The Honda Group – UK Pension Scheme
(‘the Scheme’)

Engagement Policy Implementation Statement for the Year Ended 31 March 2024

July 2024

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Section 1:

Introduction

This Engagement Policy Implementation Statement (the "Statement") sets out how, and the extent to which, the Trustee's Engagement Policy for the Scheme in the Statement of Investment Principles ("SIP") has been followed during the year running from 1 April 2023 to 31 March 2024 (the "Scheme Year"). This Statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the statutory guidance on reporting on stewardship in the implementation statement dated 17 June 2022.

The Statement is based on, and should be read in conjunction with, the SIP dated September 2022 (covering the period between April 2023 and August 2023), the SIP dated August 2023 (covering the period between August 2023 and October 2023) and the SIP dated October 2023 (covering the period between October 2023 and March 2024).

Sections 2.1 and 2.2 of this Statement set out the investment objectives of the Scheme and changes which have been made to the Engagement Policy during the Scheme Year, respectively.

A copy of the SIP containing the Engagement Policy is available here[1].

Section 3 of this Statement provides some highlights of the activity undertaken by the Trustee in relation to Responsible Investment and Environmental, Social and Governance (ESG) over the Scheme Year.

Sections 4 and 5 include information on the engagement and key voting activities of the underlying investment managers of the Scheme, and also sets out how the Scheme's engagement and voting policy has been followed during the Scheme Year in respect of the Scheme's assets.

The Trustee can confirm that all policies in the SIP on engagement in relation to the Scheme's assets have been followed during the Scheme Year.

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

Section 2:

Statement of Investment Principles

2.1 Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the objectives they have set. The objectives for the Scheme specified in the SIP are as follows:

- The Trustee aims to maintain a funding level of, or in excess of, 100% on an ongoing (Technical Provisions) basis through the adoption of a prudent funding and investment strategy. The aim is to take 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. The Trustee recognises 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 become an 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 Limited'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 2024 as the Scheme's assets continued to be managed in a low risk manner relative to the liabilities.

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[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.

2.2 Review of the SIP

During the year, the Trustee reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer). A revised SIP was signed on August 2023 to reflect the updated investment strategy including the sale of Capula and disinvestment from Buy & Maintain Credit. Additionally, the SIP was further updated in October 2023 to reflect the full disinvestment from the Mercer Multi-Asset Credit Fund and the Ares Secured Income Fund (which is being wound down by the manager and so this holding has been reducing in size gradually since the end of 2023).

Section 3:

Environmental, Social and Governance ("ESG")

Policy

The Scheme's Engagement Policy outlines the Trustee's beliefs on ESG factors (including climate change). The Trustee believes that environmental, social, and corporate governance ("ESG") factors 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 Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. Further details are included in Section 7 of the SIP and the Trustee keeps their policies under regular review.

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 October 2023.

How has this policy been met over the Scheme Year?

The Pension Schemes Act 2021 introduced legislation requiring specified pension schemes to ensure there is effective governance with respect to the effects of climate change. Occupational pension schemes with £5 billion or more in assets are required to have in place effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities from 1 October 2021, aligned with the Task Force on Climate-related Disclosures ("TCFD") framework. This legislation was also enforced the following year for occupational pension schemes with £1 billion or more of assets. During the Scheme Year (October 2023) the Trustees published the first TCFD report for the Scheme which can be found at the following website: https://pensioninformation.aon.com/honda.

The Investment Consultant periodically reports any change in its ESG ratings to the Trustee on an ongoing basis and makes recommendations to the Trustee, as appropriate.

The Trustee has delegated responsibility for the selection, retention, and realisation of investments to their investment managers and accordingly, the Trustee seeks to manage the risks and opportunities associated with these ESG factors by selecting industry leaders in investment management who are committed to the Principles for Responsible Investment ("UNPRI") (as they apply to the sector in which the manager invests or the strategy pursued by the manager) and against criteria which include ESG considerations. ESG and the level of integration will differ across asset classes and by investment manager.

The Trustee does not require the Scheme's investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

Section 4

Engagement Activity by the Scheme's Investment Managers

Over the Scheme Year to 31 March 2024, The Trustee reviewed the investment manager mandates in relation to ESG factors including climate change.

The Trustee has agreed not to appoint any manager rated by Mercer with the lowest ESG rating.

The Trustee requested that the investment managers confirm compliance with the principles of the UK Stewardship Code. M&G, 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. 96% of assets under management as at 31 March 2024, excluding the Trustee bank account). However, Knighthead and Ares are not yet signatories of the UK Stewardship Code.

It is the Trustee's policy that the third-party investment managers appointed by Mercer via MGIE, report and manage assets in line with established best practice, such as the UK Stewardship 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) provided by Mercer. All of the investment managers remained generally highly-rated during the Scheme 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 following are examples of engagement activity undertaken by the Scheme's investment managers, where relevant. Examples were provided by the investment managers.

See section 5 for more details on how the Trustee's policies on engagement have been implemented, as well as its policies on the exercise of investment rights (including voting).

Partners Group (Global Infrastructure 2015) engages with Techem Metering GmbH to implement corporate governance.

Following on from the previous Implementation Statement, Techem has set itself multiple goals around ethical business conduct. In order to foster a culture of ethical corporate governance and compliance, the company trains all their staff on compliance topics every calendar year and biennially their employees complete sustainability training. In addition, they have a zero-tolerance policy for cases of corruption and data protection breaches. On a biennial basis, their data protection compliance is externally audited. As a further development to this, 2023 will be the first year that remuneration of Techem's top management is linked to ESG targets.

Partners Group (Global Value 2014) engages with TOUS to improve environmental standards.

Since 2021, TOUS has partnered with Tracemark, a pioneer company providing complete jewelry traceability, and which only works with businesses certified by the Responsible Jewelry Council. Additionally, the board approved the 'Human Rights' policy with a strong governance model to ensure high commitment to human rights across the entire value chain.

M&G engages with Efficio Ltd to improve the company's Environment Net Zero Commitments and Climate Transition Plans in Q3 2023.

M&G has encouraged Efficio to increase climate disclosure, particularly around their decarbonisation strategy and reporting in line with TCFD. Efficio has committed to achieving net zero emissions by 2030, encompassing scope 1, 2, and 3 emissions. The company is currently focusing on agreeing the appropriate form of reporting before disclosing externally. Efficio has identified scope 3 emissions, particularly from business flights, as the main contributor to their emissions and has set a target of reducing carbon emissions from business travel by 20% per employee by 2025. Efficio is still in the initial phase of capturing data correctly and does not have a finalised decarbonisation strategy in place yet. The company acknowledges that they have been lacking in disclosure but has been working diligently on ESG behind the scenes. M&G have encouraged Efficio to include a separate ESG report or section in their annual report to showcase their efforts in this area. M&G expect to see more ESG disclosure from Efficio next year once they are comfortable with reporting and the cadence.

M&G engages with WebHelp to improve the company's diversity and inclusion during Q2 2023.

M&G had the following two objectives when engaging with the issuer. Firstly, to improve the issuer's disclosure and M&G's understanding of how they manage modern slavery risk, particularly in the context of their global operations (60+ countries) and increased offshoring of call centre services located in higher risk geographies. Additionally, M&G encouraged the issuer to improve their modern slavery risk practices.

The issuer provided useful disclosure including information on policies and measures in force as well as data on current staff. They acknowledged M&G's recommendations, though will revert back to them on whether they can agree to work towards implementing these. This is because they are currently undergoing merger activity, and because the team need to carry out the analysis with the audit and procurement team before they can confirm their commitment.

LGIM (firm wide engagements not specific to Honda mandates) engages with Amazon in order to ensure the company is treating its employees fairly.

Amazon has been accused of interfering with efforts by its workers to unionise. This activity has since been investigated and, following a decision by the US National Labor Relations Board Region (NLRB) that declared Amazon's conduct to be inappropriate and not in line with International Labour Organisation (ILO) standards, it was deemed that a new election should be conducted on 4 February 2022 and concluded at the end of March 2022. LGIM wanted to see how the company planned to improve its disclosure and transparency on civil rights, equity, diversity and inclusion, in line with the shareholder resolution. LGIM also made a number of requests to the company, in light of the NLRB investigation and continue to ask the company to report on its gender pay gap, another topic of a 2021 shareholder resolution.

LGIM have been engaging with Amazon for a number of years and within the past couple of years have specifically focused on freedom of association. Following a decision by the US National Labor Relations Board Region (NLRB) that declared Amazon's conduct to be inappropriate and not in line with International Labour Organisation (ILO) standards, LGIM requested that the company: immediately adopt a global policy of neutrality; commit to negotiate with the union in good faith, should a majority of the voting employees vote for the union in Bessemer; and initiate dialogue with the relevant trade unions at a national and global level on how Amazon can implement its labour rights commitments.

LGIM escalated their engagement by supporting a number of shareholder resolutions (i.e. voting against management) in the company's 2022 AGM, including resolutions requesting a third-party report on the company's human rights and due diligence process; a report on protecting the rights of freedom of association and collective bargaining; a third-party audit on working conditions, and a report on the median gender/ racial pay gap.

LGIM have seen some developments from Amazon including the publication of policies, and ‘Human Rights Impact Assessment’, identifying key areas for improvement. The company has also undertaken to conduct a racial equity audit, under pressure from shareholders.

In October of 2023, LGIM were invited to tour Amazon's newest 'FC' distribution centre in Kent. This was a tour with Amazon's Head of ESG and their ESG Engagement Specialist. LGIM were able to understand key drivers of the company's strategy and culture, particularly focused on safety, quality of service and, most importantly through engagement with the company, their focus on their employees' wellbeing, feedback, working hours and benefits.

Ares engages with an investment in a community of single-family homes used as rental units (“the Manager”) in relation to their ESG program.

In 2023, Ares’ Alternative Credit Team extensively reviewed the Manager’s ESG program and has maintained full discretion to make commercially reasonable changes to the Manager’s ESG policies. Ares worked with the Manager to provide feedback on strengthening their overall ESG approach to ensure the rental policies and environmental upgrade programs were in line with its expectations for the investment. The investment was approved, and the Manager created ESG implementation targets including the use of sustainable materials, tracking waste production and water usage, and maximising the useful life of appliances and other materials before replacing.

Section 5:

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee's would monitor and engage with relevant persons about relevant matters).

Policy

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 has 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.

Section 6:

Additional Voluntary Contributions

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.