

Engagement Policy Implementation Statement

The MSD Pension Scheme

The purpose of this Engagement Policy Implementation Statement (“EPIS”) is for us, the Trustee (MSD Pensions Trustee Limited) of The MSD Pension Scheme (“the Scheme”), to explain what we have done during the year ended 31 December 2022 to achieve certain policies and objectives set out in the Statement of Investment Principles (“SIP”). It includes:

1. Changes made to the SIP over the year and how our policies about asset stewardship (including both voting and engagement activity) in relation to the Scheme’s investments have been followed during the year; and
2. How we have exercised our voting rights or how these rights have been exercised on our behalf, including the use of any proxy voting advisory services, and the ‘most significant’ votes cast over the reporting year.

Our conclusion

Based on the activity we have undertaken during the year, we believe that the policies set out in the SIP have been implemented effectively.

In our view, the Scheme’s investment managers were able to disclose good evidence of voting and/or engagement activity, that the activities completed by our managers align with our stewardship priorities, and that our voting policy has been implemented effectively in practice.

The EPIS has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Plans (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

How voting and engagement policies have been followed

The Scheme is invested entirely in pooled funds, and so the responsibility for voting and engagement is delegated to the investment managers. We reviewed the stewardship activity of the investment managers carried out over the year and they were able to disclose good evidence of voting and engagement activity. More information on the stewardship activity carried out by the investment managers can be found in the following sections.

Over the year, we monitored the performance of the Scheme’s investments on a quarterly basis and received updates on important issues from our investment adviser, Aon Investments Limited (“Aon”). In particular, we received quarterly Environment Social Governance (“ESG”) ratings from Aon for the funds the Scheme is invested in where available.

The SIP was updated during the year to reflect a change in target asset allocation. In particular, the full redemption from the Emerging Markets equity portfolio managed by Schroders.

New regulations require us to publish an annual TCFD-aligned report on the pension scheme’s climate-related risks. We will produce a report annually, which will be published online. The first report will cover the period 1 October 2022 to 31 December 2022. The TCFD framework is focussed on the four key pillars of governance, strategy, risk management and metrics & targets. As part of the risk management pillar the Trustee has commissioned climate change scenario analysis which helps it to understand the range of possible outcomes that climate change could have on the Scheme and the resilience of the investment strategy to climate related shocks. The analysis has shown that funding is reasonable resilient under the climate scenarios modelled. This is mainly due to the low-risk strategy and high levels of hedging against changes in interest rates and inflation.

The Scheme’s stewardship policy can be found in the SIP by clicking [here](#).

What is stewardship?

Stewardship is investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

This includes prioritising which ESG issues to focus on, engaging with investees/issuers, and exercising voting rights.

Differing ownership structures means stewardship practices often differ between asset classes.

Source: UN PRI

Our managers' voting activity

Good asset stewardship means being aware and active on voting issues, corporate actions and other responsibilities tied to owning a company's stock. Understanding and monitoring the stewardship that investment managers practice in relation to the Scheme's investments is an important factor in deciding whether a manager remains the right choice for the Scheme.

Voting rights are attached to listed equity shares, including equities held in multi-asset funds. We expect the Scheme's equity-owning investment managers to responsibly exercise their voting rights.

Voting statistics

The table below shows the voting statistics for each of the Scheme's funds with voting rights for the year to 31 December 2022.

	Number of resolutions eligible to vote on	% of resolutions voted	% of votes against management	% of votes abstained from
LGIM World Equity Index Fund	38,295	99.8%	20.4%	0.7%
LGIM Developed Balanced Factor Equity Index Fund	11,634	99.7%	20.3%	0.2%
Schroders Emerging Markets Fund	1,865	98%	8%	8%

Source: Manager(s)

Use of proxy voting advisers

Many investment managers use proxy voting advisers to help them fulfil their stewardship duties. Proxy voting advisers provide recommendations to institutional investors on how to vote at shareholder meetings on issues such as climate change, executive pay and board composition. They can also provide voting execution, research, record keeping and other services.

Responsible investors will dedicate time and resources towards making their own informed decisions, rather than solely relying on their adviser's recommendations.

The table below describes how the Scheme's managers use proxy voting advisers.

Manager	Description of use of proxy voting adviser(s)
Legal and General Investment Management (LGIM)	LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' 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. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions.
Schroders	Institutional Shareholder Services (ISS) act as their one service provider for the processing of all proxy votes in all markets. ISS delivers vote processing through its Internet-based platform Proxy Exchange. Schroders receives recommendations from ISS in line with their own bespoke guidelines, in addition, they receive ISS's Benchmark research. This is complemented with analysis by their in house ESG specialists and where appropriate with reference to financial analysts and portfolio managers.

Source: Manager(s)

Why is voting important?

Voting is an essential tool for listed equity investors to communicate their views to a company and input into key business decisions. Resolutions proposed by shareholders increasingly relate to social and environmental issues.

Source: UN PRI

Why use a proxy voting adviser?

Outsourcing voting activities to proxy advisers enables managers that invest in thousands of companies to participate in many more votes than they would without their support.

Significant voting examples

To illustrate the voting activity being carried out on our behalf, we asked the Scheme's investment managers to provide a selection of what they consider to be the most significant votes in relation to the Scheme's funds. A sample of these significant votes can be found in the Appendix.

Our managers' engagement activity

Engagement is when an investor communicates with current (or potential) investee companies (or issuers) to improve their ESG practices, sustainability outcomes or public disclosure. Good engagement identifies relevant ESG issues, sets objectives, tracks results, maps escalation strategies and incorporates findings into investment decision-making.

The table below shows some of the engagement activity carried out by the Scheme's material managers over the year. Some of the engagement information provided is at a firm level i.e. is not necessarily specific to the fund invested in by the Scheme.

Funds	Number of Engagements		Themes engaged on at a firm-level
	Fund specific	Firm level	
LGIM World Equity Index Fund	574	Not provided	Climate change, Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Inequality, Public health, Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Reporting (e.g. audit, accounting, sustainability reporting), Strategy/purpose, and others.
LGIM Developed Balanced Factor Equity Index Fund	279	Not provided	Climate change, Human and labour rights (e.g. supply chain rights, community relations), Human capital management (e.g. inclusion & diversity, employee terms, safety), Inequality, Public health, Board effectiveness - Diversity, Board effectiveness - Other, Remuneration, Reporting (e.g. audit, accounting, sustainability reporting), Strategy/purpose, and others.
Schroders Emerging Markets Fund	<70	>2800	Environment - Climate change; Social - Human and labour rights (e.g. supply chain rights); Environment - Natural resource use/impact (e.g. water biodiversity); Environment - Pollution, waste; Governance - Board effectiveness - Diversity

Source: Manager(s)

Data limitations

At the time of writing, the following manager(s) did not provide all the information we requested:

- LGIM did not provide the number of engagements carried out at a firm level
- Schroders significant voting examples were not provided in the industry standard template and some information is missing.

We will engage with the manager(s) to encourage improvements in reporting.

This report does not include commentary on the Scheme's liability driven investments including cash and gilts because of the limited materiality of stewardship to these asset classes. Further this report does not include the additional voluntary contributions ("AVCs") due to the relatively small proportion of the Scheme's assets that are held in this way.

Appendix – Significant Voting Examples

In the table below are some significant vote examples provided by the Scheme's managers. We consider a significant vote to be one which the manager considers significant. Managers use a wide variety of criteria to determine what they consider a significant vote, some of which are outlined in the examples below

LGIM World Equity Index Fund	Company name	Twitter, Inc.
	Date of vote	13 September 2022
	How the manager voted	Against
	Did the manager communicate its intent to the company ahead of the vote?	Yes
	Summary of the resolution	Advisory Vote on Golden Parachutes
	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.05%
	Outcome of the vote	Pass
	Rationale for the voting decision	A vote against is applied as LGIM does not support the use of golden parachutes ¹ . As a long-term and engaged investor, LGIM entrusts the board to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business, where this is not the case LGIM will use their vote.
	Implications of the outcome	In Twitters 2022 AGM, LGIM voted against their say on pay proposal, as did 42% of shareholders. LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.
	Criteria on which the vote is considered significant?	LGIM considers Twitter to be significant given the high-profile nature of the meeting.
LGIM Developed Balanced Factor Equity Index Fund	Company name	NetApp, Inc.
	Date of vote	9 September 2022
	How the manager voted	Against
	Did the manager communicate its intent to the company ahead of the vote?	Yes
	Summary of the resolution	Vote against the resolution to elect Director T. Michael Nevens
	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.3%
	Outcome of the vote	Pass
	Rationale for the voting decision	A vote against was applied as the company has an all-male Executive Committee. From 2022, LGIM have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time.
	Implications of the outcome	LGIM will continue to engage with their investee companies, publicly advocate their position on this issue and monitor company and market-level progress.

¹ Golden parachute payments are lucrative settlement payments to top executives in the event that their employment is terminated.

	Criteria on which the vote is considered significant?	LGIM views gender diversity as a financially material issue for their clients. This vote is deemed significant due to the escalation and expansion of their diversity vote to all-male Executive Committees.
Schroders Emerging Markets Fund	Company name	Petroleo Brasileiro SA
	Date of vote	19 August 2022
	How the manager voted	Against
	Did the manager communicate its intent to the company ahead of the vote?	No response given for this question
	Summary of the resolution	Elect directors
	Approximate size of fund's holding as at the date of the vote (as % of portfolio)	No response given for this question
	Outcome of the vote	Pass
	Rationale for the voting decision	The company could nominate two more candidates as director about which we have no disclosure at the time of voting
	Implications of the outcome	No response given for this question
	Criteria on which the vote is considered significant?	Significant Vote - SH Governance Proposal; Votes against management

Source: Manager(s)