Engagement Policy Implementation Statement for the year ended 31 December 2023 (forming part of the Trustee's Report)

Introduction

The Trustee Directors ("Directors") of the Mellon Retirement Benefits Plan (the 'Plan') have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Directors can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

This statement sets out how, and the extent to which, in the opinion of the Directors, the policies (set out in the Statement of Investment Principles) on the exercise of rights (including voting rights) attaching to the investments, and engagement activities have been followed during the year ending 31 December 2023. This statement also describes the voting behaviour by, or on behalf of, the Directors, including the most significant votes cast during the year, and whether a proxy voter has been used. This statement excludes AVCs. The latest SIP is dated June 2023.

The Directors, in conjunction with their investment consultant, appoint their investment managers and choose the specific pooled funds and segregated portfolios to use in order to meet specific Plan policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Plan's performance) over an appropriate time horizon.

Non-financial matters may be considered if the Directors have good reason to think that the members may share the concern; and that the decision does not involve a risk of significant detriment to the Plan's ability to pay members' benefits.

In June 2023 the Directors received training for meeting the various new requirements of the DWP's guidance covering the statement of investment principles and implementation statement. The objectives of the guidance were to improve the quality of SIP policies, develop best practice for implementation statement reporting, clarify how schemes may use disclosures from other frameworks and improve consistency across schemes' reporting and practice.

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Stewardship - monitoring and engagement

The Directors recognise that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Directors acknowledge that the concept of stewardship may be less applicable to some of their assets, particularly for short-term money market instruments, gilt and liability-driven investments. As such the Plan's investments in these asset classes are not covered by this engagement policy implementation statement.

The Directors' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights.

The Directors' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers. The Directors expect the investment managers to use their discretion to maximise risk-adjusted financial returns for members and others over the long term.

The Directors seek to appoint managers that have strong stewardship policies and processes and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020. Details of the signatory status of each investment manager is shown below:

Investment manager	UN PRI Signatory	UK Stewardship Code Signatory
Insight	Yes	Yes
Alcentra	Yes	Yes

The Directors review each investment manager prior to appointment and monitor them on an ongoing basis through the regular review of the manager's voting and engagement policies and a review of each manager's voting and engagement behaviour.

The Directors have agreed environmental suitability restrictions on the corporate bond assets being managed by Insight. For the Plan's other assets, the stewardship priorities follow that of the investment managers.

The Directors have not set out their own stewardship priorities but follow that of the investment managers.

The Directors will engage with a manager should they consider that manager's voting and engagement policy to be inadequate or if the voting and engagement undertaken is not aligned with the manager's own policies, or if the manager's policies diverge significantly from any stewardship policies identified by the Directors from time to time.

If the Directors find any manager's policies or behaviour unacceptable, they may agree an alternative mandate with the manager or decide to review or replace the manager.

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Investment manager engagement policies

Where applicable, the Plan's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Directors with information on how the investment managers engage in dialogue with the companies they invest in and how they exercise voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

The Directors are comfortable that these policies are broadly in line with the Plan's chosen stewardship approach and that they do not diverge significantly from any key stewardship priorities identified for the Plan.

Links to each investment manager's engagement policy or suitable alternative are shown in the appendix. In addition, the investment managers were asked to complete the ICSWG template for reporting on engagement matters, and their responses are shown in the appendix.

Exercising rights and responsibilities

The Directors recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment managers are expected to disclose annually a general description of their voting behaviour, an explanation of the most significant votes cast and report on the use of proxy voting advisers.

All investment managers use proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of public equity voting rights.

The Directors do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour.

The latest available information provided by the investment managers is as follows:

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Investment manager	Period	Description
Alcentra	1/1/2023 - 31/12/2023	In relation to our Direct Lending Platform, as lenders, we typically do not participate in voting, but where we do have a representative on the board, we would exercise our influence through such roles. In the limited occasions where we have equity holdings, we engage with the management team directly as well as via the board. Loan and bond investments generally do not confer creditors voting rights unlike for equity holders. Where Alcentra has minority equity interests in deals it frequently isn't asked to vote as the corporate documents are set-up so that the sponsor can pass any shareholder resolutions needed without its participation in any event. Alcentra's rights are also usually limited to certain minority protections. Where Alcentra owns companies, it exercises control by including language in the deal documentation requiring the board to seek investor consent for matters that it wants to approve as the manager. This is usually done via the Alcentra investor representative on the board (where relevant) rather than having a formal shareholder vote. Where voting rights exist, Alcentra will utilise these to demonstrate its support for initiatives that benefit its end investors in accordance with a firm-wide commitment to furthering the development of ESG and honouring its position as signatories to bodies such as UN PRI. Concerning our Strategic Credit Platform, as a credit manager voting is not material within the context of our activities and given the nature of the asset class the number of occasions where Alcentra will be engaged in proxy voting will be limited. Alcentra may hold voting rights by exception, for example as a consequence of converting debt to equity instruments through a restructuring process. As outlined in our Responsible Investment policy, when it has voting responsibility, Alcentra will make every attempt to vote when given an opportunity to do so and factor in any conflicts of interest.
Insight	1/1/2023 - 31/12/2023	The assets managed for the Plan consist of both pooled and segregated holdings in bonds, LDI and liquidity assets, which generally do not confer voting rights. No voting rights arose in 2023.

Directors' assessment

The Directors have, in their opinion, followed the Plan's voting and engagement policies during the year, by continuing to delegate to each investment manager, the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

The Directors have reviewed the investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Directors recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Appendix

Links to the engagement policies (or suitable alternative) for each of the investment managers can be found here:

Investment manager	Engagement policy (or suitable alternative)
Alcentra	https://www.alcentra.com/assets/filemanager/documents/Alcentra-Responsible-Investment-Policy-20230914.pdf
Insight	https://www.insightinvestment.com/globalassets/documents/responsible-investment/stewardship-code/eu---insight-uk-stewardship-code-2023.pdf

The information below is provided by Alcentra and Insight:

Alcentra Direct Lending (Levered) Fund II - Engagement Examples:

Company – A designer and manufacturer of innovative, high-performance rigid plastic barrier packaging. As part of Alcentra's ESG integration efforts, we are looking to encourage the sustainable performance of our portfolio companies through ESG-linked lending. The margin adjustment mechanism is built around ESG criteria, and the borrower's performance will result in a reduction to the margin depending on how it performs against the defined KPIs. We leverage this mechanism to incentivise borrowers to improve their performance on relevant sustainability matters.

The company had a track record of strong historical ESG data and ESG reports enable selection of appropriate KPIs and set baseline for Targets based on historical performance. Negotiations focused on KPIs being applicable to Group and ensured Targets were stretching.

Outcome:

KPI 1: Combined Group emissions (Scope 1, 2 and 3)

Targets: FY23-25: 3% reduction vs PY (cumulative 9% reduction)

KPI 2: Energy Use - the number of kilowatt-hours for each tonne of goods produced.

Targets: FY23 / FY24 / FY25: <=1,810 / 1,755 / 1,700 KWh/tonne

KPI 3: HDPE PCR - Amount in tonnes of High Density Polyethene (HDPE) manufactured by the Group with Post-Consumer Recycled (PCR) material.

Targets: FY23 / FY24 / FY25: >= 200 / 280 / 360 tonnes.

Alcentra Strategic Credit Fund - Engagement Example:

Objective: Alcentra's Co-Head of Special Situations was appointed to the Board of Directors of one of our portfolio companies. Through his role as a Board member, he has made numerous influential and continued engagements to directly support the company as it made alterations and enhancements to existing governance considerations – specifically surrounding internal reporting and control measures in place, whilst further building upon the company's existing ESG strategy.

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Outcomes: The enhancement of the ESG strategy has been a key consideration for the company as it works to illustrate its Sustainability journey to their customers. Commencing in January 2022, the company:

- *Began reporting annually on sustainability progress*
- *Set a target to become climate positive by 2040*
- *Placed an emphasis on inclusive hiring with a focus on community involvement and charitable giving*
- *Began setting targets for waste and energy reduction initiatives to assist in the transition to a low carbon economy*

The company is committed to continual improvements on its ESG journey – specifically focusing on the supply chain and ensuring that human and labour rights are adhered to. Alcentra's Board representative brings a wealth of experience from other Boards from a diverse portfolio of companies. He has played a key role in influencing and implementing changes through enhanced communication, monitoring, and reporting.

Insight Engagement Information

Engagement	Corporate Bond portfolio	Secured Finance portfolio
Period	01/01/2023 – 31/12/2023	01/01/2023 – 31/12/2023
Engagement definition	Purposeful, targeted communication with an entity (e.g., company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). Regular communication to gain information as part of ongoing research should not be counted as engagement. Collaborative engagements where a group had a passive role (i.e., they were part of a collaborative group but contributed little or nothing towards a specific company engagement) should not be counted as an engagement they have undertaken.	Purposeful, targeted communication with an entity (e.g., company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate). Regular communication to gain information as part of ongoing research should not be counted as engagement. Collaborative engagements where a group had a passive role (i.e., they were part of a collaborative group but contributed little or nothing towards a specific company engagement) should not be counted as an engagement they have undertaken.
Number of entities engaged with over the year	30	A total of c.65 engagements, the majority of which were engagements to improve data collection via our proprietary questionnaire. Of these, c.35 were meaningful engagements.
Number of engagements over the year	73	Between 70-80 total engagements

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Information on the most significant engagement case studies at firm level is shown below.

Insight	Case study 1	Case study 2	Case study 3
Name of entity engaged with	Haleon plc	Rolls-Royce Holdings plc	Medtronic plc
Topic	Strategy, Financial and Reporting – Reporting (e.g., audit, accounting, sustainability reporting)	Environment - Climate change	Social - Human capital management (e.g., inclusion and diversity, employee terms, safety)
Rationale	Haleon plc is a British multinational consumer healthcare company offering personal and over the counter (OTC) healthcare products. Haleon was previously the Consumer Healthcare business within GSK plc and was spun off in July 2022. This engagement was a follow up to earlier engagements to address their relatively poor ESG scores following their spin off from their parent. This engagement is aligned to SDG 3 Good Health and Well-Being, SDG 12 Responsible Consumption and Production and SDG 13 Climate Action.	Rolls-Royce (RR) is a leading global manufacturer of aero-engines, gas turbines and reciprocating engines. This engagement was a follow up to discuss historic bribery issues and carbon emissions progress but also to engage on new topics around labour management and policy and lobbying. This engagement is aligned to SDG 8 Decent Work and Economic Growth, SDG 9 Industry, Innovation and Infrastructure and SDG 13 Climate Action.	Medtronic plc (MDT) is one of the global leaders in the medical device industry, participating in several high-tech segments of the market from cardiovascular, medical surgical, diabetes to neuroscience. This engagement was an ESG deep dive into product safety and quality concerns that has contributed to their Prime ESG rating falling to a 5 towards the beginning of the quarter. This engagement is aligned to SDG 3 Good Health and Well-Being and SDG 12 Responsible Consumption and Production.

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

What the investment manager has done	Haleon views itself as the first 100% consumer healthcare company and is not directly comparable to peers in the consumer product nor pharmaceuticals sectors. It sees itself as being penalised on its ESG scores by external rating agencies as it does not fit neatly into pre-existing sectoral classifications. Haleon has cited engagement with external ESG rating agencies to be difficult but has been dedicating significant resource towards documenting regulations and requirements inherited from their parent and re-documenting existing policies to be in line with rating agencies' required formats. Haleon's proactive engagement with rating agencies is a strong case study for corporate engagement with rating agencies. Haleon agreed to focus on measurement and disclose scope 3 emissions by sources and track by core product lines; and identify any key drivers and initiatives to improve emissions relating to key emitting lines. Haleon has established ESG KPIs linked to executive remuneration via their performance share plan relating to carbon scope 1 and 2 reductions (-48% from 2020 levels by November 2025); >80% recycle-ready packaging by June 2025; >45% females in leadership roles by 2025.	RR has shown progress where it relates to legacy business ethics/ bribery cases but concerns around labour management due to headcount reductions as a result of COVID and planned efficiencies in coming years warrant this 1:1 engagement that was conducted in collaboration with Climate Action 100+. RR's activity levels have increased, and headcount is starting to grow again but new management have outlined plans to boost profitability by reducing headcount by 2-2.5k out of a total workforce of 40k, whilst avoiding compulsory redundancy by actively engaging with unions. RR is also continuing with programmes to boost diversity across their ranks. RR has set a long-term net zero target but acknowledges the lack of short-term targets but flag that climate metrics are baked into executive remuneration, where plans include establishing RR as a climate enabler with their fleet being compatible with sustainable aviation fuel with increased R&D spend to support this. Concerns were also raised with regards to their trade/ lobbying group associations and their associated climate objectives.	Insight has had previous engagements with MDT but was approached by MDT's investor relations team and ESG analyst for a private meeting to discuss issues relating to quality and safety and supply chain management. MDT was rated an ESG 5 for weak scores relating to product safety and quality owing to product recalls that MSCI flagged as severe controversies. MDT reiterated that quality-related metrics are embedded in their employee incentive plans all way to their CEO. They prioritise quality and patient safety, with the goal of zero product recalls but given the nature of their products and devices, this is not very aspirational given the business they operate in, but they have been investing in this area by bringing in new leadership over recent years who have strengthened their enterprise quality strategy and enhanced system standardisation (product development lifecycle, complaint tracking, manufacturer quality, supply chain transformation) in their view. Product recall profiles started to improve in 2021 but Insight expects that continued improvements will take time to materialise through reduction in warning letters, recalls and eventually third-party rating agencies, whom they are maintaining engagement with but do not necessarily agree on methodology.

Engagement Policy Implementation Statement for the year ended 31 December 2023 (continued)

Outcomes and next steps	Haleon's MSCI rating has improved from BB to BBB between October 2022 and August 2023. Insight looks forward to seeing Haleon's ESG report when it is due to be published in April 2024 and expects it to cover policy, targets, progress. On carbon footprint, Haleon will look to improve disclosure (e.g., on scope 3 validation), on their fleet and upstream purchases to bring down scope 3 emissions (e.g., low impact toothpaste inputs and reduction of virgin plastic).	RR conducted an extensive review of their trade / lobbying group associations, which they found to be broadly aligned with their climate objectives. Given the sensitive nature of some of the end markets, trade body activity can be opaque. Insight have encouraged greater disclosure around membership so third-party verification of alignment with climate objectives can be undertaken. Insight will continue to monitor and advocate for more transparency. They also evidenced controls that have since been put in place to guard against historic bribery issuers reoccurring that Insight was broadly satisfied with reducing the risk associated with this issue from a credit quality perspective at present.	Insight will continue to monitor the structural changes MDT is implementing around their product research and development programme, as well as their supply chain. They do not expect material results in the short term, particularly not around any downstream reflection in external rating agencies' ESG scores, which emphasizes the importance of ongoing engagement to form a house-view on the issuer's credit and ESG profile. The changes MDT are implementing will take time to take hold and translate into improvements to their ESG profile, which would be aligned to the investment time horizon of those adopting buy-and-maintain strategies. The Prime ESG downgrade to 5 translated to a 'sell' recommendation for certain funds during the quarter. However, towards the end of the quarter, MDT's ESG score since recovered to a 4, which made it eligible to be included in the investable universe of most funds again. Fundamentally, MDT continues to perform well, and we do not have concerns about their credit quality for now.