

Croda Pension Scheme

# **Implementation Statement**

**For year ending 30  
September 2023**

March 2024

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# Section 1: Introduction

This document is the Annual Implementation Statement ('the Statement') prepared by Croda Pension Trustees Limited ('the Trustee') of the Croda Pension Scheme ('the Scheme') covering the 'Scheme Year' from 1 October 2022 to 30 September 2023 in relation to the Statement of Investment Principles ('SIP').

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustee, the Scheme's SIP required under section 35 of the Pensions Act 1995 has been followed in respect of engagement and voting during the year,
- describe the voting behaviour by, or on behalf of, the Trustee over the year.

A copy of this Statement and the current SIP are made available on the following website:

<https://www.croda.com/mediaassets/files/corporate/about-us/croda-sip.pdf?la=ja-JP>

The version of the Scheme's SIP referenced in this document is dated June 2022.

Following the Scheme Year end, the Trustee has been drafting an updated SIP to reflect the recently amended investment strategy. This updated SIP is due to be published in 2024 and will be referenced in next year's edition of this statement.

## Section 2: Adherence to the SIP

In this section, we comment on how the Trustee has followed its policies with respect to engagement as set out in the SIP.

### Engagement Policy

Area	Approach and actions taken over the Scheme Year
<p><b>Section 3.14 and 3.18</b></p> <p><b>Encouraging best practice with regard to stewardship</b></p>	<p>The Trustee meets with each of its investment managers on at least an annual basis and, as part of this, requests that the investment manager provides an update on their approach to sustainability, including stewardship. As part of these meetings, the Trustee discusses with the investment managers how they have engaged with underlying holdings and, where appropriate, examples of their stewardship activities. In addition to explaining its approach to stewardship, the Trustee may ask its investment managers whether they are part of any initiatives, such as the UK Stewardship Code, which may demonstrate their commitment to striving for best practice.</p> <p>Over the Scheme Year, the Trustee has either met with or had updates from each of the Scheme's investment managers. In preparation for these meetings, managers are asked to complete a sustainable investments questionnaire which covers key areas of focus for the Trustee such as climate reporting targets and engagement policy.</p> <p>Through these meetings and updates, the Trustee generally had no concerns regarding the managers' approaches to sustainability.</p>
<p><b>Section 3.17</b></p> <p><b>Expecting investment managers to use their engagement activity to drive improved performance over these periods</b></p>	<p>The Trustee is not involved in the management of the Scheme's underlying portfolio holdings. However, it monitors the engagement activity that the Scheme's investment managers have undertaken on its behalf with these holdings through its annual manager meetings, where managers may be asked to provide examples of how they have engaged with underlying holdings and whether this engagement has led to an improvement in performance.</p> <p>Over the Scheme Year, the Trustee has either met with or had updates from each of the Scheme's investment managers. Through these updates the Trustee has noted no concern around the engagement that managers have had.</p>
<p><b>Section 3.21</b></p> <p><b>Engaging with the investment consultant to request additional information where necessary on a manager's sustainability practices</b></p>	<p>During the Scheme Year, the investment consultant, in alignment with the Trustee's agreed policies, has requested that the Scheme's managers discuss their sustainable investment approaches as part of the Trustee's manager meetings and set out this approach, including any changes over the year, in the sustainable investment questionnaire that managers are asked to complete. In this questionnaire, managers were asked to provide their sustainable investment policies which are reviewed by the Trustee and subsequently discussed with the manager and the investment consultant at the meeting.</p>

### Section 3.22.2

**When appointing a new manager, requesting information regarding each investment manager's responsible investment policy and details of how they integrate ESG into their investment decision making process as part of the selection process**

In the previous Scheme Year, the Trustee committed to a strategy that leases property to Dutch nursing homes care and treatment centres. This strategy has now begun to call capital, with the first drawdown taking place during Q3 2023. ESG integration was discussed and incorporated into the overall decision-making process for appointing this manager.

In July 2023 the Trustee agreed to introduce an allocation to buy & maintain credit following the Investment Strategy Review. A meeting was held to select an asset manager shortly after the Scheme Year end, with prospective managers being required to present on their ESG integration and how ESG factors influence their decision making when selecting or discarding issuers.

### Sections 4.7 & 4.8

**Providing the Scheme's managers with the most recent copy of the Scheme's SIP and asking them to confirm whether their strategies are managed in line with the relevant policies in the SIP**

The Scheme's investment consultant provided the Scheme's SIP to the Scheme's investment managers who received the questionnaire on the Trustee's behalf in 2023 (as two of the Scheme's strategies were in liquidation, the Scheme's SIP was not provided to these managers). Out of the 12 investment managers employed at the time, 9 confirmed compliance with the SIP and 1 outlined that they are unable to comment on the Trustee's policies. For the managers that outlined they are unable to confirm compliance, the Trustee would consider whether the Scheme's strategies are appropriate given the nature of the Trustee's policies and objectives on a regular basis as part of the Trustee's monitoring.

**Engaging with an investment manager to encourage alignment, in the event the Trustee's monitoring process reveals that a manager's portfolio is not aligned with the Trustee's policies**

The Trustee monitors its investment managers through its annual manager meetings, quarterly performance monitoring and on an ad hoc basis through the investment consultant updating the Trustee on whether there have been any material changes at the manager or to a manager's strategy. Over the Scheme Year, the Trustee regards its investment managers' investment portfolios to be aligned with the Trustee's policies but continues to engage with its investment managers.

### Section 4.15

**The Trustee reviews turnover on an annual basis**

As part of the Trustee's monitoring process of the Scheme's managers, the Trustee monitors on an annual basis the turnover of each mandate, and considers, where appropriate, whether this turnover is in line with the manager's and the Scheme's investment advisor's expectations of turnover.

The Trustee reviewed the turnover levels for each mandate with respect to the Scheme Year where available and considered there to be no material cause for concern with respect to reported turnover levels. Further details are provided in Appendix I of this statement.

## Section 3: Voting and engagement

The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to its investment managers.

As part of monitoring the stewardship of the Scheme's investments, the table below sets out the voting activities of the Scheme's investment managers. This includes any votes cast on the Trustee's behalf, detail on the Scheme's investment managers' use of proxy voting and examples of votes cast that they deem to be significant. Some of the Scheme's underlying investment strategies, such as fixed income or derivatives (where these holdings do not have voting rights attached) or private markets (where voting is not applicable as the strategy will bring with it a high level of ownership and control), have been excluded from the table below.

During the year, the Scheme was invested in a fund of hedge funds, which may invest in managers who hold stocks that have voting rights attached; however, this manager has a policy of not externally publishing or disclosing its voting data.

The table below reflects the voting data as provided by the Scheme's investment managers. The Trustee has agreed to report on three significant votes by manager/strategy: one focused on Environmental, one Social and one Governance issue filtered by the largest votes as a percentage of each strategy. The Trustee believes that this allows them to assess the investment manager's ability in respect of stewardship of key ESG issues.

Manager and strategy	Voting activity, most significant votes cast and use of proxy voting
LGIM MSCI ACWI Adaptive Cap ESG Index Pooled equity fund	<p><b>Voting activity*</b></p> <p>Number of resolutions eligible to vote on: 36,521</p> <p>Percentage of eligible votes cast: 99.9%</p> <p>Percentage of votes with management: 78.2%</p> <p>Percentage of votes against management: 21.1%</p> <p>Percentage of votes abstained from: 0.7%</p> <p><b>Significant votes</b></p> <p><b>Vote 1</b></p> <p>Company: Schneider Electric SE</p> <p>Percentage of fund: 0.16%</p> <p>Resolution: Approve Company's Climate Transition Plan</p> <p>Decision: Against</p> <p>Vote against management: Yes</p> <p>Outcome of vote: Pass (97.7% For)</p> <p>Rationale: LGIM state a vote against is applied as they expect companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with the 1.5°C goal.</p>

	<p>Implications of the outcome: LGIM state they will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p> <p>Rationale for inclusion as a “most significant vote”: LGIM is publicly supportive of so called "Say on Climate" votes. LGIM state that they expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when voting against the transition plan.</p> <p><b>Vote 2</b></p> <p>Company: Bank of Montreal.</p> <p>Percentage of fund: 0.13%</p> <p>Resolution: Publish a Third-Party Racial Equality Audit</p> <p>Decision: For</p> <p>Vote Against Management: Yes</p> <p>Outcome of vote: Fail (37.2% For)</p> <p>Rationale: LGIM state a vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies since they consider these issues to be a material risk to companies.</p> <p>Implications of outcome: LGIM state that they will continue to engage with investee companies, publicly advocate their position on this issue and monitor company and market-level progress. LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.</p> <p>Rationale for inclusion as “most significant vote”: LGIM considers this shareholder proposal significant as they view diversity as a financially material issue for their clients, with implications for the assets managed on their behalf. Moreover, this shareholder resolution is considered significant due to the relatively high level of support received.</p> <p><b>Vote 3</b></p> <p>Company: Marvell Technology, Inc.</p> <p>Percentage of fund: 0.19%</p> <p>Resolution: Elect Director Brad W. Buss</p> <p>Decision: Against</p> <p>Vote Against Management: Yes</p> <p>Outcome of vote: Pass (96.2% For)</p> <p>Rationale: A vote against is applied as LGIM expects companies not to recombine the roles of Board Chair and CEO without prior shareholder approval.</p> <p>Implications of outcome: LGIM state they will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.</p> <p>Rationale for inclusion as “most significant vote”: LGIM considers this vote to be significant as it is in application of their escalation of vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).</p>
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	<p><b>Use of proxy voting (applicable for both LGIM equity funds to which the Scheme invests)</b></p> <p>LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM, and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with our position on ESG, LGIM have put in place a custom voting policy with specific voting instructions</p>
<p>LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund</p> <p>Pooled equity fund</p>	<p><b>Voting activity*</b></p> <p>Number of resolutions eligible to vote on: 37,084</p> <p>Percentage of eligible votes cast: 99.9%</p> <p>Percentage of votes with management: 79.0%</p> <p>Percentage of votes against management: 20.4%</p> <p>Percentage of votes abstained from: 0.6%</p> <p><b>Significant votes</b></p> <p><b>Vote 1</b></p> <p>Company: Shell Plc</p> <p>Percentage of fund: 1.1%</p> <p>Resolution: Approve the Shell Energy Transition Progress</p> <p>Decision: Against</p> <p>Vote Against Management: Yes</p> <p>Outcome of the vote: Pass (80.0% For)</p> <p>Rationale: Accountability: LGIM note that a vote of against has been applied, though not without reservations. LGIM acknowledges the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, they remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both are key areas to demonstrate alignment with the 1.5C trajectory.</p> <p>Implications of outcome: LGIM state that they continue to undertake extensive engagement with Shell on its climate transition plans.</p> <p>Rationale for inclusion as "most significant vote": LGIM say they are publicly supportive of so called "Say on Climate" votes. They expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.</p> <p><b>Vote 2</b></p> <p>Company: Amazon.com, Inc.</p> <p>Percentage of fund: 0.60%</p> <p>Resolution: Report on Median and Adjusted Gender/Racial Pay Gaps</p> <p>Decision: For</p> <p>Vote Against Management: Yes</p>



	<p>Outcome: Fail (29.0% For)</p> <p>Rationale: A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives. Board diversity is an engagement and voting issue, as LGIM believes cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better company, economy and society.</p> <p>Implications of outcome: LGIM will continue to engage with the company and monitor progress.</p> <p>Rationale for inclusion as “most significant vote”: LGIM views gender diversity as a financially material issue for clients, with implications for the assets managed on their behalf.</p> <p><b>Vote 3</b></p> <p>Company: Alphabet Inc.</p> <p>Percentage of fund: 1.3%</p> <p>Resolution: Approve Recapitalisation Plan for all Stocks to Have One Vote per Share</p> <p>Decision: For</p> <p>Vote Against Management: Yes</p> <p>Outcome: Fail (30.7% For)</p> <p>Rationale: A vote in favour is applied as LGIM expects companies to apply a one-share-one-vote standard.</p> <p>Implications of outcome: LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.</p> <p>Rationale for inclusion as “most significant vote”: This shareholder resolution is considered significant due to the relatively high level of support received and high-profile nature of the meeting.</p>
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\*Totals may not sum due to rounding.

## Section 4: Summary and conclusions

The Trustee considers that all SIP policies and principles with respect to engagement were adhered to over the Scheme Year.

## Appendix I: Portfolio turnover

As set out within the Scheme's SIP, the Trustee monitors the turnover of its investments annually. The below table outlines the turnover experienced by the Scheme's investments for the year ending 30 September 2023. The Scheme invests in smart beta equity funds which aim to track a benchmark. Due to the nature of these funds, turnover is contingent on the underlying benchmark. Therefore, it is less relevant to track experience versus expectations for such mandates. In addition, for certain types of mandates the Scheme invests in such as private markets, strategies tend to be "buy and hold" in nature therefore annual turnover is less relevant for these strategies. Finally, the turnover of the Scheme's LDI and cash funds depend on discretionary trading by LGIM and can hold short-dated securities therefore WTW has not provided an expectation of turnover for these funds.

Fund	Experienced turnover (%)	Expected turnover (%)	WTW range (%)	Rating
Alpha Real Index Linked Income Fund	10.5%	N/A	<5	
Alpha Real Wind Renewables Income Fund	N/A	N/A	<5	
Blackstone Partners OS Fund	2.9%	8.4%	<50	
Equitix Fund IV	N/A	N/A	<5	
Greencoat Solar II	0.0%	N/A	<5	
Innisfree Secondary Fund	N/A	N/A	<5	
LGIM MSCI ACWI Adaptive Cap ESG Index	33.8%	N/A	N/A	
LGIM RAFI Global Reduced Carbon Pathway Index Fund	26.8%	N/A	N/A	

LGIM Bespoke LDI Fund	N/A	N/A	N/A	●
LGIM Euro Liquidity Fund	N/A	N/A	N/A	●
LGIM Cash Fund	N/A	N/A	N/A	●
LGIM USD Liquidity Fund	N/A	N/A	N/A	●
Macquarie European Infrastructure Fund II	N/A	N/A	<5	●
M&G Europe ex UK Alpha Property Fund	2.7%	3%	0-15	●
Patrizia Hanover Property Unit Trust	3.7%	10%	0-15	●
SUSI Partners Energy Transition Fund	N/A	N/A	<5	●
Hartelt Apollo Healthcare Property Fund	N/A	N/A	<5	●

## Notes:

- The Trustee met with Alpha Real shortly after the Scheme year end and discussed the level of turnover within the Index Linked Income Fund. Whilst this has been above typical expected levels, the fund has seen increased redemption requests from DB pension schemes looking to improve their liquidity following the 2022 gilts crisis. Where the manager has needed to sell assets to meet redemption requests, they have confirmed that sales have been completed at a premium to NAV which protects remaining investors.
- For the Scheme's mandates managed by Alpha Real (Wind Renewables Income Fund), SUSI Partners and Hartelt, annual turnover is not available as these strategies were in their drawdown phase.
- The Scheme has a residual holding in the Macquarie European Infrastructure Fund II which only holds one asset. As such turnover is not applicable for this mandate.
- Equitix and Innisfree confirmed turnover is not an applicable metric for their respective strategies due to the buy and hold nature of the assets.

- For the Scheme's liquidity funds managed by LGIM, LGIM have outlined that due to the nature of the strategies and the short-dated assets they hold, turnover for these funds is typically high and they do not usually report turnover as a result. However, LGIM have confirmed that there are no transaction costs for trading within the liquidity funds to which the Scheme invests.
- For the Scheme's Bespoke LDI Fund managed by LGIM, the manager has confirmed that turnover is not applicable due to the nature of the mandate and the assets being purchased or sold to match a custom benchmark.