

Croda Pension Scheme

# **Implementation Statement**

**For year ending 30  
September 2024**

March 2025

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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 2023 to 30 September 2024 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>

There were two versions of the SIP in place during the Scheme Year:

- June 2022 - the version in place at the beginning of the year
- March 2024 - an updated version adopted during the Scheme year.

The updates to the SIP in March 2024 were predominantly to reflect the updated strategic asset allocation agreed as part of the Investment Strategy Review carried out in July 2023. Other changes included updating the list of current investment managers and their performance benchmarks as well as the expected return assumptions in the appendix.

For the remainder of this statement, we refer to the version of the SIP dated March 2024.

## 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</p>

Trustee and subsequently discussed with the manager and the investment consultant at the meeting.

### **Section 3.23.2**

**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 2022/23 Scheme Year, the Trustee committed to a strategy that leases property to Dutch nursing homes, care centres and treatment centres. This strategy began to call capital in Q3 2023, with subsequent drawdowns taking place throughout the 2023/24 Scheme Year. ESG integration was discussed and incorporated into the overall decision-making process for appointing this manager.

In November 2023 the Trustee conducted a selection exercise for the manager of their new buy and maintain credit mandate. For their presentations, the managers were asked to speak to their skills in ESG integration and stewardship. Ultimately LGIM were selected to manage this portfolio, in part due to their strong ESG credentials where their scale as a firm affords them greater influence when engaging with issuers. Since this is a bespoke portfolio for the Croda Pension Scheme, the Trustee was able to add specific carbon reduction targets to the fund guidelines as well as limits around exposure to companies who are negatively rated in their alignment with the UN's Sustainable Development Goals.

### **Sections 4.6 & 4.7**

**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 on the Trustee's behalf in 2024. Out of the 9 investment managers employed at the time, 7 confirmed compliance with the SIP and 1 outlined that they are unable to comment on the Trustee's policies. For the remaining manager (Macquarie), they did not respond in time for the publishing of this report, although the Trustee notes that the fund concerned is in the process of liquidation.

**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 4.14**

**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. An update on turnover levels will be given in the next report.

## 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.

At the beginning of 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: 35,836</p> <p>Percentage of eligible votes cast: 99.7%</p> <p>Percentage of votes with management: 78.3%</p> <p>Percentage of votes against management: 20.7%</p> <p>Percentage of votes abstained from: 1.0%</p> <p><b>Significant votes</b></p> <p><b>Vote 1</b></p> <p>Company: Bank of Montreal</p> <p>Percentage of fund: 0.18%</p> <p>Resolution: Hold Annual Meetings of the Company in Person with Virtual Meetings as Complements</p> <p>Decision: For</p> <p>Vote against management: Yes</p> <p>Outcome of vote: Pass (50.7% For)</p> <p>Rationale: A vote in favour is applied because LGIM believes that shareholder meetings are a fundamental shareholder right and an important forum for dialogue between shareholders and board directors. LGIM support AGMs to be held via electronic means</p>

	<p>as long as in-person attendance remains an option for those shareholders wishing to participate in the governance practices of the company in this manner.</p> <p>This vote is considered significant as it is a rare example of a successful shareholder proposal at a high-profile meeting as well as a very close outcome on the final result.</p> <p><b>Vote 2</b></p> <p>Company: Unilever Plc</p> <p>Percentage of fund: 0.16%</p> <p>Resolution: Approve Climate Transition Action Plan</p> <p>Decision: For</p> <p>Vote Against Management: No</p> <p>Outcome of vote: Pass (97.6% For)</p> <p>Rationale: LGIM state a vote for the CTAP is applied as they understand it to meet their minimum expectations. 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 a 1.5°C Paris goal. Despite the SBTi recently removing their approval of the company's long-term scope 3 target, LGIM note that the company has recently submitted near term 1.5 degree aligned scope 3 targets to the SBTi for validation and therefore at this stage believe the company's ambition level to be adequate. LGIM therefore remain supportive of the net zero trajectory of the company at this stage.</p> <p>This vote is considered significant as it is related to climate, one of LGIM and the Trustee's key engagement themes, and concerns a well-known company who will be familiar to both investors and the general public.</p> <p><b>Vote 3</b></p> <p>Company: London Stock Exchange Group plc</p> <p>Percentage of fund: 0.16%</p> <p>Resolution: Approve Remuneration Policy</p> <p>Decision: For</p> <p>Vote Against Management: No</p> <p>Outcome of vote: Pass (89.0% For)</p> <p>Rationale: A vote for is applied as an exception to LGIM's policy. This follows productive consultation with the company that resulted in improvements to the proposals initially discussed. LGIM's support of the remuneration policy and the adoption of the EIP is in recognition of Mr Schwimmer's leadership in driving the company's performance, as well as acknowledging the competitive talent market in which the company operates. LGIM will review Mr Schwimmer's pay package on an annual basis under the resolution for approval of the remuneration report and may apply a negative vote in the future should they consider his pay no longer reflects company performance or evolving market norms. They would not expect any significant changes to the executive directors' pay policy within this three-year policy term. It is worth highlighting that, LGIM expect a successor to Mr Schwimmer to not be awarded the same remuneration package as standard if he or she does not bring the same amount of experience, calibre and performance.</p>
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	<p>This vote is considered to be significant as it is an example of LGIM overriding their standard voting policy on the basis that they have had successful engagement with the company.</p> <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: 37,453</p> <p>Percentage of eligible votes cast: 99.7%</p> <p>Percentage of votes with management: 79.5%</p> <p>Percentage of votes against management: 19.5%</p> <p>Percentage of votes abstained from: 1.0%</p> <p><b>Significant votes</b></p> <p><b>Vote 1</b></p> <p>Company: Apple Inc.</p> <p>Percentage of fund: 2.3%</p> <p>Resolution: Report on Risks of Omitting Viewpoint and Ideological Diversity from EEO Policy</p> <p>Decision: Against</p> <p>Vote Against Management: No</p> <p>Outcome of the vote: Fail (1.3% For)</p> <p>Rationale: Accountability: LGIM note that a vote against this proposal is warranted, as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies, and including viewpoint and ideology in EEO policies does not appear to be a standard industry practice.</p> <p>This vote is considered to be significant as LGIM note they view diversity as a financially material issue for clients, it concerns a well-known company who will be familiar to both investors and the general public, and it is a topic that has recently received lots of press attention in the US.</p> <p><b>Vote 2</b></p> <p>Company: The Goldman Sachs Group, Inc.</p> <p>Percentage of fund: 0.31%</p> <p>Resolution: Report on Clean Energy Supply Financing Ratio</p> <p>Decision: For</p>

	<p>Vote Against Management: Yes</p> <p>Outcome: Fail (29% for)</p> <p>Rationale: A vote in favour of this proposal is applied. LGIM believe that banks and financial institutions have a significant role to play in shifting financing towards green initiatives. LGIM expects the company to be undertaking appropriate analysis and reporting on climate change matters, as they consider this issue to be a material risk to companies.</p> <p>This vote is considered to be significant as it relates to climate and energy efficiency, a key engagement priority for both LGIM and the Trustee, and is an example of a vote against management.</p> <p><b>Vote 3</b></p> <p>Company: Target Corporation</p> <p>Percentage of fund: 0.2%</p> <p>Resolution: Establish a Company Compensation Policy of Paying a Living Wage</p> <p>Decision: For</p> <p>Vote Against Management: Yes</p> <p>Outcome: Fail (12.6% For)</p> <p>Rationale: A vote in favour is applied as LGIM would encourage the company to establish a compensation policy that ensures employees earn a living wage. LGIM state that paying a living wage may reduce the potential negative financial impacts that stem from low worker morale/poor health/absenteeism/presenteeism, high staff turnover etc.</p> <p>This resolution is considered significant as LGIM has been engaging with Target on the topic of living wages for several years. In 2023, LGIM launched an income inequality engagement campaign, which targeted 15 of the largest global food retailers asking them to set out their policy on living wages for workers within their own operations and their supply chain. As one of the largest food retailers in the US, Target is part of this campaign. While the company has improved its minimum wage, which in 2022 was increased to \$15, it does not have a policy on the living wage. Together with Shareholder Commons, which filed this resolution on behalf of Legal &amp; General Investment Management America, LGIM are asking Target to set out its policy on paying living wages to their employees. It is also an example of a vote against management.</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 table below outlines the turnover experienced by the Scheme's investments for the year ending 30 September 2024. 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	4.3%	N/A	<5	
Alpha Real Wind Renewables Income Fund	0.0%	N/A	<5	
Equitix Fund IV	4.2%	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	32.7%	N/A	N/A	
LGIM RAFI Global Reduced Carbon Pathway Index Fund	9.0%	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	
Patrizia Hanover Property Unit Trust	15.0%	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 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.
- Innisfree, SUSI and Hartelt 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.