

# Kratos Pension and Life Assurance Scheme

## Engagement Policy Implementation Statement for the year ending 5 April 2022

### Introduction

The Trustees of the Kratos Pension and Life Assurance Scheme (the 'Scheme') 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 Trustees 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 Trustees, 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 5 April 2022. This statement also describes the voting behaviour by, or on behalf of, the Trustees.

The Trustees, in conjunction with their investment consultant, appoints their investment managers and choose the specific pooled funds to use in order to meet specific policies. They expect that their investment managers make decisions based on assessments about the financial of underlying investments (including environmental, social and governance (ESG) factors, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

The Trustees have decided not to explicitly take non-financial matters into account when considering their policy objectives.

During the year, the Trustees received training from their investment consultant on ESG issues, including stewardship and engagement.

### Stewardship - monitoring and engagement

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

The Trustees' 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 investment managers are expected to provide regular reports to Mobius (the investment platform provider) and the investment consultant detailing their voting activity. The Trustees have taken corporate governance policies into account when appointing and reviewing investment managers.

The Trustees' also delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

As all of the investments are held in pooled vehicles, the Trustees do not envisage being directly involved with peer-to-peer engagement in investee companies.

### Investment manager engagement policies

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustees with information on how the investment managers engage in dialogue with the companies it invests in and how it exercises 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.

Links to each investment manager's engagement policy or suitable alternative is provided in the Appendix.

These policies are publicly available on each investment manager's websites.

The latest available information provided by the investment managers (for mandates that contain public equities or bonds) is as follows:

Engagement	LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Currency Hedged	Invesco Global Targeted Returns Fund	Nordea Diversified Return Fund
Period	01/04/2021-31/03/2022	01/04/2021-31/03/2022	01/04/2021-31/03/2022
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.		Engagement is the next step of being an active owner and is a crucial component of our RI philosophy and framework.
Number of companies engaged with over the year	394	142	85
Number of engagements over the year	573	361	133

### Exercising rights and responsibilities

The Trustees 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.

The investment managers publish online the overall voting records of the firm on a regular basis.

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

The Trustees 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 Trustees consider the proportion of votes cast, and the proportion of votes against management to be an important (but not the only) consideration of investor behaviour.

The latest available information provided by the investment managers (for mandates that contain public equities) is as follows:

<b>Voting behaviour</b>	<b>LGIM Global Equity Fixed Weights (50:50) Index Fund - GBP Currency Hedged</b>	<b>Invesco Global Targeted Returns Fund</b>	<b>Nordea Diversified Return Fund</b>
Period	01/04/2021-31/03/2022	01/04/2021-31/03/2022	01/04/2021-31/03/2022
Number of meetings eligible to vote at	3,175	329	199
Number of resolutions eligible to vote on	39,493	4,942	2,348
Proportion of votes cast	99.9%	98.1%	99.9%
Proportion of votes for management	82.9%	92.1%	88.0%
Proportion of votes against management	17.0%	7.9%	11.3%
Proportion of resolutions abstained from voting on	0.2%	0.2%	0.2%

### Trustees' engagement

The Trustees 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.

### Appendix

Links to the Engagement Policies for each of the investment managers and the investment platform provider can be found here:

<b>Investment manager</b>	<b>Engagement Policy (or suitable alternative)</b>
Mobius (Investment Platform Provider)	<a href="https://mobiuslife.co.uk/documents/Mobius-Life-Stewardship-Engagement-Policy-2020-Annual-Report.pdf">https://mobiuslife.co.uk/documents/Mobius-Life-Stewardship-Engagement-Policy-2020-Annual-Report.pdf</a>
Legal & General Investment Management	<a href="https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf">https://www.lgim.com/landg-assets/lgim/document-library/capabilities/lgim-engagement-policy.pdf</a>
Invesco	<a href="https://vds.issgovernance.com/vds/#/Mzk3MA==/">https://vds.issgovernance.com/vds/#/Mzk3MA==/</a>

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Nordea	<a href="https://www.nordea.lu/documents/engagement-policy/EP_eng_INT.pdf/">https://www.nordea.lu/documents/engagement-policy/EP_eng_INT.pdf/</a>
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Columbia Threadneedle	<a href="https://www.columbiathreadneedle.co.uk/en/retl/about-us/responsible-business/responsible-investor/">https://www.columbiathreadneedle.co.uk/en/retl/about-us/responsible-business/responsible-investor/</a>
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Information on the most significant votes for each of the funds containing public equities is shown below:

<b>LGIM Global Equity Fixed Weights (50/50) Index Fund – GBP Currency Hedged Fund</b>	<b>Vote 1</b>	<b>Vote 2</b>	<b>Vote 3</b>
Company name	Apple Inc.	Microsoft Corporation	Amazon.com, Inc.
Date of Vote	2022-03-04	2021-11-30	2021-05-26
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	1.0	1.0	0.6
Summary of the resolution	Resolution 9 - Report on Civil Rights Audit	Elect Director Satya Nadella	Resolution 1a Elect Director Jeffrey P. Bezos
How the fund manager voted	For	Against	Against
Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.		
Rationale for the voting decision	Diversity: A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider	LGIM expects companies to separate the roles of Chair and CEO due to risk	LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are

	these issues to be a material risk to companies.	management and oversight	substantially different, requiring distinct skills and experiences. Since 2015 we have supported shareholder proposals seeking the appointment of independent board chairs, and since 2020 we are voting against all combined board chair/CEO roles. Furthermore, we have published a guide for boards on the separation of the roles of chair and CEO (available on our website), and we have reinforced our position on leadership structures across our stewardship activities – e.g. via individual corporate engagements and director conferences.
Outcome of the vote	53.6% of shareholders supported the resolution.	94.7% of shareholders supported the resolution.	95.1% of shareholders supported the resolution.
Implications of the outcome	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	LGIM will continue to vote against combined Chairs and CEOs and will consider whether vote pre-declaration would be an appropriate escalation tool.	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
Criteria on which the vote is assessed to be “most significant”	LGIM views gender diversity as a financially material issue for our clients, with implications for the assets we manage on their behalf.	A vote linked to an LGIM engagement campaign, in line with the Investment Stewardship team's five-year ESG priority engagement themes	LGIM considers this vote to be significant as it is in application of an escalation of our vote policy on the topic of the combination of the board chair and CEO (escalation of engagement by vote).

<b>Invesco Global Targeted Returns Fund</b>	<b>Vote 1</b>	<b>Vote 2</b>	<b>Vote 3</b>
Company name	Veolia Environment SA	Wolters Kluwer NV	Melrose Industries Plc
Date of Vote	13-Apr-2021	06-Apr-2021	02-Jul-2021
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	>1% IVZ Ownership	>1% IVZ Ownership	>1% IVZ Ownership
Summary of the resolution	Approve Issuance of Equity or Equity-Linked Securities Reserved for Employees and Corporate Officers, up to Aggregate Nominal Amount of EUR 17,358,340	Authorize Board to Exclude Pre-emptive Rights from Share Issuances	Approve Issuance of B2 Shares
How the fund manager voted	For (In Line With Management)	For (In Line With Management)	For (In Line With Management)
Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote	NA	NA	NA
Rationale for the voting decision	Support is in shareholders' interests.	A vote FOR this proposal is warranted because it is in line with commonly used safeguards regarding volume and duration.	A vote FOR these resolutions is warranted as no significant concerns have been identified.
Outcome of the vote	Pass	Pass	Pass
Implications of the outcome	The outcome of the vote meets our voting intention. Therefore, we didn't take further action beyond our continuous engagement and dialogue with the company, as appropriate.		

Criteria on which the vote is assessed to be “most significant” >1% IVZ Ownership and Includes Key ESG proposal

<b>Nordea Diversified Return Fund</b>	<b>Vote 1</b>	<b>Vote 2</b>	<b>Vote 3</b>
Company name	Johnson & Johnson	Oracle	Nike
Date of Vote	22-Apr-21	10-Nov-21	06-Oct-21
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	~2.5%	~0.5%	~1.4%
Summary of the resolution	Report on government financial support and access to COVID-19 vaccines and therapeutics (shareholder proposal).	Advisory Vote to Ratify Named Executive Officers' Compensation	Report on Gender Pay Gap (shareholder proposal)
How the fund manager voted	FOR	AGAINST	FOR
Where the fund manager voted against management, did they communicate their intent to the company ahead of the vote	No	No	No
Rationale for the voting decision	Nordea think reporting on the impact of public funding on the company's pricing and access plans would allow shareholders to better assess the company's management of related risks.	Nordea think that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a majority of executive officers targets are lacking and for some the	At the Nike AGM, Nordea supported a number of shareholder proposals, besides Report on Gender pay Gap, such as Report on Political Contributions Disclosure, Report on Human Rights Impact Assessment and Report on Diversity and Inclusion Efforts. Management voting

		levels are extremely high. We also voted against re-election of the proposed board members in the Compensation Committee.	recommendation was against on all these proposals, but all got substantial support from shareholders at the AGM. None of these proposals was approved. We think shareholders would benefit from additional information, allowing them to better assess these issues.
Outcome of the vote	AGAINST	FOR	AGAINST
Implications of the outcome	We will continue to support shareholder proposals on this issue as long as it is needed.	We see less and less support at many AGMs for remuneration packages, and we will continue to be critical of badly structured remuneration programs with large proportions of time-based variable compensation.	We will continue to support shareholder proposals on this issue as long as the company is not showing substantial improvements.
Criteria on which the vote is assessed to be “most significant”	Significant votes are those that are severely against our principles, and where we feel we need to enact change in the company.		

Information on the most significant engagement case studies for LGIM as a company for the funds containing public equities or bonds as at 31 December 2021 (latest available) is shown below:

LGIM	Case Study 1	Case Study 2	Case Study 3
Name of entity engaged with	BP	McDonalds	Experian
Topic	Climate Transition	Antimicrobial resistance	Financial Inclusion
Rationale	Our work with the Institutional Investor Group on Climate Change (IIGCC) is a crucial part of our	The overuse of antimicrobials (including antibiotics) in human and veterinary medicine,	Pay equality and fairness has been a priority for LGIM for several years. We ask all companies to help



<p>approach to climate engagement. IIGCC is a founding partner and steering committee member of Climate Action 100+ (CA100+), a global investor engagement initiative with 671 global investor signatories representing \$65 trillion in assets that aims to speak as a united voice to companies about their climate transition plans. We actively support the initiative by sitting on sub-working groups related to European engagement activities and proxy voting standards. We also co-lead several company engagements programmes, including at BP 5* (ESG score: 27; -11) and Fortum 5* (ESG score: 27; -11).</p>	<p>animal agriculture and aquaculture, as well as discharges from pharmaceutical production facilities, is often associated with an uncontrolled release and disposal of antimicrobial agents. Put simply, antibiotics end up in our water systems, including our clean water, wastewater, rivers and seas.<sup>38</sup> This in turn potentially increases the prevalence of antibiotic-resistant bacteria and genes, leading to higher instances of difficult-to-treat infections. In autumn 2021, LGIM worked again with Investor Action on AMR and wrote to the G7 finance ministers, in response to their Statement on Actions to Support Antibiotic Development. The letter highlighted investors' views on AMR as a financial stability risk.</p>	<p>reduce global poverty by paying at least the living wage, or the real living wage for UK based employees. Income inequality is a material ESG theme for LGIM because we believe there is a real opportunity for companies to help employees feel more valued and lead healthier lives if they are paid fairly. These are important steps to help lift lower-paid employees out of in-work poverty. This should ultimately lead to better health, higher levels of productivity and result in a positive effect on communities. Global credit bureau Experian† (ESG score: 69; +9) has an important role to play as a responsible business for the delivery of greater social and financial inclusion.</p>
<p>UN SDG: 13 - Climate Action</p>	<ul style="list-style-type: none"> <li>• A member of our team was on the expert committee for the 2021 AMR Benchmark methodology. The benchmark, which was launched in November 2021, evaluates 17 of the world's largest</li> </ul>	<p>UN SDG 8 - Decent work and economic growth</p>

		<p>pharmaceutical companies on their progress in the fight against AMR. We participated in a panel discussion on governance and stewardship around AMR.</p> <p>UN SDG 3 - Good Health &amp; Wellbeing</p>	
<p>What the investment manager has done</p>	<p>We engaged with BP's senior executives on six occasions in 2021 as they develop their climate transition strategy to ensure alignment with Paris goals.</p>	<p>During 2021, we voted on the issue of AMR. A shareholder proposal was filed at McDonald's† (ESG score: 62; +8) seeking a report on antibiotics and public health costs at the company. We supported the proposal as we believe the proposed study, with its particular focus on systemic implications, will inform shareholders and other stakeholders on the negative implications of sustained use of antibiotics by the company.</p>	<p>LGIM has engaged with the company on several occasions in 2021 and are pleased to see improvements made to its ESG strategy, encompassing new targets, greater reporting disclosure around societal and community investment, and an increasing allocation of capital aligned to transforming financial livelihoods.</p>
<p>Outcomes and next steps</p>	<p>Following constructive engagements with the company, we were pleased to learn about the recent strengthening of BP's climate targets, announced in a press release on 8 February 2022, together with the commitment to</p>	<p>The hard work is just beginning. LGIM continues to believe that without coordinated action today, AMR may be the next global health event and the financial impact could be significant.</p>	<p>The latter includes the roll-out of Experian Boost, where positive data allows the consumer to improve their credit score, and Experian Go, which is hoped to enable access for more people. The company also</p>

become a net-zero company by 2050 – an ambition we expect to be shared across the oil and gas sector as we aim to progress towards a low-carbon economy.

More broadly, our detailed research on the EU coal phase-out earlier this year reinforced our view that investors should support utility companies in seeking to dispose of difficult-to-close coal operations, but only where the disposal is to socially responsible, well-capitalised buyers, supported and closely supervised by the state. In our engagement with multinational energy provider RWE's senior management, for example, we have called for the company to investigate such a transfer. We think transfers like this could make the remaining transition focused companies more investable for many of our funds and for the market more generally.

launched the United for Financial Health project as part of its social innovation fund to help educate and drive action for those most vulnerable.

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Information on the most significant engagement case studies for the Invesco Global Targeted Returns Fund as at 31 March 2022 is shown below:

<b>Invesco Global Targeted Returns Fund</b>	<b>Case Study 1</b>	<b>Case Study 2</b>	<b>Case Study 3</b>
Name of entity engaged with	Glencore plc	CRH Plc	Total Energies SE
Topic	Climate change and low carbon transition.	Climate change and low carbon transition; Operational health and safety; Sustainable capital allocation; Audit and internal controls; ESG disclosure; Board leadership.	Climate change and low carbon transition; License to operate.
Rationale	NA	NA	NA
What the investment manager has done	Glencore reached out to IVZ to discuss the high number of against votes for their Climate Progress Report. IVZ explained their rationale surrounding Glencoe's continued investment in coal, their pro coal lobbying activities, and their extension of their mines.	We met with Richie Boucher, Chair of the Board), who gave really good insights into the way the board interacts with the execs on capital allocation, the impact of the Ukraine crisis, the genesis of the sustainability targets, detail on the safety culture and honesty on the outlook for the business. Capital Allocation - The threshold for the Acquisitions, Divestments and Finance committee to look at deals is \$50m. Richie had been surprised about this level and asked Albert (CEO) if it was really necessary. But Albert explained that it was central to the culture	Met with CFO and European Equity team to discuss Russia exposure and climate transition plans

of the business. Richie made the point that the huge reserves of the business are hugely underestimated by the market. There is just no way that new reserves are going to be added to many of the markets that they serve. Reserves came up again when talking about areas for growth, with California less attractive given it is often a dumping ground for exports from southeast Asia. In Europe, they like the Nordic market where there is a lot to learn from Modular building. Richie questioned the UK government budget, but thought that both the UK and Ireland were set to be good long term markets. He suggested that the reduced operating leverage in Europe allowed them to do more deals. Western Europe is more challenge. They are looking to move more into RMI than new build. Ukraine crisis - CRH's exposure in Ukraine is \$250m of capital and \$60-70m of earnings, which have come to a halt since the crisis, leading to 800 people of whom 60 families

leaving Ukraine. CRH mentioned they will be ready when the rebuilding of post-war Ukraine starts.

Health and Safety - Safety is an override for management remuneration. Richie explained that none of the 4 fatalities in 2021 (1 employee, 1 contractor and 2 third parties) demonstrated a systematic H&S issue at the firm, which would have been required to trigger an override - although he pointed out that the shortage of drivers and turnover over of staff in contractors has meant lower skilled workers, which has raised the risk profile. Nonetheless, as a result of this up-tick in incidents, the board is doing an investigation into how to best manage safety, and particularly transport safety which was the cause of 3 of those fatalities.

Exec. Remuneration: The PSP was seen as the most appropriate way of including sustainability incentives. The PSP goes to the top c750 people in the business, hence a means with which to

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drive culture. There are three areas, while we spoke most on gender diversity and carbon. Increasing the attractiveness of CRH to women is seen as a great way to address the labour shortage. CRH is 85% men, while in operations it is 93% men. Albert has championed the focus on women, while it is also felt this will enhance the solutions side of the business. We talked about ethnicity, which isn't in the targets now, but will be a focus in the future.

Outcomes and next steps	IVZ is writing up a summary document for Glencore to advise them on writing a better progress report.	Useful to learn about CRH business from board perspective. We will also review the response of the chair over the CA100+-flagged resolutions and use it to inform our voting at the AGM.	Total Energies' equity interest (20% minority stake) in Russia's largest LNG producer, Novatek, will be a key contributor to its low-carbon transition in the coming decade. Novatek's importance to Total has grown as other sources of future LNG supply have stalled in recent years. Privately owned Novatek could be seen as less toxic than its state peers.
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Information on the most significant engagement case study for the Diversified Return Fund as at 31 March 2022 is shown below:

**Diversified Return Fund      Case Study 1**

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Name of entity engaged with      Waste Management Inc.

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Topic      Environment/ Climate (NZAM Initiative)

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Rationale      Overview

Waste Management Inc. (“Waste Management”) provides services which include the collection, transfer, recycling, resource recovery and disposal of waste. Waste Management is one of the largest waste management companies in North America. The company has more than 26,000 garbage trucks, more than 50,000 employees and operates 268 landfills measures.

Background

Nordea Asset Management is a founding member and signatory of the Net Zero Asset Managers (“NZAM”) initiative, a global coalition of asset managers working for the achievement of net-zero greenhouse gas emissions by 2050, and adopted a historic set of climate targets to support this ambition. For companies in high carbon emitting sectors such as waste management Nordea Asset Management engages to understand their decarbonisation strategy, and we have been in dialogue with Waste Management since 2019.

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What the investment manager has done      The Engagement

The waste management industry is one of the largest emitting sources of carbon dioxide and methane globally. When we initiated our dialogue with Waste Management in 2019 we were enquiring climate and environmental data reported according to TCFD. Waste Management was already reporting climate and environmental data to CDP Climate Change and has received the best grade (A) since 2017. In 2020, Waste Management disclosed their TCFD reporting publicly.

This confirmed that the company is well aware of the environmental challenges and risks of its business model, measures them and will eventually set carbon emission targets. Nevertheless, our findings from it were that while they did set a carbon abatement target of x3 to x4 carbon emissions in their operations, in our view this does not demonstrate a clear decarbonisation strategy as it does not address absolute emission reduction aligned with the Paris Agreement target (below 2 degrees scenario) especially for GHG Scope 1 and 2.

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Nordea Asset Management met with Susan Robinson, Sustainability & Policy Director at Waste Management to discuss how the company is considering absolute carbon emission reduction targets including fugitive emissions, and when these will be approved by the Science-Based Target initiative (“SBTi”).

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Outcomes and next steps

In 2021 Waste Management realised that the climate expectations were changing and that their x4 target (abate x4 the amount they emit) was insufficient. Together with an external consultant they are now working to set a 1.5 degree aligned absolute reduction target, with the ambition of reducing absolute greenhouse gas emissions for scope 1 and 2 by as much as 42% by 2030 compared to the 2021 level. The target will be released mid-2022 and seek SBTi validation. We see this as a serious decarbonisation commitment demonstrating a 1.5-degree scenario alignment where Waste Management’s focus is on better carbon emission measurement, capture and the use of biogas conversion as a source of renewable fuel for their collection fleet. Based on modelling Waste Management estimates that 80% of methane emissions are captured, and is working on improving its modelling capabilities related to fugitive emissions. Recycling ambitions will also be formulated together with the targets to be released later this year, which is a positive improvement we are looking forward to see. Once the targets are disclosed, we plan on following-up with the link between its management incentive programs and ESG metrics.

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