

Annual Engagement Policy Implementation Statement

Standex UK Retirement Plan

1. Introduction

This Engagement Policy Implementation Statement ('the 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 31 May 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 subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, which transposes the EU Shareholder Rights Directive (SRD II) into UK law.

Section 2 of this Statement sets out the Plan's overall objectives, Section 3 provides detail of the actions taken by the Trustee to meet the Plan's engagement policies set out in the SIP over the year and Section 4 describes the voting behaviour on behalf of the Trustee.

The Trustee has appointed Mercer Limited ("Mercer") as the Plan's sole investment manager and makes use of a number of Mercer Funds, which are collective investment vehicles, managed by Mercer Global Investments Europe Limited (MGIE).

2. Investment Objectives of the Plan

The Trustee's objective is to invest the Plan's DB Section assets in such a way that members' benefit entitlements can be paid as and when they fall due. The DB Section of the Plan has now closed to future accrual, and is therefore steadily maturing. As such, the Trustee's objectives (given below) have been adapted to reflect the finite life of the Plan and the need to consider its "end game" assets in the best interest of its members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide it in its strategic management of the assets and control of the various risks to which the Plan is exposed.

The Trustee's primary aims are:

- To monitor the solvency of the Plan, with the aim of the Plan being close to fully funded on a solvency basis before all members have reached retirement;
- To have 100% assets invested in assets that provide a low level of investment risk relative to the Plan's liabilities, before all members have reached retirement;
- To achieve and maintain a 100% funding level on the self-sufficiency (gilts + 0.5% p.a.) basis.

The Trustee has adopted a Cashflow Driven Investment ("CDI") strategy. Under the CDI strategy, the Plan's assets are invested in such a way that the expected cashflows / income generated by the assets broadly matches a proportion of the Plan's expected liability cashflows, whilst still targeting a small return in excess of gilts.

The implementation of the CDI strategy, including the underlying manager selection of the funds utilized, is delegated to Mercer Limited ("Mercer").

3. 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 reviewed in November 2020 and is made publically available.

The Trustee keeps its policies under regular review with the SIP subject to review at least every three years.

The following work was undertaken during the year in relation 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.

Policy Updates

- The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, have provided reporting to the Trustee on a regular basis.
- The Mercer [Sustainability Policy](#) is available to be reviewed by the Trustee. In August 2022 there was a policy update reflecting enhancements to the approach to climate change modelling and transition modelling, including additional detail on how the policy is implemented, monitored and governed.
- In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone [Stewardship Policy](#) to specifically address the requirements of the directive.

ESG Rating Review

- ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a regular basis and reviewed by the Trustee. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration.
- As at 31 December 2022, in the Annual Sustainability Report provided by Mercer, the Trustee noted that over 20% of Mercer's funds have seen an improved ESG rating over the year and the vast majority have a rating ahead of the wider universe.

Update to Exclusions

- As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognise that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.
- Controversial and civilian weapons, and tobacco are excluded from active fixed income funds.
- In addition, Mercer and MGIE monitor for high-severity breaches of the UN Global Compact ("UNGC") Principles that relate to human rights, environmental and corruption issues.

Engagement

- The Trustee has appointed Mercer to implement the agreed investment strategy, with the Plan's assets being invested in a range of Mercer Funds managed by MGIE.
- Investment managers appointed by MGIE to manage the Mercer Funds are expected to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code, regardless of where they are domiciled. In addition, investment managers appointed by MGIE are

expected to monitor investee companies and to report on stewardship activities and outcomes on an annual basis, as set out in a publicly available Sustainable Investment Policy.

- The Trustee considers how ESG, climate change and stewardship are integrated within Mercer's, MGIE's and the Mercer Fund underlying managers' investment processes in the monitoring process. Mercer and MGIE are expected to provide reporting to the Trustee on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics.

4. Voting Activity

The Trustee investments take the form of shares or units in the Mercer Funds. Any voting rights that do apply with respect to the underlying investments attached to the Mercer Funds are, ultimately, delegated to the third party investment managers appointed by MGIE.

However, due to the nature of the Plan's investment strategy assets (fixed income-orientated investment strategy) means that there are typically no voting rights to exercise. As such, the Trustee has not formulated a definition of what constitutes a significant vote.