

Knorr-Bremse (UK) Pension Scheme – Annual 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 have been followed during the year to 31 December 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:

- To closely align the sensitivity of the Scheme's assets and liabilities to changes in interest rate and inflation expectations by hedging approximately 100% of the sensitivity of the Scheme's liabilities on the agreed basis for funding level and liability hedging monitoring purposes.
- By means of investment returns to maintain a position of being fully funded on a CDI funding basis (initially gilts plus 0.45% p.a.) as benefit payments fall due.
- To aim to match a large proportion of the projected member benefits by investing in income generating assets, whilst ensuring that sufficient liquid assets are available to meet benefit payments as they fall due.

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. This was last reviewed in July 2020.

In order to establish these beliefs and produce this policy, the Trustees discussed the matter with their investment consultant, Mercer Limited (Mercer), 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's assets are invested.

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The Trustees keep their policies under regular review with the SIP subject to review at least triennially. 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 Trustees' engagement and voting policies were followed and implemented during the year.

- The Trustees have appointed Mercer to act 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.
- 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.

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Stewardship monitoring

Mercer produces an annual report, the Voting and Engagement Report, that summarises and comments on the stewardship activities and disclosure of the investment managers across both equities and fixed income. The latest available report, covering the period 1 January 2020 to 31 December 2020, is available for review by the Trustees and the key conclusions are summarised below for completeness.

The Voting and Engagement 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.

The report also includes 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 includes 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.

2020 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:

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- 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 will follow up with all managers where improvements are expected in future.