

Kennametal Defined Benefit Pension Scheme Implementation Statement for the year ended 30 June 2020

Purpose

This Implementation Statement provides information on how, and the extent to which, the Trustees of the Kennametal Defined Benefit Pension Scheme (“the Scheme”) have followed their policy in relation to the exercising of rights (including voting rights) attached to the Scheme’s investments, and engagement activities during the year ended 30 June 2020 (“the reporting year”). In addition, the statement provides a summary of the voting behaviour and most significant votes cast during the reporting year.

Background

In May 2019, the Trustees received training on responsible investment from their existing investment advisers at AON and discussed their beliefs around those issues. This enabled the Trustees to consider how to update their policy in relation to ESG and voting issues which, up until that point, had simply been a broad reflection of the investment managers’ own equivalent policies. The Trustees’ new policy was documented in the updated Statement of Investment Principles dated September 2019.

The Trustees’ updated policy

ESG and climate change Risk

The Trustees consider the investment risks to include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustees consider this risk by taking advice from their investment adviser when considering the approach to selecting underlying managers and monitoring performance.

Stewardship – Voting and Engagement

The Trustees have delegated responsibility for the selection, retention and realisation of investments to the fund manager (within certain guidelines and restrictions). As part of their delegated responsibilities, the Trustees expect the Scheme’s investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee’s voting rights in relation to the Scheme’s assets.

Members’ Views and Non-Financial Factors

In setting and implementing the Scheme’s investment strategy the Trustees do not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as “non-financial factors”¹).

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pensions Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

Manager selection exercises

One of the main ways in which this updated policy is expressed is via manager selection exercises; from January 2020, the Trustees now seek advice from XPS on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Prior to this, the Trustees sought advice from Aon.

During the reporting year, the Trustees decided to introduce the Insight LDI GBP Liquidity Plus Holding Fund to the investment portfolio of the Kennametal Section of the Scheme. The fund was recommended by XPS, using various criteria. One such criteria, in acknowledgement of the Trustees' updated ESG policy, was that the investment manager had been found to have a credible ESG capability, with decisions linked to that capability applied to the fund to an acceptable degree.

Ongoing governance

The Trustees, with the assistance of XPS, monitor the processes and operational capabilities of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in the Statement of Investment Principles.

Beyond the governance work currently undertaken, the Trustees believe that their approach to, and policy on, ESG matters will evolve over time based on developments within the industry and, at least partly, on a review of data relating to the voting and engagement activity conducted annually.

Adherence to the Statement of Investment Principles

During the reporting year the Trustees are satisfied that they followed their policy on the exercise of rights (including voting rights) and engagement activities to an acceptable degree.

Voting activity

The main asset class where the investment managers will have voting rights is equities. The Scheme has specific allocations to funds investing in equities with different geographical exposures and investments in equities also form part of the strategy for the diversified growth fund in which the Scheme invests. Therefore, a summary of the voting behaviour and most significant votes cast by each of the relevant investment manager organisations is shown below.

Legal & General Investment Management

Investment Manager Client Consultation Policy on Voting

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients. Their voting policies are reviewed annually and take into account feedback from their clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop their voting and engagement policies and define strategic priorities in the years ahead. They also take into account client feedback received at regular meetings and/or ad-hoc comments or enquiries.

Investment Manager Process to determine how to Vote

All decisions are made by LGIM’s Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures their stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

How does this manager determine what constitutes a 'Significant' Vote?

As regulation on vote reporting has recently evolved with the introduction of the concept of ‘significant vote’ by the EU Shareholder Rights Directive II, LGIM wants to ensure they continue to help their clients in fulfilling their reporting obligations. They also believe public transparency of their vote activity is critical for their clients and interested parties to hold them to account.

For many years, LGIM has regularly produced case studies and/ or summaries of LGIM’s vote positions to clients for what they deemed were ‘material votes’. They are evolving their approach in line with the new regulation and are committed to provide their clients access to ‘significant vote’ information.

In determining significant votes, LGIM’s Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). 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: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where they note a significant increase in requests from clients on a particular 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.

They will provide information on significant votes in the format of detailed case studies in their quarterly ESG impact report and annual active ownership publications.

They publicly disclose votes for the major markets on their website. The reports are published in a timely manner, at the end of each month and can be used by clients for their external reporting requirements.

Fund Information

Legal and General Investment Management UK Equity Index Fund

The fund manager has not provided stewardship code data at present

The manager voted on more than 99% of resolutions for which they were eligible out of over 11,000 eligible votes.

Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
BARCLAYS	Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve ShareAction Requisitioned Resolution	For	Resolution 29 - supported by 99.9% of shareholders Resolution 30 - supported by 23.9% of shareholders (source: Company website)

Fund Information

Legal and General Investment Management North America Equity Index Fund

The fund manager has not provided stewardship code data at present

The manager voted on 99.70% of resolutions for which they were eligible out of 11,562 eligible votes.

Significant Votes during the Period

Company	Voting Subject	How did the Investment Manager Vote?	Result
BARCLAYS	Resolution 29 - Approve Barclays' Commitment in Tackling Climate Change Resolution 30 - Approve ShareAction Requisitioned Resolution	For	Resolution 29 - supported by 99.9% of shareholders Resolution 30 - supported by 23.9% of shareholders (source: Company website)
EXXONMOBIL	Resolution 1.10 - Elect Director Darren W. Woods	Against	93.2% of shareholders supported the re-election of the combined chair and CEO Darren Woods. Approximately 30% of

			shareholders supported the proposals for independence and lobbying. (Source: ISS data)
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Fund Information
Legal and General Investment Management Europe (ex UK) Equity Index Fund
The fund manager has not provided stewardship code data at present
The manager voted on 99.86% of resolutions for which they were eligible out of 8,389 eligible votes.
Significant Votes during the Period – N/A

Fund Information
Legal and General Investment Management Asia Pacific (ex Japan) Developed Equity Index Fund
The fund manager has not provided stewardship code data at present
The manager voted on 99.79% of resolutions for which they were eligible out of 3,322 eligible votes.
Significant Votes during the Period – N/A

Fund Information
Legal and General Investment Management Japan Equity Index Fund
The fund manager has not provided stewardship code data at present
The manager voted on 100% of resolutions for which they were eligible out of 6,111 eligible votes.
Significant Votes during the Period – N/A

Fund Information
Legal and General Investment Management World Emerging Market Equity Index Fund
The fund manager has not provided stewardship code data at present
The manager voted on 99.69% of resolutions for which they were eligible out of 12,560 eligible votes.
Significant Votes during the Period – N/A

Despite efforts to obtain data on significant voting behaviour carried out by State Street Global Advisors and BlackRock Asset Management during the reporting year, no such data had been provided at the time of issuing this statement. XPS will continue to ask for this data and will make it available to the Trustees as and when it is made available.



Signed: _____

Chair of the Trustees of the Kennametal Defined Benefit Pension Scheme

Date: December 8, 2020