

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 2023 (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.

At the Trustee meetings on 3 October 2022 and 30 March 2023, the Trustees briefly considered the Plan's investment strategy and no changes were made. The Trustees continue to monitor the Plan's funding level and will seek to identify opportunities for future de-risking where affordable to do so.

No changes were made to the SIP during the Plan year. This statement is therefore based on the SIP that was in place during the Plan year, which was the SIP dated August 2021.

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 SIP dated August 2021 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. The Plan's SIP includes the Trustees 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 Trustees in relation to voting rights and stewardship. This was last reviewed in August 2021.

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 3 October 2022 and 30 March 2023 – these included ratings (both general and ESG specific) from the investment consultant. All of the pooled funds remained highly rated during the year where relevant. During the Plan year in May 2023, the investment consultant assigned ESG ratings to the fixed income strategies invested in by the Plan.

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

The Trustees also challenge the investment manager directly on ESG policies and practices. The Trustees kept LGIM's capabilities under review during the year and remained comforted it is a market leader in ESG matters and uses its scale to change corporate behaviours and drive change.

LGIM confirmed that it 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 had requested, on behalf of the Trustees, details of relevant engagement activity for the period 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:

Environmental

As one of the world's largest diversified mining companies, with strong exposure to metals needed to decarbonise the global economy, LGIM believe Glencore has a key role to play in the energy transition. Nevertheless, the company's exposure to thermal coal is material and, given the need to rapidly phase out coal to meet the company's own 1.5°C target, LGIM expressed concerns about the lack of time-bound commitments to reduce or exit this business line entirely during their six engagements with the company since 2020.

LGIM welcomed the company's commitment to prioritise investments in metals that support the energy transition and to strengthen its interim emissions reduction targets. But LGIM's concerns regarding its thermal coal exposure and future plans led LGIM to vote against the company's climate transition plan at its 2022 AGM. Additionally, in line with

LGIM's 'engagement with consequences' approach, LGIM identified the company as a 'leading laggard' as part of their Climate Impact Pledge programme, and applied voting sanctions against the chair at the same AGM.

Social

Over the last 18 months, LGIM have engaged with Amazon eight times, independently and collaboratively, to discuss the company's approach to, and policies on, various human capital topics. One of the risks identified by the company in its Human Rights Impact Assessment (HRIA) is freedom of association. This includes the right to form and join trade unions. In 2021, Amazon had been accused of interfering with efforts by its workers to unionise. Upon investigation, the US National Labor Relations Board declared Amazon's conduct to be inappropriate and not in line with International Labour Organisation (ILO) standards.

Amazon workers decided against unionisation at a second, close vote. Nevertheless, ahead of the vote result, in a second collaborative letter signed in January 2022, LGIM requested the company immediately adopt a global policy of neutrality, commit to negotiate with the union in good faith should workers vote for unionisation, and initiate dialogue with relevant trade unions at a national and global level on implementation of its labour rights commitments.

Having pre-declared their voting intentions on their blog, LGIM supported many of the shareholder proposals at Amazon's AGM, including requesting a report on Protecting the Rights of Freedom of Association and Collective Bargaining, which gained 38.5% support. This issue remains on the agenda for LGIM's future engagement meetings and they continue to push for further transparency.

Governance

As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies such as Toyota Motor Corporation, to improve their corporate governance and sustainability practices. At Toyota, LGIM have identified key issues around:

1. Capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure); and
2. Board independence, diversity and effectiveness.

LGIM met with Toyota's investor relations team and chief sustainability officer to discuss these issues, amongst others. Given the company's size and influence at Japan's largest business federation and in industry associations, and since Toyota's first inclusion in LGIM's Climate Impact Pledge engagement in 2017, LGIM have questioned the company's lobbying stance and its alignment with a 1.5°C world. LGIM were delighted to see improved transparency from the company in its climate public policy published in December 2021. While LGIM consider corporate transparency a good first step, they hope that this will enable them to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.

In September 2022, LGIM spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors can add value to the board

and the quality of board discussions. LGIM will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

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 have not actively challenged LGIM on its voting activity.

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 2022 to 30 June 2023.

Fund	Votable meetings	Total votable proposals	No. of proposals voted on behalf of investors	Participation rate	% votes against management
UK Equity Index	691	10,510	10,503	99.93%	5.56%
North America Equity Index	632	8,422	8,396	99.69%	34.47%
Europe (ex-UK) Equity Index	577	9,700	9,693	99.93%	19.33%
Japan Equity Index	500	5,983	5,983	100.00%	11.42%
Asia Pacific ex Japan Developed Equity Index	470	3,225	3,225	100.00%	26.67%

Significant votes

Following the DWP’s consultation response and outcome regarding Implementation Statements on 17 June 2022 (“Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance”) one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a “significant vote” and that Trustees were required to include details on why a vote is considered significant and rationale for the voting.

The Trustees deem 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, 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 the voting information provided by LGIM and view the votes below/overleaf 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: 18.75%)				
Amazon.com, Inc. 24/05/2023	Top 3 Holding / Financial Outcomes 2.5%	Report on Median and Adjusted Gender/Racial Pay Gaps For*	A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap. This is an important disclosure so that investors can assess the progress of the company's diversity and inclusion initiatives.	Failed – 29.0% voted for
Nvidia Corporation 22/06/2023	Top 3 Holding / Financial Outcomes 2.3%	Elect Director Stephen C. Neal Against*	A vote against is applied as LGIM expects a company to have at least one-third women on the board in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	Passed – 95.8% voted for
Alphabet Inc. 02/06/2023	Top 3 Holding / Financial Outcomes 1.9%	Approve Recapitalization Plan for all Stock to Have One-vote per Share For*	A vote in favour is applied as LGIM expects companies to apply a one-share-one-vote standard.	Failed – 30.7% voted for

Europe (ex UK) Equity Index Fund (Target Allocation: 7.5%)				
Novartis AG 07/03/2023	Top Holding / Financial Outcomes 2.0%	Re-elect Joerg Reinhardt as Director and Board Chair Against	A vote against is applied as LGIM expects a company to have at least one-third women on the board in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. LGIM expect companies to increase female participation both on the board and in leadership positions over time.	Passed – 94.9% voted for
UK Equity Index Fund (Target Allocation: 3.75%)				
Royal Dutch Shell Plc 23/05/2023	Top Holding / Climate Change 7.0%	Approve the Shell Energy Transition Progress Update Against*	A vote against is applied, though not without reservations. LGIM acknowledge the substantial progress made by the company in meeting its 2021 climate commitments and welcome the company's leadership in pursuing low carbon products. However, we remain concerned by the lack of disclosure surrounding future oil and gas production plans and targets associated with the upstream and downstream operations; both of these are key areas to demonstrate alignment with the 1.5C trajectory.	Passed – 80.0% voted for
Asia Pacific (ex Japan) Developed Equity Index (Target Allocation: 3.75%)				
Woodside Energy Group Ltd. 28/04/2023	Top Holding / Climate Change 1.5%	Re-elect Mr Ian Macfarlane as a director Against*	Reflects LGIM's concerns around the company's lack of commitment to aligning with the Paris objectives and net zero, and the insufficient reaction to the significant proportion of shareholder votes against their climate report (49%) in the 2022 AGM. Additionally, following the completion of the BHP petroleum assets merger in 2022, LGIM are looking to get more clarity on the decarbonisation targets of the combined group and note a number of gaps in the company's disclosure, primarily around the overreliance on offsets for achieving climate goals. In 2023, LGIM met with the company (investor relations) and with the chair of the board. However, LGIM still feel that actions taken are insufficient to restore investor confidence and that there is a lack of urgency around better aligning the company with the Paris objectives.	Passed – 65.2% voted for
Japan Equity Index Fund (Target Allocation: 3.75%)				
Toyota Motor Corp. 14/06/2023	Top Holding / Climate Change 4.2%	Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement For*	LGIM views climate lobbying as a crucial part of enabling the transition to a net zero economy. A vote for this proposal is warranted as LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment. LGIM believes that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified.	Failed – 15.1% 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 3 October 2022 and 30 March 2023. Over the 3 year period to 30 June 2023, the Plan returned -7.4% p.a., performing broadly in line with the benchmark return of -7.3% 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.

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.