

## **Komatsu UK Staff Pension Scheme Annual Report for the year ended 31 March 2022 Trustee's Report**

### **Implementation statement**

#### **1. Introduction**

This Engagement Policy Implementation Statement (the "Statement") sets out the Trustee's assessment of how, and the extent to which, they have followed their engagement policy and their policy with regard to the exercise of rights (including voting rights) attaching to the Scheme's investments during the one-year period to 31 March 2022 (the "Scheme Year"). The Trustee's policies are set out in their Statement of Investment Principles ("SIP") dated September 2020. A copy of the Trustee's SIP is available. <https://www.komatsu.eu/en/company/komatsu-uk/legal-statement/staff-pension-schemestatement-of-investment-principles-september-2020>.

This Statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 along with guidance published by the Pensions Regulator.

By adopting Mercer's Cashflow Driven Investment ("CDI") Solution, Mercer Limited ("Mercer") are appointed as a discretionary investment manager and day-to-day management of the Scheme's assets is by investment in a range of specialist pooled funds (the "Mercer Funds"). Management of the assets of each Mercer Fund is undertaken by a Mercer affiliate, Mercer Global Investments Europe Limited ("MGIE"). MGIE are responsible for the appointment and monitoring of suitably diversified portfolio of specialist third party investment managers for each Mercer Fund's assets.

Under these arrangements, the Trustee accepts that they do not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds, However, the Trustee has made Mercer aware that they expect MGIE to manage assets in a manner, as far as is practicably possible, that is consistent with the Trustee's engagement policy and their policy with regard to the exercise of rights attaching to the Scheme's investments. The Trustee reviews regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether their policies are being properly implemented.

Section 2 of this Statement sets out the Trustee's engagement policy and assesses the extent to which it has been followed over the Scheme year.

#### **2. Policy on ESG, Stewardship and Climate Change**

The Trustee believes that good stewardship and the incorporation of ESG factors into their investment decision-making processes can have a material impact on the financial and non-financial performance of the Scheme's assets over the medium and longer term. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require the Trustee's explicit consideration.

It is the Trustee's policy that the third party investment managers appointed by Mercer, via Mercer Global Investments Europe (MGIE), report in line with established best practice such as the UK Stewardship Code and UK Corporate Governance Code, where possible, including public disclosure of compliance via an external website, when managing the Scheme's assets. Further, in appointing the third party asset managers, the Trustee expects MGIE to select managers where it believes the managers will engage directly with issuers in order to improve their financial and non-financial performances over the medium to long term. To monitor the third party investment managers'

compliance with this expectation, the Trustee considers regular reports from Mercer that include an assessment of each third party manager's engagement activity.

Should the Trustee consider that Mercer, MGIE or the third party asset managers, have failed to align their own engagement policies with those of the Trustee the Trustee will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds and/or seek to renegotiate commercial terms with Mercer.

#### **Policy Updates**

- The Trustee considers 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, have provided reporting to the Trustee on a regular basis.
- The Mercer Sustainability Policy is reviewed regularly. In March 2021 there was an update in relation to Sustainable Finance Disclosure Regulation ("SFDR") implementation.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone Engagement Policy to specifically address the requirements of the directive.

#### **ESG Rating Review**

- ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee. 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. The Mercer funds overall ESG rating is compared to the appropriate universe of strategies in Mercer's global investment manager database.
- As at 31 December 2021, in the Annual ESG review provided by Mercer, the Trustee noted that 88% of Mercer Funds now have an ESG rating equal to or above their asset class universe. This compares to 97% at the end of 2020 but it should be noted that the scope of the review expanded in 2021 to include all liquid multi-client Mercer Funds.

#### **Approach to Exclusions**

- As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
- Controversial and civilian weapons, and tobacco are excluded from active equity and fixed income funds.
- In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact ("UNGC") Principles that relate to human rights, environmental and corruption issues.

#### **Voting Activity**

The Trustee's investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE. The Trustee's investment strategy does not include an allocation to equities and, as such, there are typically no voting rights assigned to their holdings.