Implementation Statement ("IS")

Infineon Technologies UK Limited Final Salary Pension Scheme (“The Scheme”) Requirements for the IS for a Defined Benefit ("DB") Scheme

New regulations that apply from 1 October 2020 have set out the following requirements for trustees of relevant schemes regarding the production of an Implementation Statement (“the Statement"):

- The Statement must set out the extent to which the SIP has been followed during the year, any changes or reviews carried out in relation to the SIP and explain the reasons
- Set out how and to what extent, the Trustees’ policy in relation to exercising shareholder rights including voting rights and undertaking engagement activities in respect of the investments has been followed during the year, in the opinion of the Trustees; and
- Describe the voting behaviour by, or on behalf of, the Trustees (including the most significant votes cast by the Trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.
- The Trustees must publish the implementation statement online (from 1 October 2021) and in the Trustees' annual report and accounts.

Data

We have gathered information from your asset managers to support the production of this document. Due to varying stewardship reporting cycles, not all managers shared information directly relating to the specific period covering the Scheme's financial year, and so we have used the information as has been provided.

We are working with the managers to improve the data they provide, but we believe it is reasonable to use the information in this document for the purpose of this year's IS.

Contents

Why bring you this paper?

This document sets out the proposed content for the IS of the Scheme for the year ending 30 September 2020.

The IS is to be included in the Scheme's annual report and accounts.

The IS will also have to be published on a publicly accessible website.

Prepared for: The Trustee Board
Prepared by: Aon, Responsible Investment Team
Date: 5 February 2021

Your Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“the Regulations”). The Regulations amongst other things require that the Trustees outlines how it has ensured that the stewardship policies and objectives set out in its Statement of Investment Principles ("SIP") have been adhered to over the course of the year.

This is the first engagement policy implementation statement the Trustees have prepared and covers the year ending 30 September 2020.

This document sets out the actions undertaken by the Trustees, its service providers and investment managers, to implement the stewardship policy set out in the SIP. The document includes voting and engagement information that has been gathered from the asset managers and an overview of how the policies within the SIP have been implemented during the reporting period.

The Scheme's stewardship policy

Over the year to 30 September 2020, the Scheme's stewardship policy was to delegate responsibility to the applicable asset managers in the exercising of voting rights. The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments was also delegated to the fiduciary manager and their corresponding appointed underlying managers.

The latest Scheme SIP was approved in September 2020, and can be found at this website: https://www.infineon.com/cms/en/about-infineon/investor/corporate-governance/#corporate-governance

Through this report, the Trustees review how the actions of its asset managers and fiduciary manager have aligned with its expectations and principles set out in the SIP. The Trustees will set out where they expect more information or engagement to be undertaken by its managers and the receipt of information on stewardship activity carried out by Aon Investments Limited (“AIL”), the fiduciary manager.

Scheme activity over the year

In line with regulatory requirements to expand the SIP for a number of policies such as costs transparency and incentivising managers, the Trustee also reviewed and expanded the Stewardship policy in September 2020 to be more explicit on expectations and recourse where necessary.

Engagement – Fiduciary Manager

Within the stewardship policy, the Trustee states that it expects the following of AIL;

- Ensure that (where appropriate) underlying asset managers exercise the Trustee's voting rights in relation to the Scheme's assets; and
- Report to the Trustee on stewardship activity by underlying asset managers as required

Under the Trustee's fiduciary mandate managed by AIL, AIL appoint underlying asset managers to achieve an overall target return. The Trustees delegate the monitoring of ESG integration and stewardship quality to AIL and AIL have confirmed that all equity and fixed income managers have been rated 2 or above on AIL’s four-tier ESG ratings system.[1]

[1] More information on the Aon ESG Ratings Process can be found here:

This means that all the appointed asset managers are at least aware of potential ESG risks in the investment strategy and have taken some steps to identify, evaluate and potentially mitigate these risks.

The Trustees have reviewed the 2019 AIL Annual Stewardship Report and are content that AIL is using its resources to appropriately influence positive outcomes in the strategies in which they invest. The Trustee will review the 2020 report when it becomes available.

AIL have undertaken a considerable amount of engagement activity over 2020, some examples of which have been outlined within this statement. AIL held around 35 ESG specific “deep-dive” meetings predominantly covering the equity and fixed income managers that are invested in by AIL across all delegated funds in which AIL’s clients invest. At these meetings, AIL were able to analyse and discuss the voting and engagement activities undertaken during calendar year 2019, highlighting areas of improvement and discussing manager strategy in the area of RI moving forward.

An example of an engagement carried out during the reporting year by AIL was with a US-based fixed income manager that lacked an RI policy, a metric for scoring securities on ESG criteria nor public commitments to invest responsibly. Following AIL's engagement with the manager on these issues, they quickly took action by hiring an ESG consultant, who has since assisted them with formalising a process for assessing ESG risks and opportunities. Tangible improvements have been made in working with third parties to analyse ESG risks and making a public commitment to RI by becoming a signatory to the Principles for Responsible Investment - the world's leading proponent of ESG and a global standard setter for better practice.

Voting and Engagement – Equity

Over the year, the Scheme was invested in equity through the AIL Managed Growth Strategy Fund. The material equity investments held in the Scheme were:

- Legal and General Investment Management (LGIM) Multi Factor Equity Fund
- BlackRock Emerging Markets Equity Fund

The Trustees consider a significant vote broadly as a vote which the respective manager deems most significant to the Scheme, or a vote where more than 15% of votes were cast against management.

LGIM Multi Factor Equity Fund ("LGIM")

Voting

	2019	Q1 2020	Q2 2020	Q3 2020
% resolutions voted	98.5%	99.1%	100%	94.3%
% of resolutions voted against management	14.9%	14.5%	18.5%	17.8%
% resolutions abstained	1.5%	0.8%	0.0%	0.0%

LGIM make use of ISS's proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. They have put in place a custom voting policy with specific instructions that apply to all markets globally, which seek to uphold what they consider to be minimum best practice standards all companies should observe. Even so, LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example of engagements with the company have provided additional information.

In May 2020, LGIM supported 10 out of 12 shareholder proposals put forward against the management of Amazon, the largest number of shareholder proposals put on the table for any US company this proxy season. Two resolutions were in relation to governance structures that benefit long-term shareholders, and the remaining eight were in relation to

https://www.aon.com/getmedia/0b52d7ec-db77-41bc-bb45-9386034db392/AonCanada-Publication-Investment -GuideESGRatings.aspx

disclosure to encourage a better understanding of process and performance of material issues. The resolutions received between 1.5% and 30% support from shareholders.

The company had received press coverage due to the largely negative sentiment related to its governance profile and its initial management of the COVID-19 pandemic. This was an important topic for LGIM's multiple engagements with the company over the past 12 months, as well as the separation of CEO and board chair roles, a desire for directors to participate in engagement meetings, and details about the data transparency committed to in their Climate Pledge. The Stewardship team at LGIM received more inquires related to Amazon than any other company this season.

<u>Engagement</u>

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues,
2. Formulate the engagement strategy,
3. Enhancing the power of engagement,
4. Public Policy and collaborative engagement,
5. Voting, and
6. Reporting to stakeholders on activity.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

An example of engagement over 2020 was with Proctor and Gamble (P&G). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their Tier 1 suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by Green Century that P&G should report on effort to eliminate deforestation (that was voted on in October 2020), LGIM engaged with the P&G, the resolution proponent, and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Through this round of engagements, LGIM decided to support this resolution as although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources. More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

BlackRock Emerging Markets Equity Fund ("BlackRock")

<u>Voting</u>

	1 Oct 2019 – 30 Sept 2020
% resolutions voted	96,9%
% of resolutions voted against management	8.1%
% resolutions abstained	2.9%

Blackrock use Institutional Shareholder Services' (ISS) electronic platform to execute their vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. Blackrock's voting decisions are informed by internally-developed proxy voting guidelines, their pre-vote engagements, research, and the situational factors for each

underlying company. Voting guidelines are reviewed annually and are updated as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

Over 2020, BlackRock have increased their level of reporting by publishing more voting bulletins with detailed information and rationale for voting decisions. These specific significant votes are chosen by BlackRock based on a number of criteria such as level of public attention, and impact of financial outcome.

Yanzhou Coal Mining Company

On 9 December 2020, BlackRock voted against the management proposal and recommendation that shareholders vote to approve an Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited. In September 2020, Yanzhou Coal proposed to acquire the equity interests held by Yangkuang Group in seven business entities for a total cash consideration of CNY 18.4 billion. The key assets to be acquired include a coal liquefaction project, a supporting coal mine and a coal-fired power planet, as well as other ancillary facilities.

BlackRock duly noted Yanzhou Coal's rationale for making the acquisition, namely to expand its coal chemical business and to extend the industrial chain for profit enhancement. Nevertheless, BlackRock believes it is in their clients' best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1) The underlying valuation for the terms of the transaction and 2) Management's oversight of potential stranded asset risk.

With respect to the latter, BlackRock are cautious about the potential stranded asset risks at Yanzhou Coal following the asset purchase. The transaction was announced shortly after China pledged to achieve carbon neutrality by 2060 with carbon emissions peaking by 2030. Yet Yanzhou Coal as a state-owned enterprise did not articulate how the acquisition of these coal-related assets aligns with China's stated goals, including the new Nationally Determined Contributions to be updated at the UN Climate Change Conference (COP 26). In particular, concerns remain about Yanzhou Coal's decision to acquire a coal-fired power plant as part of this transaction. The coal-fired power sector in China is already facing numerous challenges such as tightened emission standards, overcapacity, as well as declining utilisation hours. The sector is expected to become even more challenged as more provinces anticipate grid parity for renewable energy. Therefore, such an acquisition could well exacerbate the company's stranded asset risks and delay progress to achieve the company's decarbonization targets.

More detail on the vote rationale can be found at the vote bulletin here:

https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-yanzhou-coal-dec-2020.pdf

Engagement

The Blackrock Investment Stewardship Team's stated key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management.

Blackrock has increased its engagement activity year on year significantly on a variety of key issues, including having over 400 engagements with companies where they discussed the impact of COVID-19. More information can be found in the Blackrock Investment Stewardship Annual Report2020;

https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf

Engagement – Fixed Income

The Scheme invest in Fixed Income securities through its arrangement with AIL in its fund of fund approach.

The Trustees delegate the monitoring of ESG integration and stewardship quality to AIL, and AIL have confirmed that all managers received at least a 2 out of 4 ESG Ratings which means that all the fund management teams are aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.

While Equity managers may have more direct influence on the companies they invest in, Fixed Income managers are also increasingly influential in their ability to encourage positive change. A high-profile example of this is from Robeco, Multi Asset Credit managers the Scheme invests in that have ongoing engagement with Shell. In 2017, Shell announced their aim to reduce the net carbon footprint of its energy products by around half by 2050. Whilst the manager was supportive of this step, they were not fully satisfied and continued to push Shell to set short-term targets. Following a series of engagements over a two year period, Robeco and Shell agreed a joint statement committing the company to various actions, including setting climate targets and linking these targets to executive remuneration. Robeco believes Shell now leads the sector in terms of their planning and positioning for the energy transition.

The Trustees believe that engagements of this nature are key to reducing ESG risks within the Scheme's portfolio, as well as having the added benefit of contributing to the transition towards a low carbon economy.

Engagement – Alternatives

The Scheme invest in a number of alternative strategies through their arrangement with AIL. These include managed futures, insurance linked securities, defensive equities, risk parity, gold and listed property.

The Trustees recognise that the respective investment processes and often illiquid nature of the alternative investments may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustees still expect that all their managers should open a dialogue to engage with issuers/companies they invest in should they identify concerns that may be financially material.

Summary

Overall, the Trustees are of the opinion the stewardship carried out on behalf of the Scheme is adequate. The Trustees note examples of the willingness and ability of LGIM and BlackRock to take proactive votes against management where appropriate. The Trustees also note the efforts from their Fiduciary manager in monitoring the appointed underlying managers and encouraging better practices where appropriate.

Having said that, the Trustee Group recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustees continue to expect improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

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