Croda Pension Scheme

Implementation Statement

For year ending 30 September 2021

March 2022

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Section 1: Introduction

This document is the Annual Implementation Statement ('the Statement') prepared by Croda Pension Trustees Limited ('the Trustee') of the Croda Pension Scheme ('the Scheme') covering the 'Scheme Year' from 1 October 2020 to 30 September 2021 in relation to the Statement of Investment Principles ('SIP').

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustee, the Scheme's SIP required under section 35 of the Pensions Act 1995 has been followed in respect of engagement and voting during the year
- describe the voting behaviour by, or on behalf of, the Trustee over the year.

A copy of this Statement and the current SIP are made available on the following website:

https://www.croda.com/en-gb/about-us/where-we-operate/europe-and-eemea/united-kingdom

The Scheme's September 2020 SIP is referenced in the following Sections of this document, where we set out how the applicable principles have been implemented.

Section 2: Adherence to the SIP

In this section, we comment on how the Trustee has followed its policies with respect to engagement as set out in the SIP.

Engagement Policy

Area	Approach and actions taken over the Scheme Year
Section 3.14 and 3.18 **Encouraging best practice with regards to stewardship**	The Trustee meets with each of its investment managers on an annual basis and, as part of this, requests that the investment manager provides an update on their approach to sustainability, including stewardship. As part of these meetings, the Trustee discusses with the investment managers how they have engaged with underlying holdings and where appropriate, to provide examples of their stewardship activities. In addition to explaining its approach to stewardship, the Trustee may ask its investment managers whether they are part of any initiatives, such as the UK Stewardship Code, which may demonstrate their commitment to striving for best practice. Over the Scheme Year the Trustee has either met with or had updates from each of the Scheme's investment managers. Through these meetings and updates the Trustee generally had no concerns with regards to the managers' approaches to sustainability in all but one case. The Trustee is undertaking a process in 2022 to share its concerns with the manager and to review the manager's approach following the Trustee expressing its concerns.
Section 3.17 **Expecting investment managers to use their engagement activity to drive improved performance over these periods**	The Trustee is not involved in the management of the Scheme's underlying portfolio holdings. However, it monitors the engagement activity that the Scheme's investment managers have undertaken on its behalf with these holdings through its annual manager meetings, where managers may be asked to provide examples of how they have engaged with underlying holdings and whether this engagement has led to an improvement in performance. Over the Scheme Year the Trustee has either met with or had updates from each of the Scheme's investment managers. Through these updates the Trustee has noted no concern around the engagement that managers have had (with the exception to that noted above) and believe this engagement has helped manage or reduce investment risk and/or improve investment outcomes.
Section 3.21 **Engaging with the investment consultant to request additional information where necessary on a manager's sustainability practices**	The investment consultant, in alignment with the Trustee's agreed policies, requests that the Scheme's managers discuss their sustainable investment approaches as part of the Trustee's manager meetings and set out this approach, including any changes over the year, in sustainable investment questionnaires that managers are asked to complete. In addition, managers may provide their sustainable investment policies which are reviewed by the Trustee if shared. Over the Scheme Year, the Trustee has not requested any follow up information on any of its managers' sustainability practices outside of the information provided.

Section 3.22.2 **When appointing a new manager, requesting information regarding each investment manager's responsible investment policy and details of how they integrate ESG into their investment decision making process as part of the selection process**	The Trustee has appointed one manager over the Scheme year that allocates capital to wind power generation. As part of meeting with this manager, given the focus on environmental factors in the strategy, ESG integration was discussed extensively. In addition, over the Scheme Year the Scheme's investment in a solar strategy and a strategy investing to reduce carbon emissions as part of the global energy transition have started to call capital. These strategies were selected following the Trustee's decision to invest in strategies with high levels of ESG integration. Since the end of the Scheme year, the Trustee has also committed to a strategy that leases property to Dutch nursing home, care and treatment centres which has a focus on social factors, again ESG integration was discussed and incorporated into the overall decision making process for appointing the manager.
Sections 4.7 & 4.8 **Providing the Scheme's managers with the most recent copy of the Scheme's SIP and asking them to confirm whether their strategies are managed in line with the relevant policies in the SIP**	The Scheme's investment consultant provided the Scheme's SIP to the Scheme's investment managers on the Trustee's behalf in 2021. Out of the Scheme's 13 investment managers, 5 confirmed compliance with the SIP and 6 outlined that they were unable to comment on the Trustee's policies. As two of the Scheme's strategies were in liquidation, the Scheme's SIP was not provided to these managers. For the managers that outlined they were unable to confirm compliance, the Trustee considers whether the Scheme's strategies are appropriate given the nature of the Trustee's policies and objectives on a regular basis as part of the Trustee's monitoring.
Engaging with an investment manager to encourage alignment, in the event the Trustee's monitoring process reveals that a manager's portfolio is not aligned with the Trustee's policies	The Trustee monitors its investment managers through its annual manager meetings, quarterly performance monitoring and on an ad hoc basis through the investment consultant updating the Trustee on whether there have been any material changes at the manager or to a manager's strategy. Over the Scheme Year, the Trustee regards its investment managers' investment portfolios to be aligned with the Trustee's polices but continues to engage with its investment managers. The Trustee is currently engaging with one private markets manager on its approach to sustainable investing to encourage the manager to be more aligned with the Trustee's views on sustainable investing.
Section 4.15 **The Trustee reviews turnover on an annual basis**	As part of the Trustee's monitoring process of the Scheme's managers, the Trustee monitors on an annual basis the turnover of each mandate, and considers, where appropriate, whether this turnover is in line with the manager's and the Scheme's investment advisor's expectations of turnover. The Trustee reviewed the turnover levels for each mandate with respect to the Scheme Year where available and considered there to be no cause for concern with respect to reported turnover levels.

Section 3: Voting and engagement

The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to its investment managers.

As part of monitoring the stewardship of the Scheme's investments, the table below sets out the voting activities of the Scheme's investment managers. This includes any votes cast on the Trustee's behalf, detail on the Scheme's investment managers' use of proxy voting and examples of votes cast that they deem to be significant. Some of the Scheme's underlying investment strategies, such as fixed income or derivatives (where these holdings do not have voting rights attached) or private markets (where voting is not applicable as the strategy will bring with it a high level of ownership and control), have been excluded from the table below.

For the Scheme's active investment funds/mandates, the Trustee has decided not to publicly disclose certain investment manager names. Given the nature of these investments, the Trustee believes that publicly disclosing the names of the Scheme's investment managers could impact the investment managers' ability to generate the best investment outcome for the Scheme's members. Manager A is an active equity manager. The Scheme also invests in a fund of hedge funds manager, which may invest in managers who hold stocks that have voting rights attached however this manager has a policy of not externally publishing or disclosing its voting data although its investors are given on screen access to view it.

The table below reflects the voting data as provided by the Scheme's investment managers.

Manager and strategy	Voting activity, most significant votes cash and use of proxy voting
LGIM MSCI ACWI Adaptive Cap ESG Index Pooled equity fund	**Voting activity*** Number of resolutions eligible to vote on: 35,490 Percentage of eligible votes cast: 99.9% Percentage of votes with management: 80.9% Percentage of votes against management: 18.1% Percentage of votes abstained from: 1.0% **Significant votes** **Vote 1** Company: The Procter & Gamble Company (P&G) Resolution: Report on effort to eliminate deforestation Decision: Vote in favour Outcome: The resolution received the support of 67.7% of shareholders. Rationale: P&G uses both forest pulp and palm oil as raw materials within its household goods products and two of their Tier 1 suppliers of palm oil were linked to illegal deforestation which calls into question due diligence and supplier audits. LGIM decided to support the resolution proposed by Green Century following extensive engagement on the issue. Whilst P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt P&G was not doing as much as it could. Implications of the outcome: LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. LGIM has asked P&G to

	respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC certified sources. Rationale for inclusion as a “most significant vote”: It is linked to LGIM’s five-year strategy to tackle climate change and attracted a great deal of client interest. **Vote 2** Company: Cigna Corporation Resolution: Report on Gender Pay Gap Decision: LGIM voted for the resolution (management recommendation: against). Outcome: 32.3% of shareholders supported the resolution Rationale: LGIM voted in favour as it expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. Implications of outcome: LGIM will continue to engage with the company, publicly advocate its position on this issue and monitor company and market-level progress. Rationale for inclusion as “most significant vote”: LGIM views gender diversity as a financially material issue for its clients. **Vote 3** Company: Walgreens Boots Alliance, Inc. Resolution: Advisory vote to ratify named executive officer’s compensation. Decision: LGIM voted against the resolution. Outcome: the resolution failed to get a majority support as 52% of shareholders voted against. Rationale: The company’s compensation committee applied discretion to allow a long-term incentive plan award to vest when the company had not even achieved a threshold level of performance. The company did not provide sufficient justification and LGIM expects pay and performance to be aligned so voted against the resolution. Implications of outcome: LGIM will continue to engage with this company, publicly advocate its position on this issue and monitor company and market-level progress. Rationale for inclusion as “most significant vote”: LGIM have outlined that the company’s compensation committee applied discretion to allow a long-term incentive plan award to vest when the company had not even achieved a threshold level of performance. LGIM considers this vote to be significant as it was high-profile and controversial. **Use of proxy voting (applicable for both LGIM equity funds to which the Scheme invests)** LGIM’s Investment Stewardship team uses ISS’s ‘ProxyExchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and they have outlined they do not outsource any part of the strategic decisions.
LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index Fund	**Voting activity*** Number of resolutions eligible to vote on: 40,443 Percentage of eligible votes cast: 99.7% Percentage of votes with management: 80.9% Percentage of votes against management: 18.4% Percentage of votes abstained from: 0.7%

Pooled equity fund	**Significant votes** **Vote 1** Company: Wells Fargo & Company Resolution: Report on Racial Equity Audit Decision: LGIM voted for the resolution (management recommendation: against). Outcome: 12.9% of shareholders supported the resolution. Rationale: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies. Implications of outcome: LGIM will continue to engage with our investee companies, publicly advocate its position on this issue and monitor company and market-level progress. Rationale for inclusion as “most significant vote”: LGIM views diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf. **Vote 2** Company: PhosAgro PJSC Resolution: Approve Annual Report Decision: LGIM voted for the resolution (management recommendation: against). Outcome: 99.7% of shareholder supported the resolution. Rationale: The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. Implications of outcome: LGIM continue to engage with the company and monitor progress. Rationale for inclusion as “most significant vote”: The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, its flagship engagement programme targeting some of the world's largest companies on their strategic management of climate change. **Vote 3** Company: AT & T Resolution: Advisory Vote to Ratify Named Executive Officers' Compensation Decision: LGIM voted against the resolution. Outcome: 51.7% of shareholders voted against the resolution. Rationale: LGIM identified serious issues with the structure and quantum of AT&T’s executive remuneration. In particular, the $48 million sign-on equity award to the incoming CEO of its Warner Media division and a retention grant to the General Counsel of $9 million USD. The awards and payments made by AT&T did not meet LGIM’s expectations of fair and balanced remuneration both in respect to their magnitude and the lack of performance criteria. Implications of outcome: LGIM continue to engage with the company and monitor progress. Rationale for inclusion as “most significant vote”: LGIM considers this vote to be significant as a majority of investors voted against the advisory resolution, sending a strong signal to management that its remuneration policy needs revision.

Manager A Active equity fund	**Voting activity*** Number of resolutions eligible to vote on: 345 Percentage of eligible votes cast: 100.0% Percentage of votes with management: 95.1% Percentage of votes against management: 5.0% Percentage of votes abstained from: 0.0% **Significant votes** **Vote 1** Company: Bajaj Finance Limited Resolution: Director Elections Decision: Against as the manager had concerns of overboarding. The manager does not share voting intentions with any parties internally or externally prior to the vote. Outcome: The resolution was passed. Implications of outcome: The manager continues to engage with the company and monitor progress. Rationale for inclusion as "most significant vote": The manager views all votes against management as significant and this portfolio company accounts for 6.9% of the strategy as at 30 September 2021. **Vote 2** Company: Proya Cosmetics Co., Ltd. Resolution: Director Elections Decision: Against. The manager does not share voting intentions with any parties internally or externally prior to the vote. Outcome: The resolution was passed. Implications of outcome: The manager continues to engage with the company and monitor progress. Rationale for inclusion as "most significant vote": The manager voted against nominating the committee member due to lack of board diversity and considers any vote against management as significant. **Vote 3** Company: Tencent Holdings Ltd. Resolution: Approve Issuance of Equity or Equity-Linked Securities without Pre-emptive Rights Decision: Against as the company did not share a discount limit. The manager does not share voting intentions with any parties internally or externally prior to the vote. Outcome: The resolution was passed. Implications of outcome: The manager continues to engage with the company and monitor progress. Rationale for inclusion as "most significant vote": The portfolio company accounts for 4.7% of the strategy as at 30 September 2021 and the manager considers any vote against management as significant.

	Use of proxy voting Manager A uses Institutional Shareholder Services (ISS) and votes in line with its own internal proxy voting policy and procedures.

*Totals may not sum due to rounding.

Section 4: Summary and conclusions

The Trustee consider that all SIP policies and principles with respect to engagement were adhered to over the Scheme Year.