

Merck Pension Scheme

ENGAGEMENT POLICY IMPLEMENTATION STATEMENT

Financial Year Ending 31 December 2024

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 2024 (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 November 2024, 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 (noting that formal funding level based derisking triggers have now been met).
- 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 as at 31 December 2024, has an above average rating for the asset class, (a further target of 7% of Scheme assets 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 where possible.
- 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 (or via partnerships in relation to private market investments) 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 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 2024. 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:

As per regulatory requirements to define a significant vote, the Trustees have identified that climate change is their most important stewardship priority. Therefore, the appendix shows the votes supplied by the investment manager that are considered significant by them, which the Trustees also 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 material voting rights as they relate to bond portfolios: 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.	<p>Votes in total: 19541 resolutions eligible (99.39% cast)</p> <p>Votes against management endorsement: 22.79% of votes cast</p> <p>Abstentions: 0.55% of eligible votes</p>	<p>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 not limited to:</p> <ul style="list-style-type: none"> • 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. 	<p>Bank of America Corporation a vote 'For' reporting on Clean Energy Supply Financing Ratio</p> <p>Vote For / Against management recommendation: Management recommended vote is cast 'Against' the resolution</p> <p>Date of Vote: 24 April 2024</p> <p>Size of holding: 0.53%</p> <p>Rationale for vote: LGIM believe that banks and financial institutions have a significant role to play in shifting financing away from 'brown' to funding the transition to 'green'. LGIM expects the company to be undertaking appropriate analysis and reporting on climate change matters, as they consider this issue to be a material risk to companies.</p> <p>Outcome: Fail</p> <p>Implications of Outcome: LGIM will continue to engage with the investee company, publicly advocate their position on this issue and monitor progress.</p> <p>Significance: This shareholder resolution is considered significant for reasons explained above under 'Rationale'.</p> <p>Was this communicated to company ahead of vote: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.</p>
LGIM UPAK - Future World UK Equity Index (GBP Hedged)	Same as above	<p>Votes in total: 6,160 resolutions eligible (94.09% cast)</p> <p>Votes against management endorsement: 5.86% of votes cast</p>	Same as above	<p>Unilever Plc a vote 'For' approving the Climate Transition Action Plan (CTAP).</p> <p>Vote For / Against management recommendation: Management recommended vote is cast 'For' the resolution</p> <p>Date of Vote: 1 May 2024</p> <p>Size of holding: 5.70%</p>

Fund	Proxy voter used?	Voting information	Most significant votes (description)	Trustee significant votes*
		Abstentions: 0.05% of eligible votes		<p>Rationale for vote: A vote for the CTAP is applied as we understand it to meet LGIM's minimum expectations. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with a 1.5°C Paris goal. Despite the SBTi recently removing their approval of the company's long-term scope 3 target, LGIM note that the company has recently submitted near term 1.5 degree aligned scope 3 targets to the SBTi for validation and therefore at this stage believe the company's ambition level to be adequate. LGIM therefore remain supportive of the net zero trajectory of the company at this stage.</p> <p>Outcome: Pass</p> <p>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.</p> <p>Significance: LGIM is publicly supportive of so called "Say on Climate" votes. They expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile nature of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.</p> <p>Was this communicated to company ahead of vote: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics.</p> <p>Shell Plc a vote 'Against' approving the Shell Energy Transition Strategy</p> <p>Vote For / Against management recommendation: Management recommended vote is cast 'For' the resolution</p> <p>Date of Vote: 21 May 2024</p> <p>Size of holding: 5.52%</p> <p>Rationale for vote: LGIM acknowledge the substantive progress the company has made in respect of climate related disclosure over recent years, and view positively the commitments made to reduce emissions from operated assets and oil products, the strong position taken on tackling methane emissions, as well as the pledge of not pursuing frontier exploration activities beyond 2025. Nevertheless, in light of the revisions made to the Net Carbon Intensity (NCI) targets, coupled with the ambition to grow its gas and LNG business this decade, LGIM expect the company to better demonstrate how these plans are consistent with an orderly transition to net-zero emissions by 2050. In essence, LGIM seek more clarity regarding the expected lifespan of the assets Shell is looking to further develop, the level of flexibility in revising production levels against a range of scenarios and tangible actions taken across the value chain to deliver customer decarbonisation. Additionally, LGIM would benefit from further transparency regarding lobbying activities in regions where hydrocarbon production is expected to play a significant role, guidance on capex allocated to low carbon beyond 2025 and the application of responsible divestment principles involved in asset sales, given portfolio changes form a material lever in Shell's decarbonization strategy.</p>

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				<p>Outcome: Pass</p> <p>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.</p> <p>Significance: LGIM is publicly supportive of so called "Say on Climate" votes. LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario. Given the high-profile nature of such votes, LGIM deem such votes to be significant, particularly when LGIM votes against the transition plan.</p> <p>Was this communicated to company ahead of vote: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics</p>
LGIM GPAE - FTSE RAFI Developed (inc Korea) Reduced Carbon Pathway Index	Same as above	<p>Votes in total: 21,001 resolutions eligible (99.41% cast)</p> <p>Votes against management endorsement: 21.51% of votes cast</p> <p>Abstentions: 0.55% of eligible votes</p>	Same as above	<p>2 significant vote examples are the same as the above 2 Funds: Bank of America (Size of holding: 0.90%) and Shell Plc (Size of holding: 1.14%)</p> <p>Exxon Mobil Corporation a vote 'Against' revisiting executive pay incentives for GHG Emission Reductions</p> <p>Vote For / Against management recommendation: Management recommended vote is cast 'Against' the resolution</p> <p>Date of Vote: 29 May 2024</p> <p>Size of holding: 1.11%</p> <p>Rationale for vote: A vote against is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p> <p>Outcome: Fail</p> <p>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.</p> <p>Significance: This shareholder resolution is considered significant due to misleading proposals (shareholder resolutions brought with the aim of undermining positive environmental, social and governance behaviours) are a relatively recent phenomenon. Such proposals often appear to be supportive of, for example, the energy transition but, when considered in depth, are actually designed to promote anti-climate change views.</p> <p>Was this communicated to company ahead of 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.</p> <p>Chevron Corporation a vote 'Against' reporting on analysing the risks arising from voluntary carbon-reduction commitments</p> <p>Vote For / Against management recommendation: Management recommended vote is cast 'Against' the resolution</p>

Fund	Proxy voter used?	Voting information	Most significant votes (description)	Trustee significant votes*
				<p>Date of Vote: 29 May 2024</p> <p>Size of holding: 0.67%</p> <p>Rationale for vote: A vote against is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.</p> <p>Outcome: Fail</p> <p>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.</p> <p>Significance: This shareholder resolution is considered significant due to misleading proposals (shareholder resolutions brought with the aim of undermining positive environmental, social and governance behaviours) are a relatively recent phenomenon. Such proposals often appear to be supportive of, for example, the energy transition but, when considered in depth, are actually designed to promote anti-climate change views.</p> <p>Was this communicated to company ahead of vote: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics</p> <p><u>Toyota Motor Corp.</u> a vote 'Against' electing director Toyoda, Akio</p> <p>Vote For / Against management recommendation: Management recommended vote is cast 'For' the resolution</p> <p>Date of Vote: 18 June 2024</p> <p>Size of holding: 0.65%</p> <p>Rationale for vote: A vote against is warranted as LGIM believe there is still a disconnect in Toyota's stated climate ambitions and its current multi-pathway strategy. We encourage Toyota to further develop disclosures that more clearly articulate how it intends to support a global transition to zero emission vehicles and net zero emissions. Additionally, a vote against Mr Toyoda is warranted because, as a long-time top executive, Mr Toyoda should be considered ultimately accountable for a spate of certification irregularities within the Toyota Motor group. LGIM are concerned that previous and current issues concerning legal certifications processes and safety requirements are indicative of a corporate culture that is not being amended to meet stakeholder expectations and legal requirements. For this reason, Mr Toyoda must be held accountable until appropriate remediation measures are taken.</p> <p>Outcome: Pass</p> <p>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.</p> <p>Significance: LGIM considers this vote to be significant as it is applied under the Climate Impact Pledge, LGIMs flagship engagement programme targeting companies in climate-critical sectors.</p>

Fund	Proxy voter used?	Voting information	Most significant votes (description)	Trustee significant votes*
				Was this communicated to company ahead of vote: LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with investee companies in the three weeks prior to an AGM as their engagement is not limited to shareholder meeting topics

Source: Investment managers as at 31 December 2024

* 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