BlackRock

Vesuvius Pension Plan

Engagement Policy Implementation Statement

31 December 2020

1. Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee is required to produce an annual Engagement Policy Implementation Statement ("EPIS"). This statement outlines how, and the extent to which, the policies relating to stewardship, voting and engagement as outlined in the Statement of Investment Principles ("SIP") have been followed.

This statement covers the Plan's accounting year to 31 December 2020. It is intended to meet the updated regulations and will be included in the Plan's Report & Accounts. In preparing this statement, the Trustee has taken advice from its professional advisers.

This statement details some of the activities taken by the Trustee, the Manager and the investment managers during the period, including voting statistics, and provides the Trustee's opinion on the stewardship activities over the period.

2. Policies

The Trustee's relevant policies regarding stewardship, voting and engagement are outlined in the SIP. The most recent version of the SIP is publicly available and is published online and will be updated from time-to-time as the SIP is updated.

The Trustee has appointed BlackRock as the adviser and Fiduciary Manager ("the Manager") to the Plan. The Trustee delegates the day-to-day investment decisions and asset allocation to the Manager. The Trustee retains responsibility for the strategic investment objective and oversight of the Manager. A number of underlying investment managers (including the Manager) have been appointed to invest the Plan's assets. The underlying investment managers are ultimately responsible for carrying out the stewardship, voting and engagement activities in respect of the Plan's assets in line with the SIP.

During the year to 31 December 2020 the Trustee updated the SIP once, in September which included extending the policies relating to stewardship, voting and engagement. Given that the SIP was updated towards the end of the accounting period, this statement is written primarily with respect to the policies as outlined in the September 2019 SIP. It is intended that the extended policies as outlined in the September 2020 SIP will form the basis for the EPIS for the subsequent accounting period.

The relevant excerpts from both versions of the SIP are included below.

SIP from September 2019 – September 2020

Responsible Investing

2.12 The Trustee recognises that ESG risks could impact the ability of the Scheme to meet its investment objectives and therefore the Trustee has considered how to evaluate and manage these risks when setting its investment strategy as set out in the following paragraphs (along with other matters).

2.13 The Trustee will ensure that the Scheme's Fiduciary Manager shall, alongside other investment risks, integrate consideration of ESG risks throughout its investment decision making processes,

2.14 The Trustee will request that:

- *the Fiduciary Manager, as part of its due diligence, assesses the approach of all the Scheme's investment managers in integrating ESG risks considerations into the selection, retention and realisation of investments, before appointing them;*

- *the Fiduciary Manager, as part of its ongoing monitoring, will review the adherence of the Scheme's investment managers to their ESG principles and, on at least a quarterly basis, will report on key ESG metrics for the Scheme's investment managers and aggregate these to portfolio level where appropriate;*

- *the Fiduciary Manager, as part of its ongoing monitoring, reviews the execution of voting and engagement responsibilities and periodically reports back its findings to the Trustee (for example* *where the Scheme invests in pooled funds, the Scheme's investment managers are responsible for exercising voting rights and reporting on how they have exercised those rights); and*

- *where UK-domiciled investment managers are not signatories to the FRC's UK Stewardship Code, the Fiduciary Manager shall consider the investment manager's rationale for this position and, where appropriate, report back its findings to the Trustee.*

SIP from September 2020– present

The SIP was updated in September 2020 to include the following additional section.

STEWARDSHIP

2.15 The Trustee understands that stewardship can enhance value over the long term and recognises that it has a responsibility to act as a good steward and protect and grow the long-term value of the Scheme for the benefit of the Scheme's members.

2.16 In order to be a good steward, the Trustee seeks to ensure that the Scheme's respective stakeholders undertake appropriate activities.

2.17 The Trustee expects the Fiduciary Manager to ensure that its objectives are implemented as far as is reasonably practicable. This includes ensuring to the extent possible, that the underlying or external managers exercise on the Trustee's behalf rights and duties as an investor. This should include, where appropriate, voting and engaging with underlying investee companies, as part of an effective stewardship approach that meets the Trustee's expectations. The Trustee expects that voting and engagement activities are carried out in the best financial interests of the assets being managed.

2.18 The Trustee has delegated monitoring of underlying or external managers to the Fiduciary Manager. As part of this responsibility, the Fiduciary Manager is expected to:

- *Request voting and/or stewardship policies of the underlying or external managers.*
- *Enquire about underlying manager's voting activity with respect to their stated policies, where appropriate.*
- *Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.*
- *Provide a summary to the Trustee of the overall level of voting activity on an annual basis.*

2.19 The Trustee will engage with the Fiduciary Manager to understand any reports which have been provided and challenge any outcomes which it feels are not in keeping with its stewardship objectives. The Fiduciary Manager is expected to engage with the underlying or external managers as and when required to facilitate this. Where an underlying or external manager is not adhering to this policy in line with the Trustee's expectations, the Trustee would expect the Fiduciary Manager to consider appropriate actions having regard to the long -term financial wellness of the Scheme.

3. Scope of this statement

The Trustee acknowledges that the extent to which the policies in relation to stewardship, voting and engagement can be applied varies across the portfolio. For example, in general, voting rights are not attached to fixed income securities, while the applicability to the liability hedging assets is limited. Nonetheless, the Trustee and the Manager expect all investment managers to take an active role in the stewardship of investments where possible.

During the reporting period, the Plan had a relatively low allocation to equities (c.12% of discretionary assets as at 31 December 2020). All of the Plan's equity allocation was invested in passive equities. The majority of the Plan's assets were invested in assets which do not typically have voting rights attached. The main applicability of voting and engagement is to the BlackRock passive global equities and BlackRock UK credit.

4. Plan activity over the year

The SIP includes the Trustee's policy on Environmental, Social and Governance ("ESG") factors and stewardship. This policy sets out the Trustee's beliefs on ESG and the processes followed in relation to voting rights and stewardship.

In order to establish these beliefs and produce this policy, the Trustee undertook ESG training provided by the Manager which covered what ESG considerations are, the difference between values- and value-based investing, the Trustee's beliefs and how these can be incorporated into an investment strategy.

The Trustee receives ESG reporting in the quarterly investment report, which includes aggregate and asset class level reporting of ESG scores relative to an appropriate benchmark. The Trustee uses this to measure how the overall Plan assets are invested and assess the metrics over time.

The Trustee expects the Manager to continue to work with underlying managers in order to ensure those on the weaker side of voting and engagement take action to make improvements. The Manager has acknowledged that all managers have been taking steps to improve both their voting and engagement and "best in class' continues to evolve. The Trustee will be closely monitoring developments over the coming years.

5. Voting and Engagement

The Trustee has delegated to the Manager the responsibility of collecting the stewardship and engagement reports of the underlying managers and assessing the suitability. The Trustee also expects the Manager to monitor the underlying manager's activity to ensure compliance and confirm that it remains a suitable investment for the Plan. The Trustee is comfortable that under the governance structure the responsibility sits with the Manager to communicate with the underlying managers and on a regular basis collect information as required.

As noted in section 2, the SIP was amended towards the end of the accounting period (in September 2020) to reflect the Trustee's extended policies regarding the stewardship activities and the exercise of voting rights and engagement practices in respect of the Plan's investment managers. It is intended that the Trustee's extended policies in the SIP, through ongoing monitoring, will provide greater transparency and accountability around voting activities by the Plan's investment managers over time.

Appendix 1 details the investment managers' approach to voting and engagement as well as an example of a significant engagement over the 12 months in respect to the funds in which the Plan is invested. In addition, summary voting statistics in respect of the Plan's equities funds over the year to 31 December 2020 have been included.

6. Concluding remarks

The Trustee is comfortable that the policies in the SIP have been followed over the year to 31 December 2020. As this is the first year the Implementation Statement has been required, the Trustee expects that the format and content will evolve over time, in line with guidance and to reflect any future changes in the SIP.

The September 2020 SIP expanded the Trustee's policy in order to incorporate an updated Stewardship Policy as well as a more comprehensive policy on "Engagements with Asset Managers". The Trustee will continue to receive further training in relation to ESG issues and will evolve policies over time, including more widely across the Plan's assets.

The Trustee recognises the responsibility that institutional investors have to promote high standards of investment stewardship and will continue to use the influence associated with the Plan's assets in order to positively influence the Plan's investment managers.

Appendix 1: Approach to Voting and Engagement and significant vote

BlackRock:

The Plan has a significant portion of its Growth assets invested in funds managed by the Manager. Given the Manager's appointment as both the fiduciary manager as well one of the investment managers, the Trustee recognises the importance of ensuring that the Manager's own policies and actions are appropriate for the Plan. The Manager publicises its own policies as well as quarterly updates online (which can be accessed here) which the Trustee has visibility of. This includes details of any changes to policies and also reports at an aggregate level the impact of its voting and engagement. The Trustee is comfortable that the transparency of the Manager in publicising reports and developments online ensures alignment with the interests of the Plan.

Whilst it is important to monitor the activities of the Manager at a high level through this publicly available information, it is also important to monitor the voting and engagement activities undertaken on behalf of the Trustee by the Manager on a more granular level.

The Plan's BlackRock equities funds are passive (i.e. index) strategies. In respect of passive strategies, there is a wide universe of underlying companies which may number in the hundreds if not thousands. Where strategies are actively managed, investments are typically more concentrated. As such, ownership is more concentrated for actively managed strategies and therefore there will be fewer resolutions on which to vote. In addition, actively managed strategies have the option to sell holdings in companies at its discretion. For these reasons, in the context of passive strategies, it is important that voting and engagement rights are exercised and that this is monitored. An example of a significant vote in respect of the BlackRock equites holdings is included below. The summary voting statistics below illustrate that the voting rights attached to the underlying investments in these instances have been exercised to a large extent.

The Manager's approach to voting is described in the table below, along with summary voting statistics for the Manager's equities funds.

Approach to voting	BlackRock believes it has a responsibility to monitor and provide feedback to companies, in its role as stewards of its clients' investments. The BlackRock Investment Stewardship team does this through engagement with management teams and/or board members on material business issues including environmental, social, and governance matters and, for those clients who have given BlackRock authority, through voting proxies in the best long-term economic interests of its clients. As long-term investors on behalf of its clients, BlackRock seeks to have regular and continuing dialogue with the companies in which its clients invest. The majority of BlackRock's equity investments are made through indexed strategies, so clients will be invested as long as the companies are in the index. As such, BlackRock places a strong emphasis on engagement with investee companies as disinvestment is often not an option. BlackRock votes in accordance with BlackRock's Investment Stewardship Global Principles, as well as guidelines for each relevant region. Voting guidelines are reviewed annually and are updated to reflect evolutions in market standards, governance practices and insights gained from engagement over the prior year. Voting decisions are informed by internally developed proxy voting guidelines, prior engagements with companies, research, and the situational factors for each underlying company. BlackRock ordinarily refrains from abstaining from both shareholder and management proposals, unless abstaining is the valid vote option (in accordance with company by-laws) to signal concern to management, there is a lack of disclosure regarding the proposal voted, or an abstention is the only way to implement their voting. BlackRock appoints an independent fiduciary, Sustainalytics, to vote proxies where BlackRock is required by regulation not to vote itself or where there are actual or perceived conflicts of interest. The independent fiduciary makes voting decisions based solely on BlackRock's publicly available proxy voting guidelines, which aim to advance clients' long-term economic interests, and information disclosed publicly by the relevant companies.

Exxon Mobil Corporation
(American multinational oil and gas corporation)

Exxon is an American multinational oil and gas corporation headquartered in Irving, Texas. The company is engaged in the exploration, development, and distribution of oil, gas, and petroleum products and operates through the following segments: Upstream, Downstream and Chemical.

BlackRock has had a long history of multiyear, intensive engagements with Exxon on a wide range of nuanced governance issues, including board composition, board shareholder engagement, corporate strategy, and oversight of climate risk, among other topics. Over the last several years, BlackRock has intensified its focus with the company on the financial risks of a transition to a lower carbon economy, and on BlackRock's desire, as a long-term investor, for more fulsome information on the company's approach to overseeing and managing these risks.

This is in line with BlackRock's view that the risks of climate change and the transition to a lower carbon economy present material regulatory, reputational, and legal risks to companies that may significantly impair their financial position and ability to remain competitive going forward.

BlackRock has centred engagements with Exxon around our broader request to companies and, as a carbon intensive company, to Exxon specifically, to align reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). In response to an investor vote, Exxon released its Energy and Carbon Summary in 2018 which follows the four pillars of the TCFD framework. However, despite yearly incremental adjustments, BlackRock does not believe that full adherence with the fourth pillar of the TCFD has been achieved. BlackRock continues to have several areas of significant concern:

1. GHG reduction targets
2. Disclosure around the company's anticipated degree of warming under its stated strategy
3. Failure to disclose Scope 3 emissions
4. Evidence of independent board oversight and leadership

At the 2020 AGM, Exxon received a total of six shareholder proposals covering issues ranging from the physical risks of climate change, political activities, an independent chair role, as well as other governance items at its 2020 Annual General Meeting (AGM). The ballot also included several management proposals including director re-election, compensation and ratification of the company's auditors.

BlackRock voted for one shareholder proposal and against the remaining five shareholders proposals. One such proposal was for Exxon to have to produce a "Report on Costs & Benefits of Climate-Related Expenditures".

The lead filer of this proposal co-founded a publicly traded mutual fund that "advocated as a corporate shareholder against climate alarmism during the 2000s" and co-leads a group known as "Burn More Coal." The intentions of this filer are not in line with BlackRock's stated positions on climate risk and the need for an orderly transition to a lower carbon economy. BlackRock therefore voted against this proposal seeking a board report on climate-related expenditures.

BlackRock World ex-UK Equities

	Year to 31 December 2020
Votable proposals	27,008
% of resolutions voted	94%
% of resolutions voted against management	6%
% of resolutions abstained	0%

BlackRock UK Equities

	Year to 31 December 2020
Votable proposals	15,622
% of resolutions voted	97%
% of resolutions voted against management	5%
% of resolutions abstained	2%