

Engagement Policy Implementation Statement

Patheon UK Pension Plan

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations requires that the Trustee produces an annual implementation statement which outlines the following:

- Explain how, and the extent to which, in the opinion of the Trustee, the policy set out in the Scheme's SIP in relation to:
 - the exercise of the rights (including voting rights) attaching to investments; and
 - undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons (including investment managers) about relevant matters (such as the management of conflicts, risks, social and environmental impact and corporate governance), has been followed during the reporting period.
- Describe the voting behaviour by, or on behalf of the Trustee (including the most significant votes cast by Trustee or on its behalf) during the scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The Engagement Policy Implementation Statement has been prepared by the Trustee and covers the Plan year 1 April 2020 to 31 March 2021.

Plan Stewardship Policy Summary

The Plan's stewardship policy was updated in 2020 to read as follows. The full SIP can be found here: https://corporate.thermofisher.com/content/dam/tfcorpsite/documents/corporate-social-responsibility/patheon_uk_pension_plan_statement_investment_principles.pdf

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promote corporate responsibility in the underlying companies and assets in which the Plan invests, as ultimately this creates long-term financial value for the Plan and its beneficiaries.

The Trustee annually reviews the stewardship activity of Aon Investments Limited ("AIL") to ensure the Plan's stewardship policy is being appropriately implemented in practice. The Trustee receives annual reports on stewardship activity carried out by AIL, these reports include detailed voting and engagement information from underlying asset managers.

As part of AIL's management of the Plan's assets, the Trustee expects AIL to:

- *Ensure that (where appropriate) underlying asset managers exercise the Trustee's rights (including voting rights) in relation to the Plan's assets; and*
- *Report to the Trustee on stewardship activity by underlying asset managers as required*

The Trustee will engage with AIL as necessary for more information, to ensure that robust active ownership behaviours, reflective of its active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Plan members on the website in 2021.

Where possible, the transparency for voting should include voting actions and rationale with relevance to the Plan, in particular where: votes were cast against management; votes against management generally were significant or if votes were abstained. Where voting is concerned the Trustee expects the underlying asset managers to recall stock lending, as necessary, in order to carry out voting actions.

It is the policy of the Trustee to engage, from time to time, with AIL, who in turn is able to engage with underlying asset managers, investee company or other stakeholders, on matters including the performance, strategy, risks, social and environmental impact, corporate governance, capital structure, and management of actual or potential conflicts of interest, of the underlying investments made. Where a significant concern is identified, the Trustee will consider, on a case by case basis, a range of methods by which it would monitor and engage so as to bring about the best long-term outcomes for the Plan.

Plan stewardship activity over the year

The Trustee has delegated certain decision-making powers to Aon Investments Limited ("AIL") References to "underlying asset managers" refer to those asset managers which AIL in turn appoints to manage investment on behalf of the Trustee or any other direct investments that the Trustee may make from time to time.

Training

Over the year, the Trustee received updates from its investment advisor, Aon Solutions UK Limited ("Aon"), on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of environmental, social and governance ("ESG") factors in investment decision making. This included updates from the Plan's fiduciary manager, AIL, on the actions it was taking to ensure that the underlying asset managers were integrating ESG considerations into its decision-making processes.

Updating the Stewardship Policy

Throughout the year, the Trustee has been proactive to ensure the Plan appropriately updated the Stewardship policy in the SIP.

In line with regulatory requirements, to expand the SIP for policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustee recognises the importance of its role as a steward of capital, as well as indicating how the Trustee would review the suitability of the Plan's asset managers and other considerations relating to voting and methods to achieve its Stewardship policy.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a quarterly investment report being provided to the Trustee by Aon. The Trustee also receives regular investment updates from Aon at Trustee meetings. These updates include ESG ratings for the underlying asset managers, where applicable.

The ESG rating system is for buy rated investment strategies and is designed to assess whether asset managers integrate responsible investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the fund manager. Aon's researchers also conduct a review of the managers' responsible investment related policies and procedures, including a review of their responsible investment policy (if they have one), active ownership, proxy voting and/or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the fund manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed

reference framework. Ratings will be updated to reflect any changes in a fund's level of ESG integration or broader responsible investment developments.

Engagement – Fiduciary Manager

The Trustee has appointed AIL as its fiduciary manager, whereby AIL undertakes day to day management of the Plan's assets. AIL manages the Plan's assets in a range of funds which can include multi-asset, multi-manager and specialist third party liability matching funds. AIL selects the underlying asset managers to manage investments on behalf of the Trustee.

The Trustee delegates the monitoring of ESG integration and stewardship quality to AIL and AIL has confirmed that all equity and fixed income managers have been rated 2 or above on AIL's four-tier ESG ratings system. This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustee has reviewed AIL's Annual Stewardship Report and is content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which it invests.

AIL has undertaken a considerable amount of engagement activity over the Plan year. AIL held around 35 ESG specific "deep-dive" meetings in 2020 predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL's clients invest. At these meetings, AIL was able to analyse and discuss the voting and engagement activities undertaken during 2019, highlighting areas of improvement and discussing manager strategy in the area of responsible investment moving forward. Meetings have been ongoing through the beginning of 2021.

Aon also actively engages with asset managers and this is used to support AIL in the provision of its fiduciary services.

Engagement example

Aon's Engagement Programme maintained a dialogue with a leading investment manager on behalf of many of its clients which invest with the manager. At the end of 2020 Aon had a discussion with the manager's Global Head of Stewardship about numerous areas of concern regarding stewardship, in particular the manager's ability to demonstrate commitment to publicly stated climate change goals.

Aon's analysis of the manager's voting actions showed that the manager had not been voting in a manner consistent with its public pledges on sustainability issues. The manager acknowledged that there was a disconnect between voting decisions made in the first half of 2020 and its commitment to sustainability, but that it had markedly changed its voting policies in the second half of 2020. The manager reassured Aon that in future voting decisions would better align with its stated positions on ESG matters. Aon expect to see this reflected in voting actions by mid-2021.

The manager has since provided further information on how it is updating its policies in a manner consistent with its strategy of intensifying engagement on sustainability.

Aon will continue to monitor and engage with the manager, scrutinising its voting and engagement actions. Aon is encouraged that the manager plans to strengthen its influence with invested companies to better effect.

Voting and Engagement – Underlying Asset Managers

The Plan is invested in a number of equity, fixed income and liquid alternative funds through its investment in Aon's Delegated Consulting Service. This section provides an overview of the voting (where applicable) and engagement activities of some of the most material managers over the reporting period.

Some of the information shown has been provided directly by the underlying asset managers and subsequently reviewed on behalf of the Trustee by Aon. Where this is the case, this has been highlighted in the sections below.

Voting and engagement – Equity

Over the year, the Plan was invested in the AIL Global Multi-Factor Equity Strategy. The material equity investment held in the Plan over the year was the Legal and General Investment Management Multi Factor Equity Fund

The Trustee considers a significant vote broadly as a vote which the respective manager deems most significant to the Plan, or a vote where more than 15% of votes were cast against management.

Legal and General Investment Management Multi Factor Equity Fund ("LGIM")

Voting

	LGIM Multi Factor Equity Fund
% resolutions voted on for which the fund was eligible	99.90%
% that were voted against management	17.99%
% that were abstained from	0.23%

Source: LGIM

Voting Policy (based on information provided by LGIM)

LGIM make use of the Institutional Shareholder Services' proxy voting platform to electronically vote and augment its own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. It has put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what it considers to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting example (based on information provided by LGIM)

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voted against the resolution to amend the directors' remuneration policy proposed by Pearson Plc (Education company). This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new Chief Executive Officer ("CEO") would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in the year on the Board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed its concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant on the basis that Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and LGIM's outstanding concerns, this vote was deemed to be significant.

Engagement Policy (based on information provided by LGIM)

LGIM has a six-step approach to its investment stewardship engagement activities; these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Engagement example (based on information provided by LGIM)

An example of LGIM's engagement was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of its suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on its efforts to eliminate deforestation in its supply chain. LGIM engaged with P&G, Green Century and with the Natural Resource Defence Council to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution although P&G introduced a number of measures to ensure its business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the Carbon Disclosure Project Forests Disclosure and continue to engage on the topic and push other companies to ensure more of its pulp and wood is from Forest Stewardship Council certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement – Fixed Income

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore there is a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited, in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making. The Trustee believes that engagements of this nature are key to reducing ESG risks within the Plan's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

Some examples provided by the Plan's fixed income managers are outlined below.

RobecoEngagement policy (based on information provided by Robeco)

Robeco is focused on improving business conduct and function of the companies it invests in. It carries out extensive baseline research on the companies it invests in, measures changes in company performance relative to engagement objectives and allows three years for engagement. Companies where Robeco's engagement is not successful are considered for potential exclusion.

Engagement example (based on information provided by Robeco)

Over the last few years, Robeco has engaged a number of times with senior employees of a multinational oil company. The focus of the engagement was to encourage the company to take action to contribute towards

preventing global warming rising above 2 degrees Celsius, as then the world, and therefore industries, will be increasingly exposed to significant transitional and physical risks, both acute and chronic.

In 2020, the company announced its aim to reduce the net carbon footprint of its energy products by around half by 2050. Robeco was supportive of these goals but continued to encourage the company to set short term targets and link these to remuneration packages. In addition to announcing its long-term goal, Robeco agreed a joint statement with the company who agreed to start setting shorter term targets. Robeco believes the company now leads the sector in terms of its planning and positioning for energy transition as it looks to move to lower carbon products and solutions.

PIMCO

Engagement Policy (based on information provided by PIMCO)

At the firm level, PIMCO incorporates material ESG factors into the investment research process to better assess issuer risks. In ESG dedicated portfolios, PIMCO implement an additional ESG scoring system which considers how an issuer compares to its peers on ESG criteria and chooses to invest in the issuers who score well.

For non-ESG dedicated funds, like the PIMCO Absolute Returns Bonds fund, the Plan is invested in, there is no explicit objective to actively engage with bond issuers on sustainability practices. However, the fund might benefit from the engagement work pursued in the ESG dedicated portfolios, if the bond issuers are held in both strategies. For example, PIMCO's engagement specialist and credit team met with the Chief Financial Officer and Treasurer of Aercap to learn more about its ESG performance, given the company did not publish a sustainability report. The company have now agreed to move towards sustainability reporting following the engagement.

BlackRock

Engagement policy (based on information provided by BlackRock)

BlackRock believes bond investors, with their often multi-year perspective, are well-positioned to engage collaboratively with management to endorse and promote sound ESG practices. Such engagement enhances BlackRock's credit analysis, by providing it with more comprehensive credit profiles of its borrowers.

BlackRock's firm-wide engagement program also benefits investments in corporate bonds issued by companies. BlackRock Investment Stewardship ("BIS") is positioned as an investment function, which allows for the mutual exchange of views with active portfolio management teams across equity and credit. In addition, BlackRock's Global Fixed Income Responsible Investing team may partner with the BIS team to reflect on ESG related topics from fixed income investors as well to attend or host engagement meetings on certain highlighted ESG flagged holdings. An ESG flagged holding is one where BlackRock holds a significant exposure in fixed income portfolios, and the issuer is flagged as low rated/controversial by external ESG rating providers or is highlighted by its credit research.

Engagement example (based on information provided by BlackRock)

An example of an engagement by BlackRock was with Exxon. BlackRock discussed several engagement topics with the company such as governance structure, corporate strategy, environmental risks and opportunities. This included questions on the company's approach to the European regulatory environment, its views on electric vehicle penetration as a risk to its business, and its risk management in relation to physical climate change risks.

Engagement – Alternatives

The Plan invests in a number of alternative strategies. These include hedge funds, managed futures, insurance linked securities, defensive equities, risk parity, and gold.

The Trustee recognises that the respective investment processes and often illiquid nature of the alternative investments mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustee still expects that all its managers should open a dialogue to engage with issuers/companies it invests in should it identify concerns that may be financially material.

Liquid Alternatives – Defensive & Return-seeking hedge funds

Opportunities for engagement are more limited in such investments given the investment process and the nature of the investments. In particular, the Trustee acknowledges voting activity from the hedge fund managers may be limited due to the potentially short-term/opportunistic nature of hedge fund investments. While stewardship may be less material for these funds, the Trustee notes that AIL will still periodically ask the responsible investment related questions and engage with hedge fund managers where appropriate.

Example Engagement Policy – CFM (based on information provided by CFM)

CFM (an underlying hedge fund manager) does not pursue direct engagement with companies. Being a quantitative and systematic manager overseeing a large and very diverse pool of equity holdings on which it would be difficult to exert influence, CFM chose the route to subscribe to an ESG proxy voting overlay from its proxy advisor. This agreement is in addition to the standing proxy voting agreement and ensures that all of CFM's cash equity voting rights are exercised according to unbiased, research based ESG considerations. In parallel, CFM targets alternative measures and initiatives (such as the Carbon Disclosure Project, a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts¹), through which to engage with firms.

Example Engagement Policy – Marshall Wace (based on information provided by Marshall Wace)

Another hedge fund manager within the strategy, Marshall Wace, implements an annual survey of its stewardship activities with the aim of providing details of the principal occasions on which the manager has felt it appropriate to intervene on stewardship matters. The survey is accompanied by data related to the manager's routine involvement with company managers of its underlying investments as well as any proxy voting records carried out by its proxy voting provider, Glass Lewis.

Liquid Alternatives – Insurance Linked Securities

Leadenhall Capital Partners (“Leadenhall”)

ESG Policy (based on information provided by Leadenhall)

Leadenhall manage an Insurance Linked Securities Fund within the AIL strategy. Leadenhall assesses adherence to ESG principles by considering specific factors, examples may include

1. Environmental impact including pollution prevention (via underwriting standards) and remediation (via providing capital for protection), reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards.
2. Social impact including human rights, welfare and community impact issues.
3. Governance issues including board structure, remuneration, accounting quality and corporate culture.

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. It is a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

¹ [About us - CDP](#)

Leadenhall perform a detailed review of its investment counterparties policies and controls including those concerning its explicit ESG and Corporate Social Responsibility frameworks. Where appropriate it will make recommendations to avoid investment counterparties who are not aligned with ESG policies.

In summary

Based on the activity over the year by the Trustee and its service providers, the Trustee is of the opinion that the stewardship policy has been implemented effectively in practice. The Trustee notes that AIL and the most material underlying asset managers were able to disclose strong evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Plan through considered voting and engagement.

Approved by the Trustee of the Scheme on 21 September 2021

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