Engagement Policy Implementation Statement for the Year Ended 31 March 2023

Black & Veatch UK Pension Scheme ("the Scheme")

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 2023 (the "Scheme Year"). The Trustee's policies are set out in their Statement of Investment Principles ("SIP") which is available online.

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 the guidance published by the Department of Work and Pensions.*

The Trustee invests the assets of the Scheme in a fiduciary arrangement with Mercer Limited ("Mercer"). Under this arrangement Mercer are appointed as a discretionary investment manager and responsible for the day-to-day management of the Scheme's assets 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 a suitably diversified portfolio of specialist third party investment managers for each Mercer Fund's assets.

The publicly available Sustainability Policy sets out how Mercer addresses sustainability risks and opportunities and considers Environmental, Social and Corporate Governance ("ESG") factors in decision making across the investment process. The Stewardship Policy provides more detail on Mercer's beliefs and implementation on stewardship specifically. 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 reviewed these policies and note an awareness of engagement topics that are important to the Scheme and integrating the Trustee views on specific themes, where possible, is an important part of Mercer's Fiduciary duty. Mercer's Client Engagement Survey aims to facilitate this by assessing the level of alignment between Mercer's engagement priority areas and those of the Trustee, while highlighting additional areas of focus which are important to the Trustee. The Trustee reviews regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether the 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.

Section 3 sets out the Trustee's policy with regard to the exercising of rights (including voting rights) attached to the Scheme's investments and considers how, and the extent to which, this policy has been followed during the Scheme Year. This Section also provides detail on voting activity undertaken by the Scheme's third party investment managers during the Scheme Year.

Section 4 provides detail on engagement activity undertaken by the Scheme's third party investment managers during the Scheme Year.

Taking the analysis included in Sections 2 to 4 together, it is the Trustee's belief that their policies with regard to engagement and the exercise of rights attached to investments has been successfully followed during the Scheme Year.

2. TRUSTEE'S POLICY ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ISSUES, INCLUDING CLIMATE CHANGE

Policy Summary

Mercer and the Trustee believe stewardship plays an important role in managing sustainability risks and other ESG factors, and helps the realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets consistent with long-term investor timeframes. Consequently, an approach that integrates effective stewardship is in the best interests of the Scheme. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities, including non-financial performance that require the Trustee's explicit consideration.

It is the Trustee's policy that the third party investment managers appointed by Mercer, via MGIE, report in line with established best practice such as the UK Stewardship Code 2021, to which Mercer is a signatory, 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.

How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change.

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, provide reporting to the Trustee** on a regular basis.

The Mercer **Sustainability Policy**[1] is reviewed regularly. In March 2021 there was an update in relation to the Sustainable Finance Disclosure Regulation ("SFDR") implementation. In August 2022 the policy update reflected enhancements to the approach to climate change modelling and transition modelling, additional detail on how the policy is implemented, monitored and governed and, as part of the commitment to promote diversity, finalising MGIE's signatory status to the UK chapter of the 30% Club.

In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone **Stewardship Policy**[2] to specifically address the requirements of the directive. This Policy was also updated in August 2022 to reflect enhancements made to Mercer's stewardship approach including an introduction of Engagement Dashboards and Trackers, an enhanced UN Global Compact engagement and

Climate Change Reporting and Carbon Foot-printing

Mercer and the Trustee believe climate change poses a systemic risk. Mercer supports the end goal to limit global average temperature increases this century to "well below two degrees Celsius", as per the 2015 Paris Agreement, and recognise it is aligned with the best economic outcome for long-term diversified investors. Mercer is committed to achieving net-zero absolute carbon emissions by 2050 for UK, European and Asian clients with discretionary portfolios, and for the majority of its multi-client, multi-asset funds domiciled in Ireland. To achieve this, Mercer plans to reduce portfolio relative carbon emissions by at least 45% from 2019 baseline levels by 2030. This decision was supported by insights gained from Mercer's Investing in a Time of Climate Change (2015 and 2019) reports, Mercer's Analytics for Climate Transition tool and advice framework, and through undertaking climate scenario analysis and stress testing modelling.

Mercer's approach to managing climate change risks is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate related Financial Disclosures ("TCFD"), including **the Mercer Investment Solutions Europe - Investment Approach to Climate Change 2022 Status Report**[3]. As at 31 December 2022 Mercer are on track to reach the long-term net zero portfolio

ESG Rating Review

Where available, 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 and compares the Mercer funds overall ESG rating with the appropriate universe of strategies in Mercer's Global Investment Manager Database ("GIMD"). Engagements are prioritised with managers where their strategy's ESG rating is behind that of their peer universe.

As at 31 December 2022, in the Annual Sustainability Report provided by Mercer, the Trustee noted over 20% of Mercer's funds have seen an improved ESG rating over the year and the vast majority have a rating ahead of the wider universe. Due to the nature of certain strategies, they do not have an ESG rating (i.e. are N rated) and are therefore excluded from this review.

[1] Sustainability Policy available here.

[2] Stewardship Policy available here.

[3] Investment Approach to Climate Change 2022 Status Report available here.

escalation process and a Client engagement survey.

UN Principles of Responsible Investing scores for 2021 (based on 2020 activity) were issued over Q3 2022. Mercer were awarded top marks the Investment and Stewardship Policy section, underpinned by strong individual asset class results.

carbon emissions target. There has been a notable 16% reduction over the 3 years since 2019 baseline levels, resulting in the 45% baseline-relative reduction by 2030 being within range.

Dalriada is committed to achieving net zero across pension schemes where it acts as sole trustee by 2040. Dalriada will engage with Mercer to understand how this can be delivered.

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 weapons are excluded from active equity and fixed income funds, and passive equity funds. In addition tobacco companies (based on revenue) are excluded from active equity and fixed income funds. The Mercer sustainability-themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.

Mercer expanded exclusions to further promote environmental and social characteristics across the majority of the multi-client building block funds over the second half of 2022, in line with EU SFDR Article 8 classification, as well as aligning Mercer's existing active and passive exclusions across their fund range.

In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact

Diversity

From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting where appropriate and this is being built into a broader Mercer Investment Solutions International policy on Diversity, Equity and Inclusion, sitting alongside Mercer's established Diversity Charter.

Mercer consider broader forms of diversity in decision-making, but currently report on gender diversity. As at 31 December 2022, 64% of the Key Decision Makers ("KDM's") within Mercer Investment Solutions ("IS") team are male, and Mercer's long term target is 50% male, by increasing representation from other groups.

Within the Fixed Income universe the average fund has 92% male KDM's, and within Mercer Fixed Income the figure is 91%.

In Q3 2022 MGIE was confirmed as a signatory of the UK Chapter of the 30% Club.

("UNGC") Principles that relate to human rights, labour, environmental and corruption issues.

3. TRUSTEE'S POLICY ON EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHED TO SCHEME INVESTMENTS

Policy

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the third party investment managers appointed by Mercer on the Trustee's behalf.

This is because 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. In delegating these rights, MGIE accepts that managers are typically best placed to exercise voting rights and prioritise particular engagement topics by security, given they are expected to have detailed knowledge of both the governance and the operations of the companies and issuers they invest in. However, Mercer has a pivotal role in monitoring their stewardship activities and promoting more effective stewardship practices, including ensuring attention is given to more strategic themes and topics. As such, proxy voting responsibility is given to listed equity investment managers with an expectation that all shares are to be voted in a timely manner and a manner deemed most likely to protect and enhance long-term value. Mercer and MGIE carefully evaluate each sub-investment manager's capability in ESG engagement and proxy voting, as part of the selection process to ensure it is representing Mercer's commitment to good governance, integration of sustainability considerations . Managers are expected to take account of current best practice such as the UK Stewardship Code 2021, to which Mercer is a signatory. As such the Trustee does not use the direct services of a proxy voter.

Voting: As part of the monitoring of managers' approaches to voting, MGIE assesses how managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers vote in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

Set out below is a summary of voting activity for the year to 31 March 2023 for the Mercer Multi-Asset Credit Fund in which the Scheme invests. The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

Fund Name	Total Proposals		Vote Decision					For/Against Mgmt	
	Eligible Proposals	Proposals Voted On	For	Against	Abstain	No Action	Other	For	Against
Mercer Multi-Asset Credit Fund [(1)]	11	11	91%	9%	0%	0%	0%	91%	9%

[(1)] Voting Activity figures for the Mercer Multi-Asset Credit fund relate to a small number of equity holdings within the fund's underlying segregated mandates. Please note this does not include voting activity from any underlying pooled strategies within the fund over the period.

- "Eligible Proposals" reflect all proposals of which managers were eligible to vote on over the period
- "Proposals Voted On" reflect the proposals managers have voted on over the period (including votes For and Against, and any frequency votes encompassed in the "Other" category)"
- "No Action" reflects instances where managers have not actioned a vote. MGIE may follow up with managers to understand the reasoning behind these decisions, and to assess the systems managers have in place to ensure voting rights are being used meaningfully
- "Other" refers to proposals in which the decision is frequency related (e.g. 1 year or 3 year votes regarding the frequency of future say-on-pay).

Significant Votes: Mercer and the Trustee have based the definition of significant votes on Mercer's Beliefs, Materiality and Impact (BMI) Framework. Reported below are the *most* significant proposals over the period. Please note that significant proposals are determined using the following criteria:

1. The proposal topic relates to an Engagement Priority (climate change, human/labour rights, and diversity).

2. The *most* significant proposals reported below relate to the three companies with the largest weight in each fund (relative to other companies in the full list of significant proposals).

There have been no significant votes in relation to any of the funds in which the Scheme invested over the year to 31 March 2023.

4. EXAMPLES OF ENGAGEMENT ACTIVITY BY THE SCHEME'S THIRD PARTY INVESTMENT MANAGERS

The following are examples of engagement activity undertaken by the Scheme's investment managers.

Mercer Multi-Asset Credit Fund

Sub-investment managers are able to engage with the borrowers they lend money to. Mercer have collated some examples of engagement by the sub-investment managers, summarised below:

Sector: Environmental, Aviation company

Issue: Reduction of greenhouse gas ("GHG") Emissions.

Engagement: The ESG Credit Team and investment team met with the company to walk through the key pillars of their sustainability strategy. In particular, looking to obtain data that shows how the engines included in the collateral pool will contribute to the company's sustainability and decarbonisation goals, as new engines are added over the life of the deal.

Outcome: On the environmental front, the company has committed to a 30% reduction in GHGs per passenger/km by 2030 (near term target). The company also committed to use 10% Sustainable Aviation Fuel by 2030 which can be used in any aircraft.

Sector: Governmental, Commercial Services company

Issue: Lack of ESG policies, disclosures and diversity (particularly across senior management).

Engagement: The team spoke with Investor Relations and escalated the engagement through a letter sent to the CEO requesting improved disclosures.

Outcome: The company included an ESG disclosures section in their annual proxy statement for the first time. This included some ESG metrics and information on their ESG policies and processes. They also committed to nominating an 'ethnically diverse candidate' to the Board at the next election in 2023.

Mercer Tailored Credit Fund

Due to the nature of the assets within the Fund, voting detail is not available however, the sub-investment managers are able to engage with the borrowers they lend money to. Mercer have collated some examples of engagement by the sub-investment managers, summarised below:

Sector: Environmental, Energy company

Issue: Engagement identified through the manager's targeted climate engagement programme due to the size of energy provider's Scope 1 emissions.

Engagement: Understand the energy provider's approach to decarbonisation in order to supplement the manager's assessment of whether they are on a Net Zero pathway.

Outcome: The energy provider is in a strong position to progress towards Net Zero by 2050 due to its carbon intensity, which is 90% lower than the peer average. It is also increasing renewables, onshore wind, offshore wind, solar and hydroelectric, with the energy provider focusing on increasing solar the most. No specific improvement areas identified. Whilst it appears that these risks are well managed, the manager will closely monitor the energy provider's performance in these areas, in addition to its progress towards its Net Zero goal.

Sector: Labour/Human Rights, Financial Institution

Issue: Violation of Business ethics. The Financial Institution is included on the manager’s Future World Protection List because the company has been considered in violation of Principle 10 (Business Ethics) of the UN Global Compact (“UNGC”) for at least three continuous years.

Engagement: The manager engaged with the company to help it take necessary steps to avoid being in violation of the UNGC, and to explain the manager’s minimum expectations.

Outcome: The manager continues to vote at their annual general meetings (“AGMs”) in accordance with their relevant policies and principles; accordingly, at their 2022 AGM, the manager voted against the Chair of the Remuneration Committee on account of ongoing concerns, particularly around the alignment between pay and performance, and also against the ratification of named executive officers’ compensation. The manager supported shareholder proposals calling for reports on human rights and diversity-related topics and a resolution requesting a report on incentive-based compensation and risks of material losses.

Sector: Diversity, Automobile company

Issue: Automobile Japanese manufacturer with key issues identified to be: i) capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure, and ii) board independence, diversity and effectiveness.

Engagement: As a longstanding member of the Asian Corporate Governance Association network (“ACGA”) Japan Working Group, the manager engages with Japanese companies, including the automobile manufacturer, to improve their corporate governance and sustainability practices. The manager originally started their engagement in September 2021, with a second meeting being held over 2022 to discuss climate change, board composition and capital allocation. Throughout these meetings the manager spoke with the Chief Sustainability Officer and expressed concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence. In September 2022, the manager spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors add value to the board and the quality of board discussions.

Outcome: Given a recent controversy at one of the Groups, the manager will continue to engage with the company on corporate governance issues and push for better practices in terms of corporate governance.