Engagement Policy Implementation Statement

Perry Willenhall Steel Service Centres Ltd Pension and Life Assurance Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustees produce an annual implementation statement which:

- Explains how and the extent to which they have followed their engagement policy, which is outlined in the SIP.
- Describes the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by Trustees or on their behalf) during the scheme year and states any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The Engagement Policy Implementation Statement has been prepared by the Trustees and covers the year 1 January 2020 to 31 December 2020.

Scheme Stewardship Policy Summary

The Scheme Stewardship Policy in force over the majority of the reporting year to 31 December 2020 can be found on page 3 of the following link: https://ssc.arcelormittal.com/en/annexes/pws-ltd-pension-life-assurance-scheme.

Scheme stewardship activity over the year

Updating the Stewardship Policy

Throughout the year, the Trustees have been proactive to ensure their Stewardship Policy has remained up to date with recent regulatory requirements and also reflects their views and beliefs.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustees reviewed and expanded the Stewardship Policy in September 2020. The updated wording in the SIP illustrates how the Trustees recognise the importance of their role as a steward of capital, as well as indicating how the Trustees would review the suitability of the Scheme's investment managers and other considerations relating to voting and methods to achieve their Stewardship Policy.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis. Aon Solutions UK Limited ("Aon") monitors investment managers on a range of criteria, including Environmental, Social and Governance ("ESG") factors. The ESG rating system is for buy rated investment strategies and is designed to assess whether investment managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon’s researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversations with the fund manager, the lead

researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Engagement – Fiduciary Manager

The Trustees invest the Scheme's assets in funds managed by Aon Investments Limited ("AIL"). AIL manages the Scheme's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying investment managers to manage investments on behalf of the Trustees.

AIL has undertaken a considerable amount of engagement activity over the period. AIL held around 35 ESG specific "deep-dive" meetings in 2020 with most of the equity and fixed income managers across all delegated funds in which AIL's clients invest. At these meetings, AIL discussed the voting and engagement activities undertaken by the investment managers, highlighting areas of improvement and discussing manager strategy in the area of responsible investments moving forward. Similar meetings have been ongoing through the beginning of 2021.

Aon Solutions UK Limited also actively engages with investment managers and this is used to support AIL in its fiduciary services.

Engagement example:

Aon maintained a dialogue with a leading investment manager on behalf of many Aon clients which invest with the manager. At the end of 2020, Aon had a discussion with the manager's Global Head of Stewardship about numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals.

Aon's analysis of the manager's voting actions showed that the manager had not been voting in a manner consistent with its public pledges on sustainability issues. The manager acknowledged that there was a disconnect between voting decisions made in the first half of 2020 and its commitment to sustainability, but that it had markedly changed its voting policies in the second half of 2020. The manager reassured Aon that, in future, voting decisions would better align with its stated positions on ESG matters. Aon expects to see this reflected in voting actions by mid-2021.

The manager has since provided further information on how it is updating its policies in a manner consistent with its strategy of intensifying engagement on sustainability.

Aon will continue to monitor and engage with the manager, scrutinising its voting and engagement actions. Aon is encouraged that the manager plans to strengthen its influence with invested companies to better effect.

Voting and Engagement activity – Underlying Managers

The Scheme is invested in a number of equity, fixed income and liquid alternative funds within the Fruition funds. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material managers over the reporting period.

Equity

Over the year, the Scheme was invested in the AIL Fruition Funds. The material equity investments held in the Scheme over the year were:

- Legal and General Investment Management (LGIM) Multi Factor Equity Fund
- BlackRock Emerging Markets Equity Fund

LGIM Multi Factor Equity Fund ("LGIM")

Voting

LGIM makes use of the Institutional Shareholder Services (“ISS”)'s proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools, but does not outsource any part of the strategic decisions. It has put in place a custom voting policy with specific instructions that apply to all markets globally; this seeks to uphold what it considers to be the minimum best practice standards all companies should observe. LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Multi Factor Equity Fund over year to 31 December 2020	
% of resolutions voted on for which the fund was eligible	99.7%
Of the resolutions on which the fund voted, % that were voted against management	17.9%
Of the resolutions on which the fund voted, % that were abstained from?	0.1%

Voting example

At an Extraordinary General Meeting (“EGM”) on 18 September 2020, LGIM voted against the resolution to amend the directors’ remuneration policy proposed by Pearson. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new Chief Executive Officer ("CEO") would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board’s succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company’s remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed its concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO’s award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company’s approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant as LGIM voted against management.

Engagement

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here.

Engagement example

An example of LGIM's engagement was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of its suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on its effort to eliminate deforestation in its supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure its business did not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

BlackRock Emerging Markets Equity Fund ("BlackRock")

Voting

Blackrock uses ISS's electronic platform to execute its vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. Blackrock's voting decisions are informed by internally developed proxy voting guidelines, its pre-vote engagements, research, and the situational factors for each underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock increased its level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on criteria such as level of public attention, and impact of financial outcome.

Emerging Markets Equity Fund over year to 31 December 2020	
% of resolutions voted on for which the fund was eligible	97.1%
Of the resolutions on which the fund voted, % that were voted against management	8.7%
Of the resolutions on which the fund voted, % that were abstained from?	3.0%

Voting example

In December 2020, BlackRock voted against the management proposal to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited. In September 2020, Yanzhou Coal had proposed to acquire the equity interests held by Yangkuang Group. The key assets to be acquired included a coal liquefaction project, a supporting coal mine and a coal-fired power plant.

BlackRock noted Yanzhou Coal's rationale for making the acquisition, namely to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believed it was in its clients' best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of the increasing uncertainty of the role of coal in the future and the potential stranded asset risk.

On the latter, BlackRock is cautious about the potential stranded asset risks at Yanzhou Coal. The coal-fired power sector in China is facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilization hours. Therefore, such an acquisition could exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonization targets.

BlackRock communicated the above concerns with management and requested the company consider reporting on its approach to the energy transition in alignment with the recommendations of the Task Force on Climate related Financial Disclosures. BlackRock continues to closely monitor Yanzhou Coal's progress on sustainability reporting and engage to advocate for business practices aligned with long-term value creation.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf

Engagement

BlackRock's Investment Stewardship Team's ("BIS") stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Over 2020, BIS had over 3,500 engagements — an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of its clients' equity investments. The team also had 936 engagements on the impact of COVID-19.

More information, including case studies, can be found in the Blackrock Investment Stewardship Annual Report 2020;

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020-calendar-year.pdf

Engagement – Fixed Income

While equity managers may have more direct influence on the companies they invest in, fixed income managers are increasingly influential in encouraging positive change through engagement with investee companies. The Trustees believe that engagements of this nature are key to reducing ESG risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

The following section details examples of engagement activity carried out by appointed underlying fixed income managers.

Robeco

Over the last few years, Robeco has engaged a number of times with senior employees of a multinational oil company. The focus of the engagement was to encourage the company to take action to contribute towards preventing global warming rising above 2 degrees Celsius. Robeco believes that at that point, the world will be increasingly exposed to significant transitional and physical risks, both acute and chronic.

In 2020, the company announced its aim to reduce the net carbon footprint of its energy products by around 50% by 2050. Robeco was supportive of these goals but continued to encourage the company to set short term targets and link these to remuneration packages. In addition to announcing its long-term goal, Robeco agreed a joint statement with the company who agreed to start setting shorter term targets. Robeco believes the company now leads the sector in terms of its planning and positioning for energy transition, as they look to move to lower carbon products and solutions.

BlackRock

BlackRock's firm-wide engagement program also benefits investments in bonds issued by companies (as well as equities). BIS (as earlier described) allows for the mutual exchange of views between active portfolio management teams across equity and credit. In addition, BlackRock's Global Fixed Income Responsible Investing team may partner with the BIS team to reflect on ESG related topics from fixed income investors and to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRocks hold a significant exposure in fixed income portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers, or is highlighted by their credit research.

An example of an engagement by BlackRock was with Exxon. BlackRock discussed several engagement topics with the company such as governance structure, corporate strategy, environmental risks and opportunities. This included questions on the company's approach to the European regulatory environment, its views on electric vehicle penetration as a risk to its business, and its risk management in relation to physical climate change risks.

Engagement Activity – Alternatives

Liquid Alternatives – Insurance Linked Securities

Over the year, the Scheme invested in alternatives such as insurance linked securities and gold. This section details examples of policies and practices at Leadenhall Capital Partners, the appointed underlying insurance linked securities manager.

Leadenhall

Leadenhall assesses adherence to ESG principles by considering specific factors including:

- Environmental impact including pollution prevention and remediation, reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards.
- Social impact including human rights, welfare and community impact issues.
- Governance issues including board structure, remuneration, accounting quality and corporate culture.

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. MS Amlin is a member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall performs a detailed review of its investment counterparties' policies and controls including those concerning their explicit ESG and Corporate Social Responsibility frameworks. Where appropriate it will make recommendations to avoid investment counterparties that are not aligned with ESG policies.

In summary

Based on the activity over the year by the Trustees and their service providers, the Trustees are of the opinion that the stewardship carried out on behalf of the Scheme is adequate and in line with their Stewardship Policy. The Trustees note that their applicable asset managers were able to disclose significant evidence of voting and engagement activity.

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