Annual Engagement Policy Implementation Statement

Lyondell Chemical Europe, Inc. Pension Plan

Introduction:

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 30 June 2024 (the "Plan Year"). 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 subsequent amendments, and the guidance published by the Pensions Regulator.

Changes to the investment arrangements during the Plan Year

The basis of the Trustees' strategy is to divide the Plan's assets between Equities and Bonds, which comprise of assets such as UK gilts, UK index-linked gilts and UK corporate bonds. The Trustees regard the basic distribution of the assets to be appropriate for the Plan's objectives and liability profile.

In April 2024, in light of funding level improvements, the Trustees discussed the opportunity to de-risk the Plan's investment strategy by switching a proportion of the equity investments into bonds. The Trustees formally reviewed the Plan's investment strategy at the Trustee meeting on 11 April and agreed to the proposed strategy of switching 12.5% of the Plan's assets from equities to bonds (whilst simultaneously restructuring the bond portfolio to better match the estimated profile of the Plan's liabilities). Implementation was completed in early June 2024.

The SIP was updated in May 2024 to reflect the revised investment strategy. This statement is based on the relevant versions of the SIP that were in place during the Plan Year, which were the SIP dated August 2021 and the SIP dated May 2024.

Investment Objectives of the Plan:

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Plan included in the SIPs in place during the Plan Year are as follows:

The Trustees' funding objective is to have sufficient assets so as to make provision for 100% of the Plan's liabilities as determined by an actuarial calculation. The Trustees aim to invest the assets of the Plan prudently to ensure that the benefits promised by members are provided.

The Trustees have set an investment strategy by first considering the lowest risk asset allocation that they could adopt in relation to the Plan's liabilities, and then selecting a strategy that is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan's liabilities.

Policy on ESG, Stewardship and Climate Change

The Trustees keep their policies under regular review with the SIP subject to review at least triennially or following any material change in investment strategy or policy. The Plan's SIP includes the Trustees' policy on Responsible Investment and Corporate Governance, which includes reference to Environmental, Social and Governance ("ESG") factors as well as stewardship and climate change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship. This policy was last reviewed during the Plan Year (in May 2024).

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the year.

Engagement

The Plan's investment performance reports were received by the Trustees on a quarterly basis during the year under review and considered in more detail at the Trustees' meetings on 2 October 2023 and 11 April 2024 – these included ratings (both general and ESG specific) derived by the Trustees' investment consultant. All of the pooled funds in which the Plan invested over the Plan Year remained highly rated during the year, where relevant.

The Trustees were comfortable with the ratings applied to the funds and continue to closely monitor these ratings, as well as any significant developments at the investment manager.

The Trustees also reserve the right to challenge the investment manager directly on ESG policies and practices, if deemed appropriate. The Trustees kept LGIM's capabilities under review during the year and remained comfortable that LGIM remains a market leader in ESG matters and uses its scale to engage productively to change corporate behaviours and drive change, where deemed necessary.

LGIM is a signatory to the UK Stewardship Code 2020, following the submission and approval of the required reporting to the Financial Reporting Council.

The Trustees' investment consultant requested, on behalf of the Trustees, details of relevant engagement activity for the Plan Year from LGIM. LGIM engaged with companies on a wide range of different issues including ESG matters such as climate change, social and financial inclusion, and board structure. LGIM provided the following examples of engagement undertaken during the Plan Year:

Environmental

LGIM have been engaging directly with APA, Australia's largest energy infrastructure business, since 2022 as part of their Climate Impact Pledge campaign. APA has been designated as one of LGIM's so called 'dial mover' companies. In their engagements with the company, LGIM identified areas where APA fell short of expectations, particularly in relation to climate-related lobbying activities.

LGIM expect companies to introduce credible transition plans aligned with the Paris goals of limiting global average temperature increase to 1.5°C. As a consequence of lacking Scope 3 emissions targets, when APA Group brought its climate transition plan to a vote, LGIM withheld support.

In early 2024, LGIM learned that APA plans to include a Scope 3 emissions goal in its climate transition plan in 2025. APA's commitment to include such a target was influenced by feedback from the c.20% of investors, including LGIM, who voted against the proposed plan in 2022. LGIM will continue to engage with APA as it strives towards net-zero emissions.

Social

In late 2022, LGIM joined ShareAction's Healthy Markets Initiative to encourage companies, including Nestlé, to do more in several areas, such as greater transparency around nutrition strategy and committing to disclosures around the proportion of sales associated with healthy food and drinks products. LGIM met with Nestlé several times in 2022 and 2023 to discuss ongoing concerns, particularly regarding Nestlé's plans to both monitor and actively increase sales of healthier products.

In September 2023, Nestlé unveiled a nutrition target that LGIM believed was not sufficiently ambitious. LGIM's concerns arose from the target aligning with Nestlé's overall growth guidance, potentially resulting in no improvement linked to consumer health and diets. Additionally, some products classified as 'nutritious' by Nestlé fell outside government-endorsed nutrient profile models.

In early 2024, LGIM and ShareAction agreed to co-file a shareholder resolution at Nestlé's Annual General Meeting. The resolution called for key performance indicators tied to the healthfulness of food and beverage sales and a timebound target to increase the proportion of sales derived from healthier products. LGIM will closely monitor Nestlé's response and continue engagement on this issue.

Governance

Bayer, a prominent player in the pharmaceuticals and crop science industry, faces reputation risks from ongoing glyphosate litigation related to its Roundup herbicide. The litigation has resulted in total charges or payments exceeding $16bn since Bayer's acquisition of Monsanto in 2018. The unresolved litigation poses risks to Bayer's debt reduction and future growth. Bayer's CEO has initiated internal governance streamlining and expressed openness to potential business restructuring.

LGIM have met with Bayer on several occasions, seeking to ascertain how Bayer will fund and manage ongoing litigation risks whilst also investing for long-term growth. LGIM also used a recent bond deal marketing call as an opportunity to advocate for a clearer message from Bayer regarding its view of what its ‘core’ business is. LGIM remains engaged with Bayer.

Voting Activity

The Plan is invested in multi-client pooled funds therefore the Trustees do not have direct voting rights in relation to the Plan’s investments. The Trustees have delegated their voting rights to the Plan’s investment manager. Where applicable, the investment manager is expected to provide voting summary reporting on a regular basis, at least annually. The Trustees do not use the direct services of a proxy voter. The Trustees did not actively challenge LGIM on its voting activity during the Plan Year.

The Trustees had equity exposure through the following LGIM funds during the relevant period;

- UK Equity Index Fund
- North American Equity Index Fund
- Europe (ex-UK) Equity Index Fund
- Japan Equity Index Fund
- Asia Pacific (ex-Japan) Developed Equity Index Fund

The table below highlights key metrics as to how LGIM has exercised the voting rights and/or engagement activity on behalf of the Trustees, covering the period 1 July 2023 to 30 June 2024.

Fund	Votable meetings	Total votable proposals	No. of proposals voted on behalf of investors	Participation rate	% votes against management
UK Equity Index	727	10,393	10,372	99.8%	5.7%
North America Equity Index	634	8,384	8,310	99.1%	35.4%
Europe (ex-UK) Equity Index	511	8,877	8,851	99.7%	17.9%
Japan Equity Index	504	6,066	6,066	100.0%	10.7%
Asia Pacific ex Japan Developed Equity Index	457	3,233	3,233	100.0%	23.8%

Significant votes

The Trustees deem 'most significant votes' as votes on climate change related resolutions, such as a vote requiring publication of a business strategy that is aligned with the Paris Agreement, and votes that have the potential to substantially impact financial outcomes.

The Trustees also considered size of holding when determining significant votes, given the passive management approach of the equity funds and the considerable number of underlying companies within each fund. Based on the respective proportions of the Plan's overall equity portfolio, the Trustees focused on the largest three holdings for the North America Equity Index Fund, and the top holding for each of the other funds (based on the approximate size of the fund's holding as at the date of the relevant vote).

The Trustees will keep this definition under consideration based on emerging themes within internal discussions and from the wider industry. The Trustees did not inform LGIM of what they considered to be a 'significant vote' in advance of voting.

In determining significant votes themselves and providing this information to investors, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. This includes, but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote;
- Sanction vote as a result of a direct or collaborative engagement;
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

The Trustees have reviewed this voting information provided by LGIM and view the votes below as the most significant in accordance with the Trustees' significant votes definition.

Company / Date of vote	Why it is significant / Size of holding	Summary of Resolution / Vote cast	Rationale for voting decision	Outcome
North America Equity Fund (Target Allocation: 12.5%)				
Microsoft Corporation 07/12/2023	Top 3 Holding / Financial Outcomes 6.9%	Elect Director Satya Nadella Against*	A vote against is applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.	Passed – 94.4% voted for
Apple Inc. 28/02/2024	Top 3 Holding / Diversity 6.2%	Report on Risks of Omitting Viewpoint and Ideological Diversity from EEO Policy Against*	LGIM views diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf. LGIM felt that a vote against this proposal is warranted as the company appears to be providing shareholders with sufficient disclosure around its diversity and inclusion efforts and non-discrimination policies and including viewpoint and ideology in Equal Employment Opportunities ("EEO") policies does not appear to be a standard industry practice.	Failed – no further voting information
Amazon.com, Inc. 22/05/2024	Top 3 Holding / Human Rights 3.4%	Report on Customer Due Diligence For	LGIM believe enhanced transparency over material risks to human rights is key to understanding the company's functions and organisation. While the company has disclosed that they internally review these for some products and has utilised appropriate third parties to strengthen their policies in related areas, there remains a need for increased, especially publicly available, transparency on this topic.	Failed – 16.4% voted for
Europe (ex UK) Equity Index Fund (Target Allocation: 5.0%)				
Novartis AG 05/03/2024	Top Holding / Financial Outcomes 2.2%	Re-elect Joerg Reinhardt as Director and Board Chair For	LGIM felt that a vote for was appropriate following engagement with the company.	Passed
UK Equity Index Fund (Target Allocation: 2.5%)				
Shell Plc 21/05/2024	Top Holding / Climate Change 7.7%	Approve the Shell Energy Transition Strategy Against*	LGIM acknowledges the substantial progress made by the company in climate related disclosures, commitments to reduce emissions and the pledge of not pursuing frontier exploration activities beyond 2025. However, in light of the revisions made to the Net Carbon Intensity targets, coupled with the ambition to grow its gas business this decade, LGIM expect Shell to better demonstrate how these plans are consistent with an orderly transition to net-zero emissions by 2050.	Passed – 78.0% voted for

Asia Pacific (ex Japan) Developed Equity Index (Target Allocation: 2.5%)				
National Australia Bank Limited 15/12/2023	Top Holding / Climate Change 2.1%	Approve Transition Plan Assessments For	A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change. While LGIM acknowledges the Company's disclosures on sector policies and emissions reduction targets in this regard, LGIM believes that additional reporting on how this is assessed in practice and any timelines associated with this in light of the Company's existing commitments is considered beneficial to shareholders.	Withdrawn
Japan Equity Index Fund (Target Allocation: 2.5%)				
Toyota Motor Corp. **18/06/2024**	Top Holding / Financial Outcomes 5.8%	Elect Director Toyoda, Akio Against*	A vote against is applied due to the lack of independent directors on the board. Independent directors bring an external perspective to the board. Bringing relevant and suitably diverse mix of skills and perspectives is critical to the quality of the board and the strategic direction of the company. LGIM would like to see all companies have a third of the board comprising truly independent outside directors.	Passed – 71.9% voted for

** LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is LGIM's policy not to engage with their investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.*

In terms of next steps following the outcomes of the above votes, LGIM will continue to engage with the investee companies, publicly advocate its position on the issues raised and monitor company and market-level progress.

Investment Manager Performance and Fees

The investment performance reports were received by the Trustees on a quarterly basis during the year under review and considered in more detail at the Trustees' meetings on 2 October 2023 and 11 April 2024. Over the 3-year period to 30 June 2024, the Plan returned -6.6% p.a., slightly underperforming the benchmark return of -6.4% p.a. (net of fees).

The Trustees have reviewed the performance of both the overall investment strategy and each of the underlying funds against suitable benchmarks. The Trustees did not draw any concerns around the performance of the investment manager during the Plan Year.

The Trustees periodically review investment manager fee levels to ensure the Plan achieves value for money. Over the Plan Year, there were no changes to the remuneration arrangements with LGIM. The Trustees reserve the right to challenge the investment manager on its fee arrangements, should this be deemed appropriate.