



Hilti Pension Scheme (‘Scheme’)

31 December 2022 Implementation
Statement

May 2023

Schroders' Solutions Disclaimer:

The Implementation Statement is a regulatory requirement under the 2018 changes to the Occupational Pension Schemes (Investment) Regulations 2005. It is important that the Trustees of the Scheme understand and consider financially material Environmental, Social and Governance ("ESG") factors and consider its own stewardship obligations. A failure to do this puts the Trustees at risk of breaching your legal duties.

This is a Trustee document and the Trustees must review the Implementation Statement draft, provided by its investment adviser, and confirm that they have considered the content prepared and reviewed any associated documentation such as voting policies.

1. Introduction

The Trustees are required to make publicly available online a statement (“the Implementation Statement”) covering the Hilti Pension Scheme (the ‘Scheme’) in relation to the Scheme’s Statement of Investment Principles (the “SIP”).

The SIP was amended twice during the year ending 31 December 2022; the changes made in July 2022 were predominantly for the transition to the new Investment Manager (“Schroders Solutions”) and updated investment strategy, the changes made in December 2022 were for the de-risking that took place following the significant improvement in funding level over the year.

A copy of the current SIP signed and dated December 2022 can be found here:

https://www.hilti.co.uk/content/dam/documents/e1/2022July_Hilti_PensionSchemeFM_SIP_ExecutionCopy.pdf

This Implementation Statement covers the Scheme year from 1 January 2022 to 31 December 2022 (the “Scheme Year”). It sets out:

- How the Trustees’ policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustees during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A new set of guidance (“the Guidance”) from the Department for Work and Pensions (“DWP”) has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustees of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme’s SIP. This Implementation Statement has been prepared to provide the details on how the Trustees of the Scheme, with the help of the Scheme’s Fiduciary Manager, has complied with the new statutory guidance set by DWP.

A copy of this Implementation Statement is available on the following website:

<https://www.hilti.co.uk/content/hilti/E1/GB/en/various/footer-links/implementation-statement.html>

2. How the Trustees' policies on exercising voting rights and engagements have been followed over the Scheme Year

The Trustees retain the Fiduciary Management¹ service of **Schroders IS Limited**, formerly known as **River and Mercantile Investments Limited**, as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). The Fiduciary Manager can appoint other investment managers in respect of underlying investments (these are referred to as "**Underlying Investment Managers**"). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then.

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021

¹The Fiduciary Manager was acquired by Schroders Group on 1 February 2022.

The Scheme invests in assets with voting rights attached, and other assets with no voting rights. The Trustees' policies on exercising voting rights and engagement are set out in the SIP. A copy of the Scheme's SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustees' investment policies when providing Fiduciary Management services. However, the investments with the Underlying Investment Managers are generally made via pooled investment funds, where the Scheme's investments are pooled with those of other investors. With these funds, the direct control of the process of engaging with the companies that issue the underlying securities lies with the Underlying Investment Manager who may have different engagement priorities than the Trustees.

Therefore, the Trustees require that the Fiduciary Manager considers the stewardship activities which include voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, when choosing new or monitoring existing Underlying Investment Managers. The Trustees believe it is appropriate to delegate the decision of appointing and monitoring Underlying Investment Manager to the Fiduciary Manager who will be able to influence the Underlying Investment Manager's voting and engagement policies. The Trustees can therefore largely exercise their stewardship policy set out in the Scheme's SIP.

The Trustees believe the Fiduciary Manager's engagement themes are issues which are material to the long-term value of the investments. The Trustees believe that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Scheme. These issues also reflect expectations and trends across a range of stakeholders and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately will maximise the value addition to the Scheme's investment, hence benefit the Scheme's members and beneficiaries..

Over the Scheme Year, the Fiduciary Manager also provided the Trustees with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Trustees are satisfied with the Fiduciary Manager's activity in this area.

On behalf of the Trustees, monitoring of voting and engagement policy by Underlying Investment Managers in relation to the Scheme's investments was also carried out by the Fiduciary Manager through regular investment and operational due diligence meetings with the Underlying Investment Managers. In addition, the Trustees with the help of the Fiduciary Manager, monitors the performance of the Underlying Investment Managers against the agreed performance objectives at Trustee meetings held during the Scheme Year.

Over the coming year, the Trustees and the Manager plan to cover training on topics such as Climate Risk and ESG update within the Fiduciary Management solutions. The Trustees will review the Annual ESG report of 2022 during 2023 as part of ongoing monitoring of how the Fiduciary Manager has exercised the Trustees' stewardship policy over the Scheme Year.

In addition to the other activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustees believe they have acted in accordance with the DWP Guidance over the Scheme Year and will look to develop their stewardship policy and document it in the SIP.

The Trustees have identified areas in which it can enhance its stewardship activities in the following scheme year by:

- Documenting the agreed engagement priorities in the SIP to aid in stewardship and focus engagement.
- Reviewing the Fiduciary Manager's (Schroders Solutions) ESG annual update to ensure the Fiduciary Manager is carrying out the voting and engagement activities in line with its policies.
- Continuing to review the Underlying Investment Managers on voting and engagement examples.

3. Voting and Engagement Summary

The process for exercising voting rights and engaging with the managers of assets held on behalf of the Scheme is as follows:

1) Engagement and the exercise of voting rights which have been aligned to the Fiduciary Manager

The Fiduciary Manager exercises voting rights with the Underlying Investment Managers on behalf of the Trustees in line with its voting policy. This policy sets out how the Fiduciary Manager will aim to vote at a general meeting of a pooled fund.

2) The Underlying Investment Managers exercise voting rights in the underlying securities and engages with the company issuing the security in line with the policies which may have been influenced by the Fiduciary Manager.

The Trustees have considered the voting statistics and behaviour set out below along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio and the liability hedging portfolio and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustees noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers and some good progress has been achieved such that the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activity over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- The Trustees considered relevant examples in relation to its engagement priorities which has been aligned with the Fiduciary Manager's in this Implementation Statement. Brief summaries are included in this section and they were selected to demonstrate how the Fiduciary Manager & Underlying Investment Managers, on behalf of the Trustees, voted and engaged with Underlying Investment Managers and the investee companies respectively. Those engagement priorities and themes are set out below:
 - **Climate:** Climate risk and oversight, Climate alignment including decarbonising and minimising emissions, climate adaptation and carbon capture and removal
 - **Natural Capital and Biodiversity:** Nature-related risk and management, circular economy, pollution and waste, sustainable food and water, deforestation
 - **Human Rights:** Overarching approach to human rights, works and communities, customers and consumers
 - **Human Capital Management:** Corporate culture and oversight, investment in the workforce, engagement and representation, health, safety and wellbeing
 - **Diversity and Inclusion:** Board diversity and inclusion, executive & Workforce diversity and inclusion
 - **Corporate Governance:** Board and management, executive remuneration, relationship with shareholders
- On behalf of the Trustees, the Scheme's Fiduciary Manager last year identified Underlying Investment Managers who will be the engagement targets over this Scheme year. Under Schroders' Manager ESG ratings system, these Underlying Investment Managers received 'Red-Engagement' ratings - meaning the manager is available for inclusion in the portfolios but subject to enhanced monitoring and reporting, whereby failure to improve will result in a downgrade to exclusion. The Fiduciary Manager has seen some significant progress which has resulted an increase in the Underlying Investment Managers' rating in some cases.
- As a result of the Russian invasion of Ukraine in early 2022, the Fiduciary Manager has implemented a no-Russia investments policy, and had begun removing any Russian exposures from the portfolio and engaging with underlying managers who continue to hold exposures. The Trustees are supportive of this approach and receive updates from the Fiduciary Manager on the success of its engagements in this area. An example where the Fiduciary Manager has been successful with engaging with underlying managers is with a hedge fund manager within the alternatives allocation of the Fiduciary portfolio. As a result of the recent engagement with the manager seeking to maintain client investment

without exposure to certain Russian assets, the fund now has no exposure to Russia and Belarus and the exclusion of cannabis companies. Additionally, all existing fund terms remain unchanged (fees, liquidity, valuation methodology).

Some details of the voting and engagement from the Scheme's Underlying Investment Managers are set out below:

- Within the Scheme's portfolio, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking equity assets, the Trustees noted that BNYM prioritised engagement with each of their underlying holdings on areas largely in line with Schroders Solutions' engagement themes. The BNYM semi-annual proxy voting reports (links included in Appendix). The report includes details of the significant votes and engagement examples covering a board range of underlying investment companies.
- An example would be their engagement with an American multinational food processing and commodities trading corporation. In May 2022, BNYM voted for a shareholder proposal requesting that the company report on how it is measuring its use of pesticides that cause harm to human health and environment in its agricultural supply chains. The company does not currently provide targets on pesticide use which lagged its peers. Although the proposal did not pass, BNYM will continue to engage with the company to disclose more information on how the company is managing supply chain risks around this topic.
- For the largest mandate within the return-seeking credit assets, the Fiduciary Manager had one specific climate-related engagement meeting with the manager over 2022, focussing on net zero within the fund and engaging with top emitters. As a result of this engagement, the manager engaged with all three high emitters and implemented a plan to reduce emissions. Furthermore, they demonstrated a clear, repeatable framework for their analysts to engage with companies on climate. In 2023, the Fiduciary Manager will continue to engage with the credit manager focussing on the following:
 - Specific targets for the portfolio based on their proprietary net zero alignment indicator;
 - Specifying a portion of the portfolio to be engaged with on climate; and
 - Introducing enhanced emission reporting.
- In relation to the liability hedging and structured equity mandate, the Trustees noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored. Similarly to the last year, the liability hedging manager, Schroders Solutions Derivatives also invested on the Scheme's behalf in green gilts and this is seen as a vote in favour of the UK Government's commitments to achieving the Paris Agreement goals.

The Trustees are satisfied with the voting and engagement activities undertaken by both Fiduciary Manager and the Underlying Investment Managers.

Appendix 1 – Voting & Engagement statistics

1. Voting and engagement by the Fiduciary Manager (Schroders IS, formerly known as R&M) in relation to underlying pooled funds held on behalf of the Trustees

Most of the rights and voting regarding the Scheme’s investments relate to underlying securities investment via pooled funds managed by Underlying Investment Managers – this is covered in part 2 below. However, the pooled funds themselves often confer certain rights around voting or policies. These rights are exercised by the Fiduciary Manager on behalf of the Trustees and we cover these here.

Over the year to 31 December 2022, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients’ pooled fund investment on 64 resolutions during the 12 months period across 19 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 6.3% of total resolutions and abstained on 4 resolutions (6.3% of the total resolutions). The engagement topics covered a range of areas including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

Over the Scheme Year, the Fiduciary Manager also

- engaged all Underlying Investment Managers on their plans relating to net zero and will engage on a regular basis with those who do not have any net zero target or plan to decarbonise;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager was not satisfied with the quality of data previously provided.
- engaged with the one manager that was rated ‘red-engagement’ on Schroders’ ESG scoring matrix. The engagement activities and outcomes are set out in the table below:

	Engagement themes identified	2022 Engagement	Progress over 2022
Manager B – Alternatives	<ul style="list-style-type: none"> ▪ Formalise diversity policy ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy 	<ul style="list-style-type: none"> ▪ A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future ▪ Focus on D&I and how the manager has improved its processes and increased the effectiveness of its committee structure 	<ul style="list-style-type: none"> ▪ Improved scoring across all pillars and overall rating upgraded to amber ▪ The manager has become a signatory to UN PRI – the first mandatory reporting is due in May 2023 ▪ A formal ESG Investment Policy and a formalised approach to ESG across all portfolios

2. Voting by the Underlying Investment Managers on securities held on behalf of the Trustees

There are c. 15 Underlying Managers used by the Investment Manager. Set out below is the voting statistics for the most material equity holding that held voting rights during the period, namely the BNY Mellon Global Equity Fund. Within other asset classes there are no voting rights.

Summary of voting activity – Equity mandates

BNYM Global Equity Fund	
Total meetings eligible to vote	890
Total resolutions eligible to vote	11,333
% of resolutions did you vote on for which you were eligible?	100%
% did vote with management?	93%
% vote against management?	7%
% abstained	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	2%

Note:

- BNYM uses Institutional Shareholder Services, “ISS”, for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM does not use the PLSA voting template. We included votes withheld in votes abstained for BNYM to be in line with the PLSA template, although there are differences between votes withheld and votes abstained. BNYM also did not vote on 1% of the overall proposals.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of “Abstain” is also considered a vote against management.

3. Examples of voting and engagement carried out by the Underlying Managers

Engagement Theme	Manager	Examples
Climate change	PIMCO	
Natural Capital & Biodiversity	BNY Mellon	Archer-Daniels-Midland
Human Rights	PIMCO	British Multinational Bank
Human Capital Management	PIMCO	British multinational banking and financial services organisation
Diversity & Inclusion	BNY Mellon	PNC Financial Services Group, Inc.
Corporate governance	Neuberger Berman	Boeing

Climate Change – Leading US Multinational Bank

PIMCO led a collaborative engagement discussion with the multinational bank’s Chief Sustainability Officer and Corporate Governance team on Paris Agreement alignment. PIMCO discussed the bank’s rationale for its new sectoral emission targets, updates on its latest decision to diverge from the Partnership for Carbon Accounting Financials (PCAF) method on emission attribution, and its approach to engaging clients on developing credible energy transition plans and Paris Agreement alignment. PIMCO encouraged the bank to strengthen disclosure on its client engagement and escalation practices and recommended reporting examples of its work with clients on credible transition plans.

PIMCO holds the bank’s Green Bonds, in which proceeds are to be allocated towards expenditures aligned with the following green bond principles: renewable energy, energy efficiency, sustainable transportation, green buildings, and water quality & conservation.

Natural Capital & Biodiversity – Archer-Daniels-Midland

In May 2022, BNY Mellon supported a shareholder proposal requesting a report explaining if and how the company is measuring its use of pesticides that cause harm to human health and the environment in its agricultural supply chains. Archer-Daniels-Midland does not currently provide targets on pesticide use when many of their peers do. In instances where supply chain concerns could pose a material risk to a company, Mellon prefer that companies be as transparent as possible in disclosing their processes and data around managing this risk. The proposal did not pass, and the manager will continue to encourage Archer-Daniels-Midland to disclose more information on how the company is managing supply chain risks around this topic.

Human Rights - British Multinational Bank

Rational for the engagement:

- PIMCO engaged with their ESG team to discuss their net zero progress and sector policy along with labour rights related to the companies they lent to.
- The engagement example below is in relation to: Greenhouse Gas Emissions, Land Use and Biodiversity, Human & Labour Rights

Example:

- PIMCO clarified with the issuer the specifics of their net zero targets. Additionally, the issuer confirmed its exposure to cattle and soy, which is limited, while having robust oversight over palm oil companies. The issuer has also incorporated all recommendations from the OECD guidance on human rights due diligence for banks.

Outcomes and next steps:

- PIMCO recommended the issuer to clarify how it prioritises and engages with clients on transition. Furthermore, they encouraged the issuer to consider reducing the remaining indirect coal financing exposure in line with the net zero timeline. The issuer is looking into strengthening their lending due diligence in regards to human rights, with international mechanisms (e.g. the International Finance Corporation) and the effectiveness of the grievance mechanisms in place.

Human Capital Management - British multinational banking and financial services organisation

Rational for the engagement:

- PIMCO engaged with the investor relations team, focusing on climate change and human rights.

Example:

- During the meeting they discussed progress on sector target setting, financed emissions, client engagement on transition, clarifications on sector policy and grievance and remediation for human rights. PIMCO also discussed the issuer's gaps in their lending policies on natural capital and alignment with net zero and are reviewing the policy though unlikely to be updated in 2022. They encouraged the issuer to clarify their approach to assess and engage clients on transition progress, including clear criteria for assessing clients' transition progress (e.g. against 1.5C pathways, net zero framework by TPI or CA100+).
- PIMCO also recommended more explicit reference to net zero in sector policies, particularly setting out time-bound expectations for all carbon-intensive sectors to have a credible transition plan and/or net zero targets. Furthermore, PIMCO recommended the issuer to set clear criteria for assessing client transition progress, defining engagement strategy, outcomes and escalation process.

Outcomes and next steps:

- The issuer recognized the room for improvement in strengthening human rights due diligence in lending and intend to improve over the coming years. The issuer is reviewing the lending policies, with updates expected through 2022.

Diversity & Inclusion – The PNC Financial Services Group, Inc.

In August 2022, BNY Mellon met with representatives of The PNC Financial Services Group, Inc., including the SVP for Stakeholder Engagement for ESG, the Deputy General Counsel of Corporate Governance, and Investor Relations.

PNC has hired its first Chief Corporate Responsibility Officer with a future goal of eliminating systemic racism. As a result of the 2021 Banco Bilbao Vizcaya Argentaria (BBVA) acquisition, the company's original financial commitment to this goal has turned into a much larger commitment. The PNC Financial Services Group is committed to affordable housing action, enhanced community development and support for minority-owned small businesses. During this engagement, the manager encouraged PNC to continue to maintain annual updates on the ongoing monetary commitment made to these areas.

Corporate Governance – Boeing

Neuberger Berman, one of our credit managers have spent 4 years engaging with Boeing following MSCI assigning the company a Very Severe Controversy Flag which put Boeing in the manager's engagement priority list. Neuberger Berman communicated with the issuer on concerns related to product safety of its 737 Max aircraft following two disasters that resulted in the deaths of passengers and crew and engaged with the company on their internal risk controls, oversight procedures, and governance structure given the revelation of design flaws with the 737 Max and inadequate attempts by the company to address the issue.

The engagement process was led by credit analysts within the team and included 13 discussions over a period of 4 years with the senior management, including the CFO, Treasurer, and Investor Relations team. The issues raised included Boeing's risk controls, lack of oversight and inadequate governance structure. While the initial actions taken by Boeing were not always adequate, through manager's continued engagements, Boeing has addressed our concerns regarding its governance and risk controls.

Neuberger Berman consider this engagement was a successful example as Boeing made the following changes:

- Boeing Improved its safety oversight standards through the creation of the independently managed “Aerospace Safety Committee” with responsibility to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of aerospace products and services.
- Implemented an enterprise-wide Safety Management System “SMS” and established a Quality Management System “QMS” to fully embed safety and quality across total production process
 - Named a new chief aerospace safety officer with accountability to Boeing’s Aerospace Safety Committee and created 4 operations councils overseeing all BA manufacturing, quality, supply chain and program management teams.
- Executive compensation changed with an increased focus on operational performance tied to product safety, employee safety, quality along with climate area.

Neuberger Berman will continue future engagements to address additional improvements that can and should strengthen BA’s product safety and risk oversight systems. While the manager has and will continue to raise concerns regarding greater risk oversight procedures, ultimately the changes implemented by Boeing along with design improvements allowed the 737 Max to be recertified globally.

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	<p>BNYM’s voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below:</p> <p>https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html</p> <p>https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html</p>
Vanguard	<p>Disclosure of rationale of voting can be found:</p> <p>https://global.vanguard.com/portal/site/portal/investment-stewardship/perspectives-commentary</p>
Leadenhall	https://www.leadenhallcp.com/esg
Neuberger	https://www.nb.com/en/global/esg/engagement
CBRE	<p>CBRE Global ESG policy: https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/home/about-us/sustainability/cbreim-global-esg-policy.pdf</p>
PIMCO	https://www.pimco.co.uk/en-gb/general/legal-pages/proxy-voting-policies-and-procedures