

Stewardship and Engagement

Implementation Statement – 1 April 2021 to 31 March 2022

Introduction

On 6 June 2019, the UK Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (the “Regulations”). The Regulations require that the Trustees of the Stepan UK Limited Retirement Benefits Scheme (the “Trustees”) outline how they have ensured compliance with the policies and objectives set out in their Statement of Investment Principles (“SIP”) over the course of the year under review.

This Statement has been prepared by the Trustees with the assistance of their appointed Fiduciary Manager and is for the year ending 31 March 2022.

The Trustees’ Stewardship and Engagement policies are included in the SIP which is available on request.

Changes to the key policies regarding Stewardship and Engagement

The SIP has been reviewed and revised over the period to ensure the Trustees comply with the Regulations noted above. In particular, the Trustees have outlined their policies regarding how they incentivise asset managers to achieve their long-term objectives, their policies regarding cost transparency and their policies on voting and stewardship rights.

During the course of the year, the Trustees have received information from their appointed Fiduciary Manager in relation to how the votes are carried out on their behalf and more generally on how Environmental, Social and Governance (“ESG”) factors are integrated into the Fiduciary Manager’s investment philosophy and by association the underlying specialist managers used in the portfolio.

Voting behaviour

Under the Fiduciary Management arrangement in place the Trustees have delegated proxy voting and engagement decisions to the Fiduciary Manager. The Fiduciary Manager has a robust and well-established set of guidelines to follow when voting on the Trustees’ behalf which are reviewed and updated on an annual basis. It has provided the Trustees with both a copy of the Proxy Voting Guidelines and the most recent Active Ownership Report. The Fiduciary Manager instructs Glass Lewis, a specialist proxy voting firm, to execute the votes in-line with the agreed guidelines and where Glass Lewis cannot apply this policy the votes are referred to Russell Investments Active Ownership Committee.

A total of 12,495 votes were placed on securities held in the Scheme’s Growth portfolio over the period under review. A summary of the voting activity carried out on behalf of the Trustees are set out overleaf.

Key statistics

	Management Proposals	Share Holder Proposal	Total Proposals
With Management	10,327	186	10,513
Against Management	1,095	202	1,297
Votes without Management Recommendation	61	10	71
Take No Action	609	5	614
Unvoted	0	0	0
Totals	12,092	403	12,495

The decision to "Take No Action" was driven by:

- i) Shareblocking markets: As per the Fiduciary Managers standing instructions, if a meeting belongs to a Shareblocking market such as Switzerland, then the ballots are automatically set to Take No Action.
- ii) This rule is applicable at the meeting and the ballot level as well. Sometimes if a meeting or a ballot is share-blocked then either the entire meeting or a ballot gets auto-TNA. You will mostly find the Shareblocking meetings or ballots for Norway, Denmark markets.
- iii) And lastly, for the Contested meetings, one of the two voting cards is set to "Take No Action" (the card which is not voted).

Most significant votes

Criteria adopted

To ensure a wide variety of the placed votes is reflected, the summary of the most significant votes below has been split into Environmental, Social or Corporate Governance categories. The most significant votes in each category are defined by filtering for:

- Contentious outcome votes with voting split relatively evenly. The Fiduciary Manager defines a contentious vote as having a (~65/35 split) AND
- Issue Category (Environmental, Social or Governance) AND/OR
- Weighted holdings (where holdings represent greater than 1% of the total portfolio which have voting rights attached to them)

From this subset the votes have been sorted for the largest weight in the portfolio to get the summary of the most significant votes for ESG issues. Any reference to we and/or us in the following examples refers to the Fiduciary Manager's views and / or approach followed when voting on behalf of the Trustees.

Environmental Votes

Walmart Inc

Shareholder Proposal Regarding Refrigerants Report

Date	02/06/21
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Mgmt. Rec.	Against
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How the vote was cast	Against
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Vote Outcome	Voted Down
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Rationale

The Company has shown sufficient progress with respect to this issue, stating managing and improving its refrigeration systems are a high priority. Specifically, it states that as part of its net zero by 2040 goal, it plans to transition to low-impact refrigerants for cooling and electrified equipment for heating in its stores, clubs, and data distribution centres and that it plans to improve the performance of its refrigeration systems. It also states that it is engaging suppliers on environmental issues, one of which is related to the reduction of refrigerant-related emissions from products. Accordingly, we believe that the Company is aware of and has taken steps to mitigate the environmental impact from its refrigeration systems.

The proposal was overwhelmingly rejected, by ~95% of the vote.

Exxon Mobil Corp.

Shareholder Proposal Regarding Audited Report on Net Zero Emissions 2050 Scenario Analysis

Date	26/05/21
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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Rationale

The production of audited information concerning how the scenario envisioned in NZ2050 would impact the Company's financial position would provide shareholders with meaningful and actionable information, which is increasingly crucial given the need for investors to factor climate-related information into their overall investment decision-making processes.

The proposal was voted down by less than 1% of the vote.

Berkshire Hathaway Inc.

Shareholder Proposal Regarding Climate Report

Date	01/05/21
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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Rationale

Given the Company's lack of any kind of meaningful disclosure and a notable absence of board oversight of climate-related issues, the requested reporting would give shareholders a basis upon which they can evaluate how the Company is monitoring and managing climate-related risks and opportunities. Shareholders would benefit from increased resources being diverted to fill these information gaps, especially considering the Company's operation of several emissions-intensive businesses.

The proposal received approximately 30% support, which demonstrates significant shareholder concern.

Social Votes

Microsoft Corporation

Shareholder Proposal Regarding Report on Effectiveness of Workplace Sexual Harassment Policies

Date	30/11/2021
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Passed
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Rationale

We, along with nearly 80% of shareholders, voted in support of this proposal, following significant high-level controversies concerning the Company's existing policies. The company provides little current disclosure on its sexual harassment policies and has faced a number of high-profile controversies concerning sexual harassment over the years. The company has stated in response that it will begin annual public reporting on its implementation of harassment and discrimination policies starting this fiscal year. Shareholders should support this resolution to further encourage and demonstrate support for additional reporting by the company on this issue, in the light of accusations made against the company recently regarding sexual harassment and discrimination.

Amazon.com Inc.

Shareholder Proposal Regarding the Human Rights Impacts of Facial Recognition Technology

Date	26/05/21
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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Rationale

Issues around the use of facial recognition systems are dynamic and, to some extent, arguably the purview of regulators. However, given potential reputational and regulatory risks, we believe that the Company could reasonably expand its disclosure to include a full accounting of the risks associated with its facial recognition software related to violations of human and civil rights. Such a report on the risks associated with government use of its facial recognition software would benefit shareholders.

Though ultimately rejected, the proposal received >30% support.

Johnson & Johnson

Shareholder Proposal Regarding Racial Impact Audit

Date	22/04/21
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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Rationale

On the Trustees' behalf, we believe that the Company could reasonably expand on its existing diversity, equity & inclusion impact review, by engaging with a third party to thoroughly assess its external impacts. Specifically, while the Company's reporting addresses racial equity within the Company, we believe that information concerning the impact of the Company's operations on communities of colour could benefit from employing an external perspective.

Undertaking the requested audit would help to identify and mitigate potentially significant risks. Though ultimately rejected, the proposal received >30% support.

Governance Votes

JPMorgan Chase & Co.

Shareholder Proposal Regarding Independent Chair

Date	18/05/21
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Mgmt. Rec.	Against
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How the vote was cast	For
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Vote Outcome	Voted Down
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Rationale

Vesting a single person with both executive and board leadership concentrates too much responsibility in a single person and inhibits independent board oversight of executives on behalf of shareholders. On the Trustees' behalf, we believe adopting a policy requiring an independent chair may therefore serve to protect shareholder interests by ensuring oversight of the company on behalf of shareholders is led by an individual free from the insurmountable conflict of overseeing oneself.

Though ultimately rejected, the proposal received >47% support.

Johnson & Johnson

Shareholder Proposal Regarding Independent Chair

Date	22/04/21
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Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Voted Down

Rationale

Vesting a single person with both executive and board leadership concentrates too much responsibility in a single person and inhibits independent board oversight of executives on behalf of shareholders. On the Trustees' behalf, we believe adopting a policy requiring an independent chair may therefore serve to protect shareholder interests by ensuring oversight of the company on behalf of shareholders is led by an individual free from the insurmountable conflict of overseeing oneself.

Though ultimately rejected, the proposal received >43% support.

Alphabet Inc

Shareholder Proposal Regarding Recapitalisation

Date	02/06/21
Mgmt. Rec.	Against
How the vote was cast	For
Vote Outcome	Voted Down

Rationale

We believe, on the Trustees' behalf, that allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board, especially in regard to the director election process. Elimination of the dual-class structure creates an even playing field for all shareholders, as well as a board that is more responsive to all shareholders. We believe all shareholders should have a say in decisions that will affect them. Shareholders do and, in our view, should take a limited role in the operation of the Company. Management, at the direction of the board, is there to operate the business. However, on matters of governance and shareholder rights, we believe shareholders should have the power to speak and the opportunity to effect change. That power should not be concentrated in the hands of a few for reasons other than an economic stake.

Though ultimately rejected, the proposal garnered >30% support.

Engagement Activities

Whilst not all investments have voting rights attached to them it is still possible to effect positive change by engaging with the underlying issuers of equity and debt. The Trustees are supportive of engagement in this way and has delegated this activity to the Fiduciary Manager. Any reference to we, our and/or us in the following examples refers to the Fiduciary Manager's views and / or approach followed when voting on behalf of the Trustees.

Direct-Company Engagement with a US-Based Utilities Company

Engagement Action: Russell Investments engaged with an electric utilities company domiciled in the US with operations based in Kansas and Missouri. The dialogue was focused on the company's efforts around climate change adaptation, ESG accountability, and natural resource management.

Engagement Objective: The goal of engagement was to verify current efforts by the company to transition to the low-carbon economy and encourage continued strategic transition plans.

We aim to:

- Support the company's efforts to set verified GHG reduction targets in line with Science-Based Targets (SBTs) or show third-party verification of non-SBT targets.

- To improve ESG accountability by linking ESG (specifically E) metrics with remuneration.
- Promote disclosure around water stewardship efforts through the CDP water questionnaire.

Engagement Summary: The engagement was focused on three areas:

1. **Climate Change Adaptation:** in 2021, shareholder pressure and regulatory changes saw the company publish an Integrated Resource Plan outlining how they will become net-zero by 2045. The report shows the transition is back heavy as the company relies on regulatory pressures and technology to make it economically feasible to transition away from coal energy while maintaining energy reliability.
2. **ESG Accountability:** ESG is monitored at the board level with executive leadership and various steering groups throughout the company. Remuneration is not tied to meeting environmental targets and there is no specific ESG committee at the board level.
3. **Natural Resource Management:** focusing on water stewardship, the company has reduced water usage primarily by closing coal operating plants. They are considering reporting to the CDP water questionnaire in 2022 which could see them setting water reduction targets.

Engagement Outcome: Russell Investments will continue to engage with the company around the ongoing regulatory pressures and evolution of their low-carbon energy transition plan. The initial call set relationship expectations and a baseline for future progress indicators. We aim to engage and check-in with the company Q4 2022.

Collaborative Engagement on Human Capital and the Future of Work with a Canadian Railway Company

Engagement Action: As part of a collaborative engagement with Sustainalytics, Russell Investments engaged with a Canadian Rail Transport company on its human capital management practices and how it is adapting to the future of work – including diversity and technology adaptation.

Engagement Objective: Russell Investments encourages companies to display an understanding of the human capital risks and impacts posed by technological change, demographic shifts, and globalization. There should be established management strategies that mitigate negative ramifications and ensure workforces that support innovation and business objectives while meeting demands of the future of work. There should be clear strategies to support diversity and inclusion strategies within these practices.

Engagement Summary: The engagement has been ongoing since January 2021 with two engagement calls having been held with company insiders.

In June 2021, we discussed governance of human capital, strategic workforce planning, impact on employees of changes in the workplaces, and employee engagement. An interesting highlight was that Chief of Human Resources now sits at the Executive Management level to ensure the integration of human capital into strategic decisions and processes. As the company redefines its operating model, it is considering the impact of new technologies on the workforce and the skills needed in the future.

In October 2021, we discussed how diversity also represents a core aspect of its human capital strategy, particularly concerning women and Indigenous groups. For example, it has established the Indigenous Advisory Council to support and educate the company on challenges and opportunities to attract and retain Indigenous talent. The company has also established a gender target of at least 30% women at the Executive Management level. To strengthen its DEI efforts, it has carried out a voluntary self-identification survey to collect diversity data from its employees. The response rate would be an indicator on how employees feel about the topic. The data will help the company establish a baseline to set ambitious diversity targets moving forward. Overall, the company wants to reflect the diversity of the communities where it operates.

Engagement Outcome: Engagement will be ongoing until 2023 at which point Sustainalytics will assess the company's progress and outcomes from the overall engagement. Russell Investments expects to continue to engage with the company throughout the timeframe.

Collaborative Engagement on Modern Slavery with a European Construction Company

Engagement Action: As part of a collaborative engagement with Sustainalytics, Russell Investments engaged with a French non-residential construction company with high ESG exposure to modern slavery risks in its operations and supply chain.

Engagement Objective: Sustainalytics and Russell Investments seek to ensure companies adopt fit for purpose strategies that can effectively address the scale, pervasiveness, and hidden nature of modern slavery.

Engagement Summary: The engagement has been ongoing since January 2021 with two engagement calls having been held with company insiders.

In May 2021, the company provided an overview of how its approach to human rights developed over the years. Key to how the company addresses human rights is the use of internal tools that allow local sites to conduct assessments, based on the UNGPs. The company has also created 20 country risk maps which allow it to focus on issues of high priority. It was made clear that its approach to human rights evolved largely as a result of high-profile allegations made by an NGO against the company's operations in Qatar in 2015 when it was accused of using forced labor. As part of the discussion, the company shared the work it has done to reduce and eliminate recruitment fees. It also highlighted the challenges of seeking to improve labor rights where market forces are not favorable, and clients are not driving this. In addition, the company explained that it was carrying out a living wage assessment of employees' wages.

The second call was held in June 2021 and topics discussed included freedom of association, purchasing practices, recruitment fees, and living wages. The company explained how the framework agreement with Builders and Wood Workers International was put in place in Qatar (this included challenges at government level). The company also shared difficulties relating to responsible purchasing practices and provided an example of how it seeks to follow its principles. With respect to recruitment fees, the company advised that this practice has not been found in other geographies, including where there are foreign migrant workers.

Engagement Outcome: Engagement will be ongoing until 2023 at which point Sustainalytics will assess the company's progress and outcomes from the overall engagement. Russell Investments expects to continue to engage with the company throughout the timeframe.

Industry Participation

The Fiduciary Manager is a signatory to the UK Stewardship code and UN Principles for Responsible Investment ("UN PRI"). As a globally recognised proponent of responsible investment, the UN-supported Principles for Responsible Investing ("Principles for PRI") provides resources and best practices for investors incorporating ESG factors into their investment and ownership decisions. As a signatory to the PRI since 2009, The Fiduciary Manager has a long-standing relationship with the organisation and has completed the annual PRI assessment every year since 2013. The Principles are a set of global best practices that provide a framework for integrating ESG issues into financial analysis, investment decision-making and ownership practices. The Fiduciary Manager is actively involved with the PRI, attending annual conferences and global seminars, and engaging on discussions of interest.

The current UN PRI scorecard scored by the Fiduciary Manager as A+ or A in all categories. The average Median score across various categories was 'B'.

Compliance with the policy over the period

As a holder of assets with attached voting rights, the Trustees are able to exercise these voting rights on behalf of members of the Scheme and believe the best approach is to delegate the execution of their policy to the Fiduciary Manager. The Trustees have received information on the voting activity that has been carried out on their behalf on an annual basis and are comfortable with the decisions taken.

Over the reporting period, the Trustees are pleased to report that they have, in their opinion, adhered to the policies set out in their SIP.

The Trustees are pleased with the progress the Fiduciary Manager has made over the year in this area and will continue to work with them to develop their policies in the future.