaken by managers to capture the level of disclosure and examples given by the managers for insights into where the manager has exchanged views with companies on a range of strategic and governance issues, together with environmental and social topics.

For the 2020 reporting cycle, vote reporting will include a general description of voting behaviour, an explanation of the most significant votes taken, information on the use, if any, of the services of proxy advisors, and information on how votes have been cast in the general meetings of companies in which the investment managers appointed to the Mercer Funds hold shares across equity portfolios. Engagement reporting will include examples where investment managers have engaged with companies, relating to the number of companies engaged, engagement examples by topic, engagement examples that are collaborative and any voting activity / engagement activities impacting investment decisions, where available. These engagement reviews will extend across equities as well as other asset classes (e.g. fixed income and real estate) in light of the 2020 UK Stewardship Code which calls for engagement across additional asset classes as well as equities.

2019 Summary

The overall results for this reporting period are summarised below.

Vote execution:

- Vote execution continues to be good overall (i.e. >90% of available votes). Where votes have not been cast the vast majority of managers provide a rationale (typically this relates to market-specific barriers or restrictions).

Vote disclosure:

- The level of disclosure continues to vary considerably across managers. While in some cases managers have improved in not only disclosing voting rationale at a resolution level, but including summary reporting across categories (e.g. board-related, compensation-related, environmental etc.) there are managers who have not disclosed rationale across all resolutions. It is likely that managers do have this information but have not proactively disclosed it and we will follow-up with these managers to confirm.

Engagement:

- The results on engagement activities has been relatively consistent and Mercer noted an improvement in the quality of engagement disclosure from a number of managers.
- Some managers continue to provide market leading engagement reporting – typically those with an established approach to engagement and internal resources dedicated to stewardship.
- Mercer found that there is still room for improvement on engagement from quant managers who could focus on calling for greater disclosure of ESG metrics and this will again be communicated. Mercer also noted an improvement from a number of quant managers in this regard since the previous review.
- Mercer will follow up with all managers where improvements are expected in future.