

Engagement Policy Implementation Statement for the Year Ended 31 December 2024

Knorr-Bremse (UK) Executive Scheme (“the Scheme”)

1. INTRODUCTION

The Engagement Policy Implementation Statement (known as the Statement) presents the Trustees' assessment of their adherence to their engagement policy and their policy concerning the exercise of rights (including voting rights) attaching to the Scheme's investments throughout the one-year period ending 31 December 2024 (the “Scheme Year”). The Trustees' policies are outlined in their Statement of Investment Principles (SIP). The SIP was last reviewed in June 2024. On 24 May 2024, the Trustee completed the move to a delegated Cashflow Driven Investment (“CDI”) strategy whereby the Scheme invests in such a way that expected asset cashflows should broadly match a proportion of the Scheme's expected liability cashflow profile, whilst still targeting a return in excess of gilts (noting that the intention is to match as high a proportion as possible, subject to the level of expected return required), so the SIP was updated to reflect this change. A copy of the Trustees' 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 Trustees have appointed Mercer Limited (Mercer) as the discretionary investment manager and the Scheme'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).

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 Trustees acknowledge 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 Mercer's investment philosophy and how it addresses sustainability risks and opportunities, into the decision making process. The [Stewardship Policy](#) provides further details on Mercer's implementation of stewardship practices.

Mercer's triennial Client Engagement Survey aims to integrate the Trustees perspectives on specific themes by evaluating the alignment between Mercer's engagement priority areas and those of the Trustees. The last survey, undertaken in 2023, also highlights areas of focus that hold importance to the Trustees. The Trustees periodically review reports from Mercer regarding the stewardship (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 Trustees' engagement policy and evaluates the extent to which it has been followed during the Scheme Year.

Section 3 sets out the Trustees' policy regarding the exercising of rights (including voting rights) attached to the Scheme'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 Scheme Year.

Considering the analysis presented in Sections 2 to 3, the Trustees believe that their policies with regard to engagement and the exercise of rights attaching to investments have been successfully followed during the Scheme Year.

2. TRUSTEES' POLICY ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES, INCLUDING CLIMATE CHANGE

Policy Summary

The Trustees' ESG policy is outlined in Section 10 of the Scheme's SIP.

The Trustees periodically review Stewardship and Sustainability policies as noted above. If the Trustees find that the relevant policies of Mercer, MGIE or the third-party asset managers do not align with their own beliefs they will notify Mercer. Engagement to seek alignment will be prioritised, then they may consider disinvesting some or all of the assets held in the Mercer Funds. They may also seek to renegotiate commercial terms with Mercer.

How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustees' policy on sustainability integration, including the climate transition and effective stewardship.



Policy Updates

The Trustees regularly review how sustainability considerations including the climate transition and effective stewardship are integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers within the Mercer Funds, in their monitoring process. Mercer, and MGIE, provide reporting to the Trustees on a regular basis.

The Mercer [Sustainability Policy](#) is reviewed regularly, with updates in November 2024 including an update to Mercer's Investment Philosophy. Mercer also regularly reviews its approach to integrating climate considerations into its investment decision-making process as documented in its [Task Force on Climate Related Financial Disclosures \(TCFD\) report](#), updated in August 2024.

The Mercer [Stewardship Policy](#) is similarly reviewed regularly. In January 2024 the policy was updated to include nature engagement priorities, and climate and diversity, equity and inclusion (DEI) voting expectations.

The Stewardship and Sustainability Policies have also been updated with the integration of nature and biodiversity as a key investment and engagement theme. Mercer is a member of the Task Force for Nature Related Financial Disclosures (TNFD) working group and a founding signatory of Nature Action 100.

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 sustainability considerations into investment practices.

The Financial Reporting Council confirmed in February 2025 that MGIE will remain a signatory to the UK Stewardship Code, based on its application of the 12 principles, which is seen to represent best practice in stewardship.



Climate Change Reporting and Carbon Foot printing

Mercer's global investment philosophy, which the Trustees have reviewed, recognises that:

- Portfolio resilience can be enhanced by integrating financially material sustainability, transition, and socioeconomic risks into investment decision-making.
- Investing to solve long-term systemic issues may provide opportunities to improve risk-adjusted returns.
- Effective stewardship can improve investment outcomes.

Mercer applies each of these three lenses when considering the climate transition. The climate transition is a widely recognised systemic risk and Mercer considers the transition to a low carbon economy and the physical damages associated with global temperature increases through our climate scenarios analysis, analytics for Climate Transition (ACT) framework, which considers the alignment of portfolios to the low carbon transition, and through monitoring other climate-related metrics

Mercer has a target of net-zero absolute portfolio carbon emissions by 2050 for UK, European and Asian discretionary portfolios, and relevant multi-client, multi-asset funds domiciled in Ireland. To achieve this, Mercer also established an expectation that portfolio carbon emissions intensity would reduce by 45% from 2019 baseline levels and is on track to achieve this. 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 Mercer's latest Task Force on Climate Related Financial Disclosures Status [Report](#).

As of 31 December 2024, Mercer's in-scope portfolios are on track to meet their long-term net zero portfolio carbon emissions reduction targets, with an average of -52% since baseline.



Mercer Ratings



Approach to Exclusions

Stewardship forms an important part of Mercer's ratings framework applied during the manager research process.

Mercer's manager research ratings include an assessment of the extent to which sustainability considerations 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' sustainability integration.

These ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustees.

Mercer and MGIE's preference are 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 or Sensitive Topics Frameworks. Controversial weapons and civilian firearms are excluded from all multi-client equity and fixed income funds. In addition, tobacco companies and nuclear weapons are excluded from active equity and fixed income funds. Some funds have additional exclusions as outlined in their relevant product disclosures available on Mercer's [dedicated website](#).

In addition, Mercer and MGIE monitors funds for high-severity incidences relating to the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues.



Diversity

Mercer and the Trustees believe that diverse teams lead to better decision-making and have therefore taken several measures to work towards reflecting this view within Mercer's portfolio management team, the teams of the appointed managers and across portfolio holdings.

Participation in collaborative initiatives can also support raising awareness and contributing to initiatives across the broader industry.

Mercer Limited is a member of The Diversity Project, which seeks to accelerate progress towards a more inclusive culture in the investment and savings profession.

Mercer is also a member of the 30% Club – UK Investor Chapter and Irish Investor Chapter. The 30% Club is a business-led initiative that aims to increase gender diversity on corporate boards and in senior leadership positions.

Mercer considers broader forms of diversity in decision-making but currently reports on gender diversity.



Engagement

Engagement is an important aspect of Mercer's stewardship activities on behalf of the Trustees. [The 2024 Sustainability & 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 survey on sustainability and stewardship topics. The survey was distributed to over 200 managers appointed in the Mercer Funds. The survey gathers 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 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 Sustainability and Stewardship Report. This report is reviewed by the Trustees providing them with valuable information on the managers' stewardship activities and their alignment with Mercer's objectives.

3. TRUSTEES' POLICY ON EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO SCHEME INVESTMENTS

The Trustees' policy is as follows:

- **Delegation of Investment Management:** The Trustees delegate responsibility for the discretionary investment management of Scheme assets to Mercer. The Scheme'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 activities:** For the Trustees to fulfil their obligations regarding voting and engagement, they require reporting on the engagement and voting activities undertaken within the Mercer Funds. This reporting helps the Trustees assess whether the policies align with their own delegation of voting rights: Voting rights that apply to the underlying investments attached to the Mercer Funds are 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 investee 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 voted¹ in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Mercer and MGIE carefully evaluates each investment manager's stewardship capabilities (engagement and voting activities) 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 Trustees do not use the direct services of a proxy voter.

Given the nature of the Scheme's fixed-income oriented Cashflow Driven Investment ("CDI") strategy, the majority of the underlying assets now 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. A summary of the voting activity for a range of Mercer Funds in which the Scheme's assets are invested in is provided for the year ending 31 December 2024 below. The table doesn't include information for the funds held prior to the implementation of the CDI strategy on materiality grounds given that the Scheme's allocation to growth assets (with voting rights associated) was c20% of total assets and was held for less than half of the reporting period. The statistics are drawn from the Glass Lewis system (via the custodian of the Mercer Funds) where Glass Lewis is a leading provider of governance and proxy voting services. The expectation is for all shares to be voted.

Fund	Total Proposals		Vote Decision					For/Against Mgmt		Meetings	
	Eligible Proposals	Proposals Voted On	For	Against	Abstain	No Action	Other	For	Against	No.	Against
Mercer Multi-Asset Credit Fund ⁽¹⁾	60	47	78%	0%	3%	18%	0%	74%	26%	6	17%

⁽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.

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.

- “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 Trustees have based the definition of significant votes on Mercer’s Beliefs, Materiality and Impact (BMI) Framework. Significant proposals are determined using the following criteria:

1. The proposal topic relates to an Engagement Priority (climate change, human/labour rights, and diversity). This is classified in the “Proposal Description” column below, referenced as Environmental, Social, and Governance respectively.
2. The *most* significant proposals reported below relate to the three companies with the largest weight in each fund (relative to other companies in the full list of significant proposals).

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.