

Engagement Policy Implementation Statement for the Year Ended 31 March 2023

RR Donnelley UK Pension Scheme (“the Scheme”)

1. INTRODUCTION

This Engagement Policy Implementation Statement (the “Statement”) sets out the Trustee’s assessment of how, and the extent to which, they have followed their engagement policy and their policy with regard to the exercise of rights (including voting rights) attaching to the Scheme’s investments during the one-year period to 31 March 2023 (the “Scheme Year”). The Trustee’s policies are set out in their Statement of Investment Principles (SIP) dated December 2021. A copy of the Trustee’s SIP is available [here](#).

This Statement has been produced in accordance with the *Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018* and the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019* along with guidance published by the Department of Work and Pensions.

The Trustee invests the assets of the Scheme in a fiduciary arrangement with Mercer Limited (Mercer). By adopting Mercer’s Cashflow Driven Investment (“CDI”) Solution, Mercer are appointed as a discretionary investment manager and day-to-day management of the Scheme’s assets is by investment in a range of specialist pooled funds (the Mercer Funds). Management of the assets of each Mercer Fund is undertaken by a Mercer affiliate, Mercer Global Investments Europe Limited (MGIE). MGIE are responsible for the appointment and monitoring of suitably diversified portfolio of specialist third party investment managers for each Mercer Fund’s assets.

The publicly available [Sustainability Policy](#) sets out how Mercer addresses sustainability risks and opportunities and considers Environmental, Social and Corporate Governance (ESG) factors in decision making across the investment process. The [Stewardship Policy](#) provides more detail on Mercer’s beliefs and implementation on stewardship specifically. Under these arrangements, the Trustee accepts that it does not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds. The Trustee reviews regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether the policies are being properly implemented.

Section 2 of this Statement sets out the Trustee’s engagement policy and assesses the extent to which it has been followed over the Scheme Year.

Section 3 sets out the Trustee’s policy with regard to the exercising of rights (including voting rights) attaching to the Scheme’s investments and considers how, and the extent to which, this policy has been followed during the Scheme Year. This Section also provides detail on voting activity undertaken by the Scheme’s third party investment managers during the Scheme Year.

Taking the analysis included in Sections 2 to 3 together, it is the Trustee's belief that their policies with regard to engagement and the exercise of rights attaching to investments has been successfully followed during the Scheme Year.

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

Policy Summary

The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the ESG policies and practices of the companies in which the pooled funds invest.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and such assets are invested in a range of Mercer Funds managed by MGIE. Asset managers appointed 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.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when Mercer are appointing new managers and these policies are also reviewed periodically for existing managers. In addition, the Trustee will monitor financially material considerations through the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- 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. In particular, use ESG ratings information provided by Mercer, to assess how the Scheme's investment managers take account of ESG issues;
- 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.
- In line with the strategic objectives set by the Trustee to monitor and assess their providers, Mercer are expected to help the Trustee to implement its ESG policy and stewardship considerations in their investment manager appointment. This is reviewed on an annual basis.

How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustee's policy on ESG factors, stewardship and climate change.

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, provide reporting to the Trustee on a regular basis.

The Mercer Sustainability Policy is reviewed regularly. In March 2021 there was an update in relation to the Sustainable Finance Disclosure Regulation (SFDR) implementation. In August 2022 the policy update reflected enhancements to the approach to climate change modelling and transition modelling, additional detail on how the policy is implemented, monitored and governed and, as part of the commitment to promote diversity, finalising MGIE's signatory status to the UK chapter of the 30% Club.

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. This Policy was also updated in August 2022 to reflect enhancements made to Mercer's stewardship approach including an introduction of Engagement Dashboards and Trackers, an enhanced UN Global Compact engagement and escalation process and a Client engagement survey.

UN Principles of Responsible Investing scores for 2021 (based on 2020 activity) were issued over Q3 2022. Mercer were awarded top marks for overarching Investment and Stewardship Policy section, underpinned by strong individual asset class results.

Diversity

From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the

ESG Rating Review

Where available, ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly 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 and compares the Mercer funds overall ESG rating with the appropriate universe of strategies in Mercer's Global Investment Manager Database (GIMD). Engagements are prioritised with managers where their strategy's ESG rating is behind that of their peer universe.

As at 31 December 2022, in the Annual Sustainability Report provided by Mercer, the Trustee noted the Mercer Funds in which the Scheme invests all had ESG ratings equal or above their respective asset class universe. At the wider Mercer Fund level, 21% 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. Due to the nature of certain strategies, they do not have an ESG rating (i.e. are N rated) and are therefore excluded from this review. Please see Mercer's Guide to ESG Ratings for more information <https://www.mercer.com/our-thinking/merc-er-esg-ratings.html>

Approach to Exclusions

As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises 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 weapons are excluded from active equity and fixed income funds, and passive equity funds. In addition tobacco companies (based on revenue) are excluded from active equity and fixed income funds.

Mercer expanded exclusions to further promote environmental and social characteristics across the majority of the multi-client building block funds over the second half of 2022, in line with EU SFDR Article 8 classification, as well as aligning Mercer's existing active and passive exclusions across their fund range.

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

Mercer equity funds and this is being built into a broader Mercer Investment Solutions International policy on Diversity, Equity and Inclusion, sitting alongside Mercer's established Diversity Charter.

Mercer consider broader forms of diversity in decision-making, but currently report on gender diversity. As at 31 December 2022, 36% of the Key Decision Makers (KDM's) within Mercer IS team are non-male, and Mercer's long term target is 50%.

Within the Fixed Income universe the average fund has 8% non-male KDM's and within the EMEA Active Equity universe the average is 12%. Figures relating to Mercer Fixed Income and Active Equity Funds are currently slightly ahead at 9% and 13%.

In Q3 2022 MGIE was confirmed as a signatory of the UK Chapter of the 30% Club.

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

Policy

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

Where this primary consideration is not prejudiced, the investment manager should engage with companies to take account of ESG factors in the exercise of such rights. The Trustee will review the investment managers' voting policies, with the help of Mercer, and decide if they are appropriate. Mercer look to engage with the investment manager if deemed not appropriate to influence the investment managers' policy where possible.

The Trustee expects investment managers to adhere to the Financial Reporting Council's UK Stewardship Code where appropriate for the investments they manage, and will monitor managers' compliance with it with the help of Mercer. The Trustee has noted that Mercer is a signatory of the 2020 UK Stewardship Code. The Trustee also expects the investment managers in the Mercer Funds to engage with investee companies on the capital structure and management of conflicts of interest.

Voting: As part of the monitoring of managers' approaches to voting, MGIE assesses how managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers vote in different ways for the same proposal). MGIE portfolio managers will use these results to inform their engagements with managers on their voting activities.

Given the nature of the Scheme's fixed-income oriented CDI strategy, the bulk majority of the underlying assets 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. Set out below is a summary of voting activity for the year to 31 March 2023 for the Multi-Asset Credit Fund, in which the Scheme is invested. The statistics set out in the table below are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation is for all shares to be voted.

Fund	Total Proposals		Vote Decision					For/Against Mgmt	
	Eligible Proposals	Proposals Voted On	For	Against	Abstain	No Action	Other	For	Against
Mercer Multi-Asset Credit Fund ⁽¹⁾	11	11	91%	9%	0%	0%	0%	91%	9%

⁽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

- “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)”
- “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).

Significant Votes: The Trustee has 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) whether Environmental, Social or Governance related.

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.