

Spirax-Sarco Executives Retirement Benefits Scheme

Implementation Statement

Annual Engagement Policy Implementation Statement to 31 December 2020

1. Introduction

This Engagement Policy Implementation Statement ('the Statement') sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 31 December 2020. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

Section 2 of this Statement provides detail on the actions taken by the Trustees to meet the Scheme's engagement policies set out in the SIP over the year. Section 3 describes the voting behaviour on behalf of the Trustees along with the relevant statistics over the year.

The Trustees have appointed Mercer Limited (Mercer) to act as the discretionary investment manager. Pursuant to that appointment, the Scheme's assets are invested in Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

2. Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change, as well as the processes followed by the Trustees in relation to voting rights and stewardship.

As noted in the SIP, the Trustees believe that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, over the year ending 31 December 2020, the Trustees had appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets, and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year by Mercer.

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Policy Updates

- The Trustees consider how ESG, climate change and stewardship are integrated within the investment processes of Mercer, MGIE and the underlying asset managers. Mercer provided the Trustees with reporting on such matters via the quarterly monitoring reports and Trustee meeting papers.
- The Mercer Sustainability Policy is reviewed regularly. In August 2020, the Stewardship section was updated to reflect an enhanced approach to monitoring both voting and engagement as well as the Exclusions section to include the implementation of certain exclusions across passive funds from 1 October 2020. In March 2021, there was a further update in relation to sustainability-related disclosures in the financial services sector ("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.

Climate Change Reporting and Carbon Footprinting

- Mercer undertake climate scenario modeling and stress testing on the Mercer multi-sector funds used by the Scheme on an annual basis, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations, with the latest review as at 31 March 2020. The results of the climate scenario modelling and carbon footprinting are within the TCFD compliant Climate Change Management Report. The findings of the modelling are integrated within the asset allocation and portfolio construction decisions, with portfolios increasingly aligned with a 2°C scenario, where consistent with investment objectives and for consistency with the Paris Agreement on Climate Change.
- Carbon Footprint analysis of all equity funds is completed on a six-monthly basis. From 31 December 2019, the approach was enhanced to include the top 5 carbon emitters and the top 5 contributors to the Weighted Average Carbon Intensity (WACI), providing the Mercer and MGIE investment teams with additional information to drive engagement with managers.
- Since Q3 2020, carbon footprint metrics for the Mercer active equity funds have been included in the quarterly reporting reviewed by the Trustees, and a comparison of these against the metrics of their representative benchmarks. Over 2020 there has been a 15% reduction in the WACI across the Mercer discretionary equity funds and, as at 31 December 2020, 100% of the active equity funds used by the Scheme have a carbon intensity lower than the benchmark. In the Q4 2020 report, this analysis was extended to include Mercer passive equity funds.

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ESG Rating Review

- ESG ratings assigned by Mercer's (and its affiliates') global manager research team, are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees. ESG ratings are reviewed by MGIE as part of its quarterly monitoring process, with a more comprehensive review performed annually that seeks evidence of positive momentum on ESG integration. Since Q3 2020, the quarterly performance report has included the overall ESG rating for each Mercer fund and a comparison against the appropriate universe of strategies in Mercer's global investment manager database.
- As at 31 December 2020, the Trustees noted that 95% of Mercer Funds now have an ESG rating equal to or above their asset class universe, a 10% improvement on 2019.

Update to Exclusions

- As an overarching principle, Mercer and MGIE, as the Trustees discretionary investment manager, prefer an approach of positive engagement rather than negative divestment. However, Mercer and MGIE recognise 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, as well as tobacco, are excluded from active equity and fixed income funds. From 1 October 2020, the controversial weapons screen was extended to passive equity funds. The Mercer sustainability-themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.
- 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.

Sustainably themed investments

- The Scheme has an allocation to an explicit Sustainable Global Equity Fund, the allocation to which increased by 4.5% over the year.
- A detailed standalone sustainability monitoring report is produced for the Sustainable Global Equity Fund on a semi-annual basis, including a more granular breakdown of the fund against ESG metrics such as the UN Sustainability Development Goals.

Diversity

- From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader investment policy.

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3. Voting Activity

The Trustees' investments take the form of 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. MGIE accepts that managers may have detailed knowledge of both the governance and operations of the investee companies and has therefore enabled managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustees do not use the direct services of a proxy voter. The MGIE Engagement Policy outlines this framework.

Set out below is a summary of voting activity for the year to 31 December 2020.

- **Voting:** As part of the monitoring of each underlying managers' approach to voting, MGIE assesses how active 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.

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.

"Unvoted" reflects instances where managers have not actioned a vote – these are specific areas where MGIE will follow up to ensure managers have appropriate systems in place to ensure all votes are actioned.

"Other" reflects instances where managers have withheld votes in Power of Attorney markets, share blocking markets or where conflicts of interest may be present.

- **Significant Votes:** Mercer Investment Solutions has based its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. This is summarised in the Engagement Section of the MGIE Sustainability Policy. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals ("SHP") relating to these priority areas and taking into account the size of holding across funds.

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Voting Activity Summary 1 January 2020 to 31 December 2020

Fund	Total Proposals	Voted 'For'	Voted 'Against'	Abstained from voting	Unvoted	Other	For Management	Against Management	Use of Proxy Advisor
Mercer Global Equity	6,113	91%	7%	2%	0%	1%	92%	8%	Yes*
Mercer Low Volatility Equity	7,683	92%	6%	0%	1%	1%	93%	7%	Yes
Mercer Sustainable Global Equity	5,258	89%	9%	1%	0%	1%	90%	10%	Yes
Mercer Emerging Market Equity	14,042	75%	12%	3%	10%	0%	84%	16%	Yes
Mercer Global Small Cap Equity	8,157	91%	6%	1%	1%	1%	93%	7%	Yes*
Mercer Eurozone Equity	4,890	83%	14%	2%	2%	0%	84%	16%	Yes*
Mercer Global Listed Infrastructure	680	89%	10%	27%	13%	0%	89%	11%	Yes
Mercer Passive Global REITs	2,797	83%	13%	0%	0%	4%	83%	17%	Yes

*Proxy advisor not used by at least one underlying manager of the fund.

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Sample of Significant Votes over the period 1 January 2020 to 31 December 2020

Fund	Shareholder Proposal ("SHP")	Issuer	Vote Decision
Mercer Global Equity	SHP Regarding Deforestation Report	Procter & Gamble Co.	For
	SHP Regarding Aligning GHG Reductions with Paris Agreement	JP Morgan Chase	For
	SHP Regarding Human Rights Impact Assessment <i>*(1 manager voted against & 1 voted for)</i>	Amazon	Split*
	SHP Regarding Lobbying Activity Alignment with the Paris Agreement	Delta & United Airlines	For
Mercer Low Volatility Equity	SHP Regarding Aligning GHG Reductions with Paris Agreement	JPMorgan Chase & Co.	For
	SHP Regarding GHG Reduction Targets	Royal Dutch Shell Plc	For
	SHP Regarding linking Executive Pay to Sustainability and Diversity	Alphabet	Split*
	SHP Regarding Median Gender and Racial Pay Equity Report <i>* 2 managers voted for and 1 voted against</i> <i>**7 Companies includes Amazon.com Inc., American Express Co., Bank Of America Corp. Facebook Inc, Intel Corp. JPMorgan Chase & Co., & Wells Fargo & Co.</i>	7 Companies **	For
Mercer Sustainable Global Equity	SHP Regarding Deforestation Report	Procter & Gamble Co.	For
	SHP Regarding Reporting on the Use of Non-Recyclable Packaging	Kroger Co..	Against
	SHP Regarding Report on Sugar and Public Health	McDonald's Corp	Against
	SHP Regarding Linking Executive Pay to Sustainability and Diversity	Alphabet Inc	For
	SHP Regarding Gender and Ethnicity Pay Equity Report	Oracle Corp.	For
Mercer Emerging Market Equity	SHP Regarding Report on Sugar and Public Health	Pepsico	Against
	SHP Regarding Report on Response to Opioid Epidemic	Johnson & Johnson	For
	SHP Regarding Independent Chair	Johnson & Johnson	For
Mercer Global Small Cap Equity	SHP Regarding Deforestation and GHG Emissions Report	Bloomin Brands Inc	For
	SHP Regarding phase out of oil and gas	Beach Energy Ltd	For
	SHP Regarding Human Rights Reporting	Tesla	Against
	SHP Regarding Management Diversity Report	IPG Photonics Corp	For

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Sample of Significant Votes over the period 1 January 2020 to 31 December 2020 (continued)

Mercer Eurozone Equity	Proposal to approve Remuneration Policy (vote decision taken on basis not sufficiently long term and not in line with best market practice)	Ferrari N.V	Against
	Proposal to re-appoint auditors (vote decision taken on basis auditors tenure exceeded 15 years)	Novo Nordisk	Abstain
	Proposal to Elect Director (vote decision taken on basis that the gender diversity at Board level is less than 30% and candidate was male)	Silka AG	Abstain
Mercer Global Listed Infrastructure	SHP Regarding Amending the Byelaws Concerning the Presentation of Climate Transition Reporting	Aena S.M.E. S.A.	For
	SHP Regarding Presentation of Climate Transition Plan	Aena S.M.E. S.A.	For
Mercer Passive Global REITS UCITS CCF	SHP Regarding Election of Gary Weiss	Cromwell Property Group	Split
** Please note that there were 15 votes in favour of the above mentioned Directors and 1 vote against election of Gary Weiss.			