

# Engagement Policy Implementation Statement for the Year Ended 5 April 2024



## Apache UK Pension Plan (“the Plan”)

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### 1. Introduction

The Engagement Policy Implementation Statement (known as the Statement) presents the Trustee’s assessment of their adherence to their engagement policy and their policy concerning the exercise of rights (including voting rights) attaching to the Plan’s investments throughout the one-year period ending 5 April 2024 (the “Plan Year”). In June 2023, the Plan transitioned across to a Cashflow Driven Investment (“CDI”) Solution with Mercer which involved moving the growth portfolio into a more fixed-income oriented strategy. Given the nature of this fixed-income oriented CDI strategy, the majority of the underlying assets have no exercisable voting rights to report, although it is noted that a small portion of the Mercer Multi-Asset Credit Fund invests in equity linked securities. Due to the Plan only being invested in assets with exercisable voting rights for a small portion of the year to 5 April 2024, the content of this Statement is limited.

The Trustee’s policies are outlined in their Statement of Investment Principles (SIP). The SIP was last reviewed in October 2023 in order to reflect the implementation of the CDI solution. A copy of the Trustee’s SIP is available [here](#).

This Statement has been prepared in accordance with the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019* and the guidance published by the Department for Work and Pensions.

The Trustee has appointed Mercer Limited (Mercer) as the discretionary investment manager and the Plan’s assets are invested in a diverse range of specialised pooled funds (known as the Mercer Funds). The management of each of the Mercer Fund’s assets is carried out by a Mercer affiliate, namely Mercer Global Investments Europe Limited (MGIE) thereafter.

The relevant Mercer affiliate is responsible for the appointment and monitoring of a suitably diversified portfolio of specialist third party investment managers for the assets of each Mercer Fund.

Under these arrangements, the Trustee acknowledges that they do not possess direct authority over the engagement or voting policies and arrangements of the Mercer Funds’ managers. Mercer’s publicly available [Sustainability Policy](#) outlines how it addresses sustainability risks and opportunities, incorporating Environmental, Social and Corporate Governance (ESG) factors into the decision making across process. The [Stewardship Policy](#) provides further details on Mercer’s beliefs and implementation of stewardship practices.

Mercer’s Client Engagement Survey aims to integrate the Trustee’s perspectives on specific themes by evaluating the alignment between Mercer’s engagement priority areas and those of the Trustee. Additionally, the survey highlights areas of focus that hold importance to the Trustee. The Trustee receives reports from Mercer regarding the engagement and voting activities conducted within the Mercer Funds to assess the alignment of these with their own.

Section 2 of this Statement outlines the Trustee’s engagement policy and evaluates the extent to which it has been followed during the Plan Year.

Section 3 sets out the Trustee’s policy regarding the exercising of rights (including voting rights) attached to the Plan’s investments. This Section also provides detailed information on the voting activities undertaken by third-party investment managers appointed within the Mercer Funds during the Plan Year.

**Considering the analysis presented in Sections 2 to 3, the Trustee believes that its policies with regard to engagement and the exercise of rights attaching to investments have been successfully followed during the Plan Year.**

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## 2. Trustee’s Policy On Environmental, Social, And Governance (ESG) Issues, Including Climate Change

### Policy Summary

The Trustee’s ESG beliefs are outlined in Section 9 of the Plan’s SIP. The Trustee considers how ESG, climate change risk and stewardship is integrated within Mercer’s, and MGIE’s, investment process and those of the underlying asset managers in the monitoring process. However, the Trustee acknowledges that given the nature of their investments (bond and bond like assets that do not have associated voting rights that would allow the Trustee and Mercer to directly impact an issuer’s policies) and the limited data currently available, there is a limited scope for integration.

The Trustee periodically reviews Stewardship and Sustainability policies noted above. Mercer, and MGIE, is expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics. The Trustee expects Mercer to enhance their monitoring, reporting and engagement and integration as the industry evolves and the level and quality of data available improves. If the Trustee finds that the relevant policies of Mercer, MGIE or the third party asset managers do not align with their own beliefs it will notify Mercer and consider disinvesting some or all of the assets held in the Mercer Funds. It may also seek to renegotiate commercial terms with Mercer.

### How the Policy has been implemented over the Plan Year

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

### Approach to Exclusions

Mercer and MGIE’s preference is to emphasise integration and stewardship approaches, however, in a limited number of instances, exclusions of certain investments may be necessary based on Mercer’s Investment Exclusions Framework. Controversial weapons and civilian firearms are excluded from active equity and fixed income funds, and passive equity funds. In addition, tobacco companies and nuclear weapons are excluded from active equity and fixed income funds. The Trustee notes that, over the Plan Year, they did not hold any Mercer equity funds. In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues.

### Mercer Ratings

Stewardship and active ownership form an important part of Mercer’s ratings framework applied during the manager research process. Mercer’s ratings include an assessment of the extent to which ESG factors are incorporated in a strategy’s investment process as well as the manager’s approach to stewardship.

Across most asset classes, Mercer ratings are reviewed during quarterly monitoring by the portfolio management teams with a more comprehensive review performed annually. In these reviews, Mercer seek evidence of positive momentum on managers’ ESG integration. These ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee.

As at 31 March 2024, the majority of funds in which the Plan’s assets are invested had better ESG ratings than their respective asset class universes.

### Policy Updates

The Trustee periodically considers how ESG, climate change and stewardship is integrated within Mercer’s, and MGIE’s, investment processes and those of the underlying asset managers within the Mercer Funds, in the monitoring process. Mercer, and MGIE, provide reporting to the Trustee on a regular basis.

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The Mercer **Sustainability Policy** is reviewed regularly. In August 2023 the governance section was updated, and the climate scenario modelling section is now detailed in the standalone Task Force on Climate Related Financial Disclosures (**TCFD**) report.

In line with the requirements of the EU Shareholder Rights Directive II (SRD II), Mercer has implemented a standalone **Stewardship Policy** to specifically address the requirements of SRD II. SRD II is a regulatory framework aimed at enhancing shareholder rights and improving corporate governance within the European Union.

The most recent **UN Principles of Responsible Investment** results (based on 2022 activity) awarded Mercer with 4 out of 5 stars for Policy Governance and Strategy. The United Nations Principles for Responsible Investment (UN PRI) is a global initiative that provides a framework for incorporating environmental, social, and governance (ESG) factors into investment practices.

The Financial Reporting Council confirmed in February 2024 that MGIE continues to meet the expected standard of reporting and will remain a signatory to the UK Stewardship Code, which represents best practice in stewardship.

### Climate Change Reporting and Carbon Foot-printing

Consideration of the impacts of climate change has been central to Mercer’s global investment beliefs since 2014. Mercer and the Trustee believes climate change poses a systemic risk, with financial impacts driven by two key sources of change:

1. The physical damages expected from an increase in average global temperatures
2. The associated transition to a low-carbon economy

Each of these changes presents both risks and opportunities to investors. Mercer therefore considers the potential financial impacts at a diversified portfolio level, in portfolio construction within asset classes, and in investment manager selection and monitoring processes.

Although it does not apply to the specific portfolio invested in by the Trustee, the Trustee notes that, in early 2021, Mercer announced its aim to achieve net-zero absolute portfolio carbon emissions by 2050 for UK, European and Asian discretionary portfolios, and for the majority of its multi-client, multi-asset funds domiciled in Ireland. 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), as described in the **Mercer Investment Solutions Europe - Responsible Investment website**.

The Trustee recognises they have no control over the carbon intensity of the gilt and LDI funds held by the Plan as these are impact by the total UK Debt in issuance and the UK’s total carbon emissions. Within the Plan’s non-Gilt holdings the Multi-Asset Credit Fund had c.50% lower carbon intensity than the index as at 31 March 2024 and the Tailored Credit Fund I had reduced its carbon intensity over the year to 31 March 2024 by c.6%.

### Engagement

Engagement is an important aspect of Mercer’s stewardship activities on behalf of the Trustee. **The 2023 Stewardship Report** highlights the engagement objectives which have been set, examples of engagement and the escalation process. Mercer also participates in collaborative initiatives related to stewardship.

Mercer conducts an annual Global Manager Engagement Survey on sustainability and stewardship topics. The survey was distributed to over 200 managers appointed by the Mercer Funds. The survey aims to gather information on managers’ broad approach to stewardship as part of their investment integration. It also seeks insights and examples of voting and engagement activities. The results from the survey serve as an important source of information for tracking and measuring the managers’ stewardship efforts, assessing effectiveness, and identifying potential areas for improvement.

The results and insights from the survey will be shared in Mercer’s Annual Stewardship Report.

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### Diversity

Mercer’s ambition to promote diversity extends beyond its own business through to the managers it appoints. This is partly assessed within the manager research process and documented in a dedicated section within research reports.

Mercer considers broader forms of diversity in decision-making, but currently report on gender diversity. As of 1 April 2023, 35% of the Key Decision Makers (KDM’s) within Mercer Investment Solutions team are non-male, and Mercer’s long-term target is 50%.

Within the non-Gilt funds held by the Plan the proportion of non-male KDM’s ranged from 29% to 36% as at 31 March 2024, this compares to 28% to 32% of these funds held at 31 March 2023.

In Q3 2022, MGIE became a signatory of the UK Chapter of the 30% Club and helped to establish the Irish Chapter over 2023. The 30% Club is a business-led initiative that aims to increase gender diversity on corporate boards and in senior leadership positions.

### 3. Trustee’s Policy On Exercise Of Rights (Including Voting Rights) Attaching To Plan Investments

The Trustee’s policy is as follows:

- **Delegation of Investment Management:** The Trustee delegates responsibility for the discretionary investment management of Plan assets to Mercer. The Plan’s assets are invested in a range of Mercer Funds for which MGIE or relevant Mercer affiliate acts as investment manager.
- **Reporting of Engagement and Voting:** In order for the Trustee to fulfill its obligations regarding voting and engagement, it requires reporting on the engagement and voting activities undertaken within the Mercer Funds. This reporting helps the Trustee assess whether the policies align with its own delegation of Voting Rights: Voting rights that apply to the underlying investments attached to the Mercer Funds are ultimately delegated to the third-party investment managers appointed by MGIE. MGIE accepts that these managers are typically best placed to exercise voting rights and prioritise particular engagement topics, given their detailed knowledge of the governance and operations of the invested companies. However, Mercer plays a pivotal role in monitoring the stewardship activities of those managers and promoting more effective stewardship practices, including attention to more strategic themes and topics.
- **Proxy Voting Responsibility:** Proxy voting responsibility is given to listed equity investment managers with the expectation that all shares are voted<sup>1</sup> in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Mercer and MGIE carefully evaluates each sub-investment manager’s capability in ESG engagement and proxy voting as part of the selection process, ensuring alignment with Mercer’s commitment to good governance and the integration of sustainability considerations. Managers are expected to take account of current best practice such as the UK Stewardship Code, to which Mercer is a signatory. As such the Trustee does not use the direct services of a proxy voter.

Early in the year to 5 April 2024, the Plan transitioned across to a CDI Solution with Mercer which involved moving the growth portfolio into a more fixed-income oriented strategy. Given the nature of this fixed-income oriented CDI strategy, the majority of the underlying assets have no exercisable voting rights to report, although it is noted that a small portion of the Mercer Multi-Asset Credit Fund invests in equity linked securities. Set out overleaf is a summary of voting activity for the year to 5 April 2024 for the Multi-asset Credit Fund, in which the Plan is invested. Due to the Plan only being invested in assets with exercisable voting rights for a small portion of the year to 5 April 2024, we have not included the voting data attributable to this legacy portfolio in the summary. 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.

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<sup>1</sup> There are a number of limited circumstances where voting rights may not be exercised relating to, for example, conflicts of interest, share-blocking markets, power of attorney (POA) markets etc.

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Fund	Total Proposals		Vote Decision					For/Against Mgmt		Meeting	
	Eligible Proposals	Proposals Voted on	For	Against	Abstain	No Action	Other	For	Against	No.	Against
Mercer Multi-Asset Credit Fund <sup>(1)</sup>	15	15	100%	0%	0%	0%	0%	100%	0%	0%	0%

<sup>(1)</sup> 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)”
- Vote Decision may not sum to 100 due to rounding. “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).
- “Meetings No.” refers to the number of meetings the managers were eligible to vote at.
- “Meetings Against” refers to the no. of meetings where the managers voted at least once against management, reported as a % of the total eligible meetings.

**Significant Votes:** The Trustee has based the definition of significant votes in line with the requirements of the Shareholder Rights Directive (SRD) II and on Mercer’s Global Engagement Priority themes. Engagement Priority topics relate to climate change, human/labour rights, and diversity.

None of the votes within the Mercer Multi-Asset Credit Fund related to Engagement Priority topics and thus did not constitute significant votes to be reported.