Merck Pension Scheme

ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 31 December 2023

Introduction

This Engagement Policy Implementation Statement (the 'Statement') sets out how, and the extent to which, the stewardship policy and related policies on environmental, social and governance ('ESG') factors and climate change in the Statement of Investment Principles (SIP) produced by the Trustee Directors ("Trustees") have been followed during the year to 31 December 2023 (the 'Scheme Year'). This statement has been produced in accordance with The Occupational Pension Schemes (Investment and Disclosure)(Amendment) Regulations 2019.

The Trustees do not currently consider the ESG policies of Additional Voluntary Contribution provider(s) and associated investment funds as these are a small proportion of total assets and therefore this statement only covers assets in relation to the Defined Benefit assets of the Scheme.

Trustees' Investment Objective

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 Scheme included in the SIP (dated July 2023, though there were no changes to these objectives over the year) are as follows:

- To ensure the Scheme's obligations to its beneficiaries can be met;
- To achieve an asset return above the return from Gilts over the longer term, whilst recognising the need to balance risk control and return generation;
- To ensure consistency between the Scheme's investment strategy and the return assumptions used by the Scheme Actuary;
- To strategically de-risk the Scheme's investment strategy as the funding level improves.
- When considering de-risking opportunities, to plan to improve from being fully funded on the technical provisions basis to being fully funded on the long term funding basis as a result of investment returns in excess of actuarial assumptions.
- To pay due regard to the sponsoring company's interests in the size and incidence of employer contribution payments.
- To implement the Scheme's investment strategy incorporating a considered approach to ESG and sustainability, having regard to the Merck Groups overall ESG and sustainability objectives, which is believed by the Trustees to be an important driver to deliver a better long-term risk-adjusted return.

Policy on ESG, Stewardship (including Engagement Activities) and Climate Change

The Trustees understand that they must consider all factors that have the potential to impact upon the financial performance of the Scheme's investments over the appropriate time horizon. This includes, but is not limited to ESG factors.

The Scheme's SIP includes the Trustees' policy on ESG factors, stewardship and climate change and is subject to review at least triennially.

The Scheme's assets are invested in pooled funds and therefore the Trustees accept that they have very limited ability to influence the ESG policies and practices of the companies in which the managers invest.

The Trustees expect the investment managers to evaluate ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to investments and engagement activities in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

Scheme's Investment Structure

Over the year, the Scheme was invested in pooled investment vehicles managed by the investment managers. As such, the Trustees have a direct relationship with the Scheme's underlying investment managers who are responsible for managing the investments.

The Trustees have the responsibility of monitoring the pooled funds, in conjunction with advice received from their investment advisor, Mercer Limited.

Trustees Engagement

As the Trustees are invested in pooled investment vehicles, it should be noted that the engagement initiatives are driven by investment managers, mainly through regular engagement meetings with the companies in which they invest or by voting on key resolutions at companies' Annual General Meetings. (The information in the appendix shows that the Scheme's equity investment manager engaged with a large number of investee companies.) However, over the Scheme Year, the Trustees undertook the following initiatives to satisfy themselves that responsible investment is central to the investment managers' approaches to investing:

- With support from Mercer, the Trustees review the mandates of the investment managers in relation to ESG factors. For example, Mercer's quarterly performance reporting includes Mercer's ESG scores for the funds in which the Scheme is invested. The ESG information provided by Mercer helps the Trustees to determine whether further action should be taken in respect of specific funds.
  - LGIM has Mercer's highest ESG rating in respect of the Scheme's passive equity holdings, reflecting LGIM's ESG and engagement activity.
  - Insight LDI investments are not rated due to the limited scope for ESG integration within this asset class. The portfolio primarily invests in derivatives and bonds issued by the UK government.
  - Insight's Buy and Maintain credit fund, which has a target allocation of 33% of the Scheme's assets, has an above average rating for the asset class (a further 7% is held in Insight's Short Dated Buy and Maintain Fund managed by the same team with similar principles).
  - The remaining investment managers carry a rating at least in line with their peer group average.
- If a particular fund in which the Scheme invests, were to have its ESG rating downgraded then the Trustees may consider their continued investment and may put a manager 'on-watch' or, in the case of a material change in rating, potentially terminate the appointment.
- The Trustees received an investment manager presentation from Insight and Columbia Threadneedle over the Scheme Year, where the investment manager provided examples on how they integrate ESG into their investment processes.
- The Trustees invest with investment managers who are all signatories of the UK Stewardship Code as follows:

Manager	Signatory Since
Legal & General Investment Management	2021
Columbia Threadneedle Investments	2022
Insight Investment	2021
Mercer Global Investment Europe Limited	2021

Source: FRC website: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories

Voting Activity

The Trustees do not hold investments directly but instead are invested in pooled funds and hence they do not have voting rights in relation to individual companies. The Trustees have therefore, effectively, delegated their engagement and voting rights to the pooled fund investment managers, who cast votes cast on behalf of the pooled fund not the Trustees). As a result, the Trustees do not use the direct services of a proxy voter as this is not relevant, although the investment managers may employ the services of proxy voters in exercising their own voting rights on behalf of the pooled funds in which the Trustees invest.

Each manager has been asked to confirm key voting activity on behalf of the pooled funds in which the Trustees invest, over the year to 31 December 2023. The table on the following pages sets out a summary of the key voting activity, for the pooled funds for which voting is possible, i.e., the funds which include listed equity holdings.

This includes information on what the investment manager considers to be a significant vote. The Trustees have no influence on the managers' definition of a significant vote but have noted it, and are satisfied that it is reasonable and appropriate.

Defining a Significant Vote:

The Trustees are aware that the DWP released a set of Engagement Policy Implementation Statement requirements 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", which are to be adopted in the Statement. The most material change was that the Statutory Guidance provides an update on defining what constitutes a "significant vote".

• A significant vote may be defined as one that is linked to the Scheme's stewardship priorities/themes;
• A vote could also be significant for other reasons, e.g. due to the size of holding;
• Trustees are to include details on why a vote is considered significant and the rationale for the voting decision.

The Trustees have identified that climate change is their most important stewardship priority. Therefore the appendix shows the significant votes supplied by the investment manager, which the Trustees determine to be a significant vote, i.e., those that are in relation to climate change.

The Trustees have also applied a size filter on grounds of materiality and only considered votes to be significant if in relation to a company that constitutes 0.5% or more of the fund held by the Scheme.

Assessment of how the engagement and voting policies in the SIP have been followed over the Scheme Year

The Trustees are satisfied that the engagement and voting policies set out in the SIP have been followed.

Appendix

Voting is summarised in the table further below for LGIM. Remaining appointed managers do not have voting rights: see below.

Insight LDI, Buy and Maintain	Insight does not have any voting rights in respect of the underlying holdings in both of the LDI and Buy and Maintain funds.
Threadneedle Property	Threadneedle does not have any voting rights in respect of the underlying holdings in the fund, as it invests in commercial real estate.
Mercer Private Investment Partnership	Mercer does not have any voting rights in respect of the underlying holdings in these funds.

LGIM voting

Fund	Proxy voter used?	Voting information	Most significant votes (description)	Trustee significant votes*
LGIM GPDT - Future World Developed (ex UK) Equity Index (GBP Hedged)	LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions.	**Votes in total:** 20480 resolutions eligible (99.88% cast) **Votes against management endorsement:** 23.63% of votes cast **Abstentions:** 0.17% of eligible votes	In determining significant votes, LGIM's Investment Stewardship team takes into account the criteria provided by the Pensions & Lifetime Savings Association (PLSA) guidance. Significant voting examples include but are 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 we 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.	**JP Morgan Chase & Co. -** a vote 'for' reporting on the climate transition plan, describing efforts to align financing activities with GHG targets. **Date of Vote:** 16 May 2023 **Size of holding:** 1.0% **Was this communicated to company ahead of vote:** LGIM pre-declared its vote intention for this meeting on the LGIM Blog. As part of this process, a communication was set to the company ahead of the meeting. **Rationale for vote:** LGIM generally support resolutions that seek additional disclosures on how companies aim to manage their financing activities in line with their published targets. LGIM believe detailed information on how a company intends to achieve the 2030 targets they have set and published to the market (the 'how' rather than the 'what', including activities and timelines) can further focus the board's attention on the steps and timeframe involved and provides assurance to stakeholders. The onus remains on the board to determine the activities and policies required to fulfil their own ambitions, rather than investors imposing restrictions on the company. **Outcome:** 34.8% (Fail) **Implications of Outcome:** LGIM will continue to engage with the company and monitor progress. **Significance:** LGIM considers this vote to be significant as LGIM pre- declared its intention to support. LGIM continue to consider that decarbonisation of the banking sector and its clients is key to ensuring that the goals of the Paris Agreement are met. **Wells Fargo & Company:** Same as above. **Date of Vote:** 3 April 2023 **Size of holding:** 0.57% **Was this communicated to company ahead of vote:** LGIM publicly communicates its vote instructions on its website the day after the company meeting, with a rationale for all votes against management. It is their

Fund	Proxy voter used?	Voting information	Most significant votes (description)	Trustee significant votes*
				policy not to engage with their investee companies in the three weeks prior to an AGM as LGIM's engagement is not limited to shareholder meeting topics. **Outcome:** 30.8% (Fail)
LGIM UPAK - Future World UK Equity Index (GBP Hedged)	Same as above	**Votes in total:** 6,404 resolutions eligible (99.73% cast) **Votes against management endorsement:** 6.34% of votes cast **Abstentions:** 0% of eligible votes	Same as above	**Aviva Plc -** a vote 'for' approving climate- related financial disclosure. **Date of Vote:** 4 May 2023 **Size of holding:** 0.83% **Was this communicated to company ahead of vote:** LGIM publicly communicates its vote instructions on its website the day after the company meeting, with a rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as LGIM's engagement is not limited to shareholder meeting topics. **Rationale for vote:** Having reviewed the disclosures, LGIM consider the report is aligned with LGIM's climate expectations. **Outcome:** 97.1% supported the resolution **Implications of Outcome:** LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress. **Significance:** Given the high-profile of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.
LGIM GPAE - FTSE RAFI Developed (inc Korea) Reduced Carbon Pathway Index	Same as above	**Votes in total:** 21,487 resolutions eligible (99.89% cast) **Votes against management endorsement:** 21.7% of votes cast **Abstentions:** 0.16% of eligible votes	Same as above	**Same significant vote example as LGIM GPDT - Future** World Developed (ex UK) Equity Index (GBP Hedged) **Size of holding:** 1.17%

Source: Investment managers as at 31 December 2023

* All are considered significant because they relate to climate change and are in relation to a company that constitutes 0.5% or more of the specific fund