Engagement Policy Implementation Statement

Perry Willenhall Steel Service Centres Ltd Pension and Life Assurance Scheme ("the Scheme")

This Engagement Policy Implementation Statement ("EPIS") has been prepared by the Trustees and covers the year 1 January 2021 to 31 December 2021.

Introduction

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

- Explain how and the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles ("SIP").

- Describe the voting behaviour by or on behalf of the Trustees (including the most significant votes cast) during the Scheme year and state any use of third party provider of proxy voting services.

Executive summary

Based on the activity over the year by the Trustees, their fiduciary manager and their investment managers, the Trustees believe that their stewardship policy has been implemented effectively. The Trustees note that their investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustees expect improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Scheme stewardship policy

Below is a summary of the Scheme's stewardship policy in force over the Scheme year to 31 December 2021.

The full SIP can be found here:
https://ssc.arcelormittal.com/en/annexes/pws-ltd-pension-life-assurance-scheme.

Scheme stewardship activity over the year

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 conversation 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 activity – Fiduciary manager

The Trustees have delegated management of the Scheme's assets to their fiduciary manager, Aon Investments Limited ("AIL"). AIL manage 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 the investments on behalf of the Trustees.

AIL has undertaken a considerable amount of engagement activity over the year. AIL held several ESG focussed meetings with the underlying managers across all its strategies. At these meetings, AIL discussed ESG integration, voting and engagement activities undertaken by the investment managers, allowing AIL to form an opinion on each manager's relative strengths and areas for improvement. AIL provided feedback to the managers following these meetings with the goal of lifting the standard of ESG integration across its portfolios. AIL continues to engage with the managers.

Aon also actively engage with investment managers and this is used to support AIL in its fiduciary services. Aon launched its Engagement Programme in 2020, a cross asset class initiative which brings together Aon's manager research team and responsible investment specialists to promote manager engagement with the needs of Aon's clients in mind.

<u>Engagement Example – Fixed income manager</u>

In October 2021, Aon engaged with an underlying fixed income manager. The manager had effective models to analyse ESG data and identify securities associated with controversial activity. The manager also shared its engagement activity and literature on ESG issues. However, Aon identified that the manager needed to have clearer policies which would lead to better engagement decisions. Aon expects the manager to develop a process for carrying out thematic engagements and that the manager will formalise their climate risk engagement.

Voting and Engagement – Underlying Investment Managers

The Scheme is invested in a number of equity, fixed income and liquid alternative funds within the arrangement with AIL. This section provides an overview of material voting and engagement activity during the reporting period.

Voting and Engagement – Equity

Over the year, the material equity investments held by the Scheme were:

LGIM	Multi Factor Equity Fund
BlackRock	Emerging Markets Equity Fund

This section includes examples of significant voting activity from each of the Scheme's managers. The investment managers provided examples of 'significant' votes they participated in over the period. Each manager has their own criteria for determining whether a vote was significant.

Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management's proposal
- where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting
- a vote that is connected to wider engagement with the company involved
- a vote that demonstrates clear and considered rationale
- a vote that the Trustees consider inappropriate or based on inappropriate rationale
- a vote that has significant relevance to members of the Scheme.

The Trustees consider a significant vote as one which the voting manager deems to be significant.

Legal and General Investment Management Limited ("LGIM") – Multi Factor Equity Fund

Voting

LGIM uses proxy voting adviser Institutional Shareholder Services ("ISS") to execute votes electronically and for research. This augments LGIM's own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

The table below shows the voting statistics for LGIM's Multi-Factor Equity Fund for the year to 31 December 2021.

Number of resolutions eligible to vote on over the period	10,329
% of resolutions voted on for which the fund was eligible	99.98%
Of the resolutions on which the fund voted on, % that were voted against management	19.14%
Of the resolutions on which the fund voted, % that were abstained	0.07%

Voting Example

In June 2021, LGIM voted against a resolution to elect the CEO of retailer Target Corporation to the role of Chair of the company's board as well. It is LGIM's policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles to be substantially different, requiring distinct skills and experiences due to risk management and oversight. Further, LGIM expects a CEO or Non-Executive Director not to hold too many board positions to ensure they can undertake their duties effectively. 93.7% of shareholders voted in favour of the resolution. LGIM considered this vote to be significant because it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO role.

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.

LGIM monitors several ESG subjects and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy.

More information can be found in LGIM's engagement policy https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf.

At the time of writing, LGIM had not provided engagement examples for the fund. The Trustees' investment adviser, Aon, has engaged with LGIM to encourage it to report on its engagement activities in line with its peers. Aon and the Trustees expect to see improvements in LGIM's reporting next year.

Engagement Example (firm level)

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to the uncontrolled release of antimicrobial agents into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies through an open letter to understand if they were aware of the issue of antimicrobial resistance and if they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems. The engagement example above has been provided at a firm level, which means that it is not necessarily directly relevant to the fund that the Scheme invests in.

BlackRock – Emerging Markets Equity Fund

<u>Voting</u>

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. Blackrock's voting decisions are informed by its voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the year.

BlackRock subscribes to research from the proxy voting advisers ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

The table below shows the voting statistics for BlackRock's Emerging Markets Equity Fund for the year to 31 December 2021.

Number of resolutions eligible to vote on over the period	28,844
% of resolutions voted on for which the fund was eligible	100%
Of the resolutions on which the fund voted on, % that were voted against management	9%
Of the resolutions on which the fund voted, % that were abstained	4%

<u>Voting Example</u>

In June 2021, BlackRock voted against a proposal from the management of Huadian Power International ("Huadian International"), a Chinese energy company. The proposal sought to reorganize its wind and solar power portfolio by transferring all related assets into a dedicated renewable energy entity, which the majority is controlled by its parent company, Huadian Group. In exchange Huadian International would receive a minority stake in the renewable energy entity.

BlackRock voted against the proposal because it was concerned about the conflict of interest between Huadian International and its parent company. The proposal would prevent Huadian International from investing in wind or solar power projects, to avoid it being in competition with the majority shareholder, Huadian Group. In BlackRock's view, the transaction would disadvantage the minority shareholders of Huadian International by preventing them from participating in China's renewable energy market.

The proposal passed with a majority vote, however the Trustees expect BlackRock to continue to make clear its concerns regarding this matter with the company.

<u>Engagement</u>

BlackRock considers engagement to be at the core of its stewardship efforts. It enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock Investment Stewardship ("BIS") team's stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation and company impacts on people.

More information can be found here: https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf

At the time of writing, BlackRock did not provide fund level engagement examples. The Trustees' investment adviser, Aon, will raise this issue with BlackRock at their next meeting. The example provided below is at a firm level, i.e. it is not necessarily specific to the fund the Scheme is invested in.

Engagement Example (firm level)

BlackRock engaged with Vale S.A. ("Vale"), a Brazilian mining company, since 2019. In January 2019, a tailings dam at one of Vale's iron ore mines collapsed and killed approximately 270 people. Tailings dams are used to store water and waste that are by products from the mining process. The collapse also caused significant environmental damage.

Over the course of 2020 and 2021, BlackRock held frequent engagements with Vale. Vale provided updates on the dam collapse, including the status of the investigation and the final settlement. Vale provided additional context on the frequent public announcements about: 1) the steps taken to strengthen risk management and governance policies to ensure the safety of people and operations; and 2) the remediation measures regarding the environmental damage and socio-economic impact on the local community.

BlackRock's engagements with Vale also focused on board effectiveness and sustainability. It shared its expectations of board quality including composition, diversity, and independence. BlackRock also discussed the company's sustainability disclosures and carbon emissions reduction targets.

Engagement – Fixed Income and Alternatives

The Trustees acknowledge that the ability of fixed income and alternative managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see from the information provided that the managers are active in their role as stewards of capital.

The following section demonstrates some of the engagement activity being carried out by the Scheme's fixed income and alternative managers over the year.

Robeco –Global Credits Short Maturity fund

Engagement

Robeco's engagement program focuses on what it considers to be the financially material sustainability themes and the elimination of severe breaches in human rights, labour, environment, and bribery and corruption. Robeco carries out extensive research, measuring changes in company performance relative to engagement objectives. Robeco determines the objectives of each engagement at the start of its engagement process. Robeco ensures it begins each engagement with:

- a thorough understanding of the ESG issue in question
- the company's current performance on and exposure to the issue

- the company's performance on the engagement objectives set.

Robeco's engagements typically run for three years. Any cases closed unsuccessfully are considered for exclusion.

Engagement Example

Robeco engaged with British bank, Barclays, regarding its culture and risk governance over several years. The purpose was to gain a better understanding of the risks banks face by analysing the most material governance issues of the banking system.

The engagement started in 2017 and in 2020 Robeco decided to extend the engagement program by another year, as events, such as widespread problems around money laundering and ongoing regulatory investigations, had slowed down progress.

The culture at Barclays was a key area for improvement and Barclays endeavoured to improve the culture at the firm. For example, the bank regularly reports the importance of behaviours to its staff and tries to foster an open culture. The bank's approach to financial crime is also now largely in line with other European banks. Robeco closed this engagement successfully in Q4 2021.

Aegon Asset Management ("Aegon") – European Asset Backed Securities ("ABS") Fund

Engagement:

Aegon believes that actively engaging with companies to improve ESG performance and corporate behaviour is generally more effective than excluding companies from its investment universe. Engagement are conducted by investment managers, research analysts and its Responsible Investment team.

When engaging with portfolio companies, Aegon considers the UK and Dutch Stewardship Codes and the Principles for Responsible Investment. Aegon also seeks to strengthen its voice by actively participating in collaborative engagement platforms such as the Principles for Responsible Investment, UK Investor Forum, and Institutional Investors Group on Climate Change.

Aegon engages with ABS issuers regularly through ESG questionnaires that are specific for consumer loan ABS. It has meetings to discuss the questionnaire answers, companies' ESG goals and areas where Aegon would like to see improvement.

Engagement Example

In 2021 Aegon engaged with Brignole, an ABS issuer. Aegon wanted to better understand the purpose of the consumer loans issued by the company, so it could assess if the loans had any environmental impact. Further, Aegon suggested that the company increase borrowing for an environmental purpose by offering borrowers a discount.

To start the engagement, Aegon sent Brignole its ESG questionnaire. After receiving the answers, Aegon discussed the answers with Brignole's management. It also discussed the company's ESG goals and areas for improvement.

From the engagement, Aegon gained a better understanding of the loan purposes. This helped Aegon to make a thorough ESG analysis of the issuer. Further, Brignole agreed to implement Aegon's suggestion to offer loans for environmental purposes at a discount. Aegon stated it will pursue similar engagements with other consumer loan issuers.

Leadenhall Capital Partners LLP – Insurance Linked Securities

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.

Leadenhall perform a detailed review of its investment counterparties' policies and controls including their ESG and Corporate Social Responsibility frameworks. Where appropriate Leadenhall will make recommendations to avoid investment counterparties who are not aligned with its ESG policies.