The Honda Group – UK Pension Scheme ("The Scheme")

Annual Engagement Policy Implementation Statement for inclusion in the Trustee Report & Accounts

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year to 31 March 2023. This statement has been produced in accordance with the Pensions Act 1995, the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the Statutory and Non-Statutory Guidance prepared by the DWP.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the SIP[1] are as follows:

- The Trustee aims to maintain a funding level of, or in excess of, 100% on an ongoing basis through the adoption of a prudent funding and investment strategy. The aim is to take on investment risk in a controlled way.

- The Trustee believes that, over the long term, excess return will be generated through investing in a range of alternative asset classes (such as infrastructure equity, secured finance, property and global private markets), corporate bonds and through the use of active management where appropriate. They recognise that in adopting this approach, the Scheme is exposed to market volatility and other risks and this may mean that, in the short term, the return target may either not be achieved or becomes a very easy target (i.e. the short term funding position will be volatile).

- As the Scheme is closed to new entrants and in light of the improved funding status, the Trustee materially reduced, and expect to continue reducing, the Scheme's exposure to alternative growth assets over time in recognition of the fact that the Scheme has a maturing liability profile.

In order to assist with the discussion of investment matters, an Investment & Covenant Committee (the "ICC") has been appointed by the Trustee Board as responsible for considering matters relating to the Scheme's investments. The ICC is supported by Mercer's investment advisory team ("Mercer") and Mercer Global Investments Europe Limited ("MGIE") as the appointed Fiduciary Manager[2]. At each Trustee meeting, the ICC is required to formally report back to the Trustee on any decisions they have taken, or any proposals that they are recommending to the Trustee. For the avoidance of doubt, all strategic investment decisions remain the responsibility of the Trustee.

The investment objectives were unchanged over the 12 months to 31 March 2023.

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[1] The SIP is available online at https://pensioninformation.aon.com/honda

[2] The majority of the Scheme's assets were transferred to the fiduciary management solution, namely Mercer Investment Fund (MIF20) with the final assets transitioned on 1 October 2021. A minority of the Scheme's assets are held outside of MIF20, however these are taken into account for the purposes of the funding level monitoring and cashflow management.

Policy on ESG, Stewardship and Climate Change

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

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by their investment consultant on responsible investment which covered ESG factors, stewardship, climate change and ethical investing. This training was provided on 21 March 2019. In preparation for this training, the Trustee and the Company undertook a beliefs survey designed by their investment consultant to assist the Trustee with establishing their policy in this area. The results of this survey were presented at the March 2019 ISC meeting with the policy being incorporated into the SIP following this exercise. The Trustee keeps the policies under regular review with the SIP subject to review at least annually. There were no changes to this policy in the last review of the SIP which took place in August 2023.

The following work was undertaken during the year to 31 March 2023 relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

Trustees' definition of a significant vote and voting activity

Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote".

The Trustee have set the following key themes that they believe constitute a "significant vote":

- Climate Change
- Modern Slavery
- Governance and Financial outcomes

The Trustee will also use these key themes to focus on specific areas when considering manager engagements.

The Scheme no longer has exposure to mandates where a significant proportion of the holdings have voting rights. There were a small number of votes in the Multi-Asset Credit mandate for holdings that had voting rights. The voting summary for that fund is as follows:

Fund	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).

No proposals meet the Trustee's definition of significant vote over this period.

Engagement

- Over the year to 31 March 2023, The Trustee reviewed the investment manager mandates in relation to ESG factors including climate change.

- The Trustee have agreed not to appoint any manager rated by Mercer with the lowest ESG rating (ESG4).

- The Trustee requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. M&G, Mercer, PGIM, LGIM, Partners Group and JP Morgan Asset Management are signatories of the current UK Stewardship Code 2020 that took effect on 1 January 2020. The group of signatory investment managers corresponds to the majority of the Scheme's investment managers (c. 93% of assets under management as at 31 March 2023, excluding the Trustee bank account). However, Capula, Knighthead and Ares are not yet signatories of the UK Stewardship Code 2020.

- It is the Trustee's policy that the third party investment managers appointed by Mercer via Mercer Global Investments Europe, report and manage assets in line with established best practice such as the UK Stewardship Code and UK Corporate Governance Code where possible.

- The Scheme's investment performance report is reviewed by the Trustee on a quarterly basis – this report includes ratings (both general and specific to ESG) from the investment consultant. All of the investment managers remained generally highly rated during the year. Where investment managers may not be highly rated from an ESG perspective the Trustee continues to monitor and may engage appropriately with those investment managers. The investment performance report includes how each investment manager is delivering against their specific mandates.

- The ICC also received details of relevant engagement activity for the year from each of the Scheme's investment managers.

- The Scheme's investment managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives are driven mainly through regular engagement meetings with the companies that the managers invest in or by voting on resolutions at companies' Annual General Meetings, related to various governance, social or environmental issues.

- Below are some examples of the Scheme's investment manager engagements with companies.

Partners Group Global Infrastructure 2015

- **Techem Metering – Climate change/environmental engagement:** In 2022, following the publication of Techem's first Sustainability Report in 2021, the company published its second Corporate Sustainability Report, covering the entire Techem Group. The report highlights key ESG achievements, with a clear focus on achieving climate neutrality by 2045, as well as outlining the Diversity & Inclusion roadmap. The company has established the Techem Research Institute on

Sustainability (TRIOS). The team is headed by Arne Kähler (former Head of R&D) who will drive the company's ESG agenda. Elsewhere, Techem contributes to a climate-neutral building stock through its business activities. The focus is on efficient and smart building technology, which effectively reduces energy consumption and CO_2 emissions for heat and hot water by involving both owners and tenants. For instance, across Europe, the team has set a goal of having more than 10,000 charging stations in service and operating with green electricity by 2025. To reduce environmental impact, Techem has introduced a series of initiatives: development of sustainable product design, use of recycling materials and the same types of plastic.

Partners Group Global Infrastructure 2012

– **Fermaca – ESG engagement :** In 2022, Fermaca has made progress across a number of initiatives. For instance, in the environmental arena, Fermaca has reduced methane emissions in the entire system by 4.7% and maintained 90% survival of the 27,000 trees planted in 2020 as part of a reforestation effort. The company has also continued to excel in Health & Safety with a total incident rate of 0.00% in 2022. Elsewhere, Fermaca has implemented an environmental and social management system, which will allow for full compliance with the Equator Principles and Performance Standards of IFC. Currently, Fermaca is at 65% adoption across its system, against a target of 50%.

Partners Group Global Value 2014

– **KinderCare Education – Carbon accounting:** In 2022, KinderCare Education has conducted a baseline year GHG emissions assessment for Scope 1 and Scope 2 emissions. Data from the assessment helps to inform the company's broader environmental strategy.

M&G

- **Adevinta:** M&G met with the Head of Sustainability to make their expectations known, one of which was improving modern slavery practices by asking the company to commit to organising independent audits and to provide detail on internal responsibility for managing supply chain and modern slavery risks. Adevinta confirmed that by the end of 2022 they planned to conduct a taxonomy review of all suppliers and create risk metrics. For 2023, Adevinta will go one level deeper and establish a specific plan for different categories of suppliers, which includes both social and environmental aspects.

- **Corialis:** M&G requested that the company improves their carbon emissions data disclosure through disclosing scope 3 emissions, reporting to CDP (formerly Carbon Disclosure Project) and setting carbon reduction targets in place that cover scope 1,2 and 3 emissions. M&G met with the company to make their expectations known. Corialis were planning to report scope 3 emissions by the end of April 2023, which will include employees' commute, transport and sale of goods. They also have committed to Science Based Targets initiative (SBTi) which covers scopes 1, 2 and 3 and will be Paris aligned. This will get ratified within two years. The company informed M&G that reporting to CDP isn't on the agenda yet, but M&G reiterated that independent verification would be useful to see and that CDP is best practice industry provider of that. M&G are pleased to see the progress that the company is making in enhancing environmental reporting and disclosure and will continue to monitor the situation and push for CDP disclosure.

Mercer Multi-Asset Credit

- **Social engagement:** CQS (one of the underlying managers within Mercer Multi-Asset Credit) found that there was a lack of disclosures from a fashion group around labour standard audits, chemical safety certifications and there had been some negative publicity around the company. CQS analysts raised questions on a group investor call with management on their ESG policies, specifically on the setting and tracking of labour policy targets, and raised concerns around the company's plan to move operations to higher-risk Asian countries. CQS reduced their ESG rating of the company until further information on their labour strategy and long term target tracking is made available.

- **Climate change:** Beach Point (one of the underlying managers within Mercer Multi-Asset Credit) found that a communications company they invest in was exposed to climate risk through California and Florida locations where wildfire and hurricane risks are elevated. Beach Point identified two suggestions for improvements: increased fiberization of cables and the use of underground (versus aerial) cables. The Company executed the operational turn-around of the plan which included preparing for additional fiberization of legacy copper cable network.

LGIM (firm wide engagements not specific to Honda mandates)

- **ExxonMobil – Environment: Climate change:** At LGIM, they believe that company engagement is a crucial part of transitioning to a net zero economy by 2050. Under their Climate Impact Pledge, LGIM publishes their minimum expectations for companies in 20 climate-critical sectors. LGIM has been engaging with Exxon Mobil since 2016 and they have participated willingly in their discussions and meetings. Under LGIM's Climate Impact Pledge, they identified a number of initial areas for concerns, namely: lack of Scope 3 emissions disclosures (embedded in sold products); lack of integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities. LGIM's regular engagements with Exxon Mobil have focused on their minimum expectations under the Climate Impact Pledge. The improvements made have not so far been sufficient in LGIM's opinion, which has resulted in escalations. Levels of individual typically engaged with include lead independent director, investor relations, director and CFO. Since 2021, there have been notable improvements from Exxon Mobil regarding the key engagement requests, including disclosure of Scope 3 emissions, a 'net zero by 2050' commitment (for Scopes 1 and 2 emissions), the setting of interim operational emissions reduction targets, and improved disclosure of lobbying activities. However, there are still key areas where LGIM requires further improvements, including inclusion of Scope 3 emissions in their targets, and improving the level of ambition regarding interim targets. LGIM is also seeking further transparency on their lobbying activities. The company remains on LGIM's divestment list (for relevant funds), but their engagement with them continues.

- **Sumitomo Mitsui Trust Holdings Inc – Governance:** High levels of cross-shareholding (where one publicly traded company holds a significant number of shares in another) are common in Japan and reducing these cross-shareholdings remains a challenge for many Japanese companies, including big banks in Japan, despite various reforms implemented by Japan Financial Services Agency and Japan Exchange Group. Banks have a significant role to play in financing the global transition to net zero, and are therefore included under LGIM's Climate Impact Pledge. LGIM have discussed the threshold of 20% for cross-holdings with the company. 20% is the level chosen in LGIM's own voting policy – however, LGIM was keen to understand Sumitomo's plans in this area. LGIM was pleased to hear that they plan to reduce cross-shareholdings to 0% over time, and this alleviated their concerns regarding the current level. LGIM also spoke about climate change, although the main focus of the conversation was on cross-shareholdings; they spoke about disclosure of scope 3 emissions from investments, and implied temperature alignment by 2030.

Additional Voluntary Contribution Assets ("AVCs")

From 6 April 2006, the Trustee ceased accepting additional contributions into the Scheme but the Trustee still remains responsible for the AVC funds in respect of AVCs paid into the Scheme prior to this date. However, the Trustee does not consider the AVC section to hold a material amount of assets in voting rights holding investments to include them in this disclosure.