

Caterpillar Pension Plan – Annual Engagement Policy Implementation Statement

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 30 September 2023. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Plan

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 Plan included in the SIP are as follows:

- To make sure that the Plan remains sufficiently funded to meet the expected obligations to the beneficiaries of the Plan, assuming that the Plan remains on-going and after making reasonable allowance for the Plan assets to deliver returns in excess of the least risk assets, i.e. gilts;
- To ensure that the Plan Sponsor's accounting cost is kept within a tolerable range from year to year.

Policy on ESG, Stewardship and Climate Change

The Plan'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. This was last reviewed in February 2023 as part of the triennial review of the SIP.

In order to establish these beliefs and produce this policy, the Trustee undertook investment training provided by the investment consultant on responsible investment. The training covered ESG factors, stewardship, climate change and ethical investing. The Trustee undertook further ESG beliefs training at the 26 November 2021 Investment Sub-Committee meeting. At this meeting, the Trustee's investment beliefs were discussed with the investment consultant to assist the Trustee in reviewing the policy in place. The ISC revisited the Plan's investment beliefs (as set out in the SIP) in advance of TCFD training provided in February 2023, and also developed a draft set of Responsible Investment ("RI") beliefs that draw on the policies used by the Plan's managers and take into account the views of the principal employer, Caterpillar (UK) Limited. The RI beliefs will be finalised in 2023 alongside the ISC considering climate risk and the Plan's objectives in greater detail. At that point a final RI policy will be tabled for discussion and agreement by the Trustee

The following work was undertaken during the year 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.

Engagement

As set out in the SIP, the Trustee has elected to invest the Plan's assets through segregated mandates, and has specified criteria in the investment manager agreements for the asset class manager to invest in line with. The criteria align with the Trustee's specific investment requirements. This gives the Trustee the ability to directly influence levels of engagement.

In the year to 30 September 2023, the Trustee has not monitored or queried portfolio turnover costs. The Trustee focuses on net of fees outcomes from the managers which takes into account portfolio turnover costs through the performance generated.

The Trustee may choose to monitor portfolio turnover costs in the future.

Voting and Engagement policies and activities are most relevant for mandates where equities are held directly or indirectly. Given the Plan invests entirely in fixed income securities, a large portion of which are UK Government Debt, these policies are less applicable and only apply to a portion of the Plan's assets.

- A summary of LGIM's general approach to voting and engagement is provided below.
 - LGIM's direct engagement with companies is a way they seek to identify ESG risks and opportunities. On-going dialogue with companies is a fundamental aspect of LGIM's responsible investment commitment. LGIM aims to raise the performance of the whole market through their ESG capability and engagement of companies globally. LGIM believe that ESG issues are fundamentally important to investors regardless of the type of exposure, noting the majority of themes they engage on are relevant to bond investors. Therefore, LGIM explicitly take into account both debt and equity exposures when engaging on behalf of clients.
 - In the Buy & Maintain Credit portfolio, LGIM's team organises their engagement activities including voting across strategies and asset classes to ensure they speak to companies with one voice. Across the companies within the portfolio, over the year to 30 September 2023, LGIM carried out 188 engagements, covering 32% of the fund value. Climate change was the main topic across the engagements. An engagement example is set out below.
 - The financials sector is included as one of LGIM's "climate critical" sectors under LGIM's Climate Impact Pledge. As such, LGIM pre-declared their voting intentions for their forthcoming (at time of writing) AGM in 2023, confirming their intended support for shareholder proposals requesting a time-bound fossil fuel phase-out, and requesting reporting on absolute greenhouse-gas reduction targets. As investors advocating for a just and orderly energy transition, which satisfies all aspects of the current energy crisis (energy security, affordability and sustainability), LGIM continue to emphasise that the boards of financial institutions need to closely consider their strategy and risk appetite towards fossil fuels into the near future. Following their pre-declaration, LGIM have spoken with

Goldman Sachs to discuss their voting intentions on these and other resolutions at their 2023 AGM. LGIM have met with Goldman Sachs on four occasions in the past 12 months.

- In relation to the derivatives within the LDI portfolio, LGIM have confirmed they continue to view ESG as an essential component and integrate it into their approach via:
 - Governance: Engaging with many banks globally on a regular basis to discuss varied governance issues such as strategic direction, risk management, succession planning and board refreshment, social risks and other ESG topics.
 - LGIM also continue to engage with a number of market participants with regard to green gilt issuance.
- A summary of RLAM's approach to voting and engagement over the 12 month period to 30 June 2023 (the latest available) is provided below.
 - RLAM's engagement with issuers covers a number of ESG related matters, and over the year, topics included climate risk, cybersecurity, remuneration and health & safety amongst others. RLAM engaged with 245 companies on 349 occasions spanning these topics. RLAM categorise engagements into two sections, "for information" and "for change and influence".
 - RLAM launched a net zero engagement program which included a systematic assessment of companies and their carbon transition plans in the previous year. There were 44 companies in scope for the net zero engagement program during the year, with 12 of those being engaged with in the final quarter of the year. An engagement example is included below for Volkswagen, which is held within the Plan's portfolio.
 - Volkswagen: RLAM met with Volkswagen twice, the first time introducing Volkswagen to their 12-indicator framework, which they use to assess companies' climate transition plans. On CAPEX, Volkswagen provided links to its taxonomy data and confirmed the climate scenario stress-testing does not feed into the capital allocation decisions. The second meeting was a follow up that focused the discussions on the potential impacts of Volkswagen's climate transition plans on workforce, supply chain, community, and consumers. Volkswagen consider no jobs at risk and described significant efforts to reskill employees, engagement with employees happens at a plant-by-plant basis, with representatives also part of the management decisions, all except one of its plants are unionised, no plants will be closed but some will transform considerably.

- The investment performance report, produced by the Plan's investment consultant, is reviewed by the Trustee on a quarterly basis – this includes ratings (both general and ESG specific) from the investment consultant. Where managers are not highly rated from an ESG perspective, the Trustee has discussed the reasons with the investment consultant. The investment performance report includes how each investment manager is delivering against their specific mandates.
- The Trustee has a detailed road map in place out to the end of 2023 to ensure the Plan meets the requirements of the TCFD framework. The planned schedule of activity over the remainder of 2023 includes the drafting of a first TCFD statement for the Plan.

Voting Activity

The Trustee has delegated their voting rights to the investment managers. Where relevant, investment managers are expected to provide voting summary reporting on a regular basis, at least annually.

When the investment managers present to the Trustee, the Trustee or investment consultant may ask the investment managers to highlight key voting activity, and will question managers' voting decisions if it deems them out of line with the investment fund's objectives or the objectives / policies of the Plan. The Trustee does not use the direct services of a proxy voter.

Over the prior 12 months, due to the nature of the securities that the Plan is invested in, there was no key voting activity to report.

Over the prior 12 months, the Trustee has not actively engaged with the Plan's managers on their voting activity due to the nature of the mandates in place. Going forwards, when investment managers present, the Trustee may be more active in reviewing and challenging voting activity where relevant, particularly in respect of its beliefs on climate change.