MSD Animal Health Pension Scheme

Annual Implementation Statement for year ending 31 December 2020

Overview

This document is the Annual Implementation Statement (the "statement") prepared by the Trustee of the MSD Animal Health Pension Scheme (the "Scheme") covering the scheme year to 31 December 2020 ("the year").

The purpose of this statement is to:

- set out the Trustee's view on how, and the extent to which, the terms of the Scheme's Statement of Investment Principles (the "SIP") which set out the Trustee's voting and engagement policies have been followed during the year
- describe the voting behaviour (including "most significant" votes) by, or on behalf of, the Trustee and state any use of services of a proxy voter during that year.

A copy of this statement will be made available on the following website alongside the most recent SIP (which is dated 25 September 2020).

https://www.mymsdpension.com/documents/

As the SIP was amended during the year, this statement considers the items outlined above by reference to the content of the previous SIP which applied prior to 25 September 2020 as well as the SIP dated 25 September 2020.

Adherence to the Trustee's engagement and voting policies

The Trustee's policies in relation to engagement and voting are set out in the SIP and are as follows:

- Where Trustee engagement with investment managers is required, this shall be primarily carried out by the Investment Consultant on the Trustee's behalf.
- The Trustee's policy is to implement its rights attaching to investments and engagement activities through the delegation of engagement activities to the Scheme's investment managers, noting the limitations associated with investing in pooled funds. The managers are expected to exercise these rights and engage with companies in the best interests of the Trustee, taking into account its policies from time to time. In particular, the Trustee recognises the Financial Reporting Council's UK Stewardship Code as best practice and encourages its investment managers to exercise their voting rights and other rights as a shareholder in a manner that is consistent with the Code. The Trustee has reviewed and accepted the ESG policies implemented by the Scheme's asset managers.
- The Trustee recognises that factors including, but not limited to, capital structure of investee companies, actual and potential conflicts, other stakeholders, and environmental, social and governance (ESG) factors, can have a material financial impact on the Scheme given its long time horizon, and that taking account of such 'financially material considerations' as part of investment decision-making is expected to have a positive financial benefit to the Scheme over the longer term.
- For active investment management, the Trustee's view is that such financially material considerations should be included amongst the criteria taken into account when considering the purchase, retention or sale of investments. Over the year to 31 December 2020, the Scheme was not invested in any actively managed equity funds.

- The Trustee does not consider it appropriate for a passive investment manager to take account of financially material considerations in the selection, retention and realisation of investments. However, a more activist stance such as engagement with company management, exercising proxy voting rights or collaboration with other investors may at times be appropriate, at the investment manager's discretion, and is supported.
- When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, look to take account of the approach taken by managers with respect to financially material considerations including voting policies and engagement where relevant.
- To incentivise its investment managers to maintain alignment of investment strategy and decisions with the policies, managers have been provided with the most recent version of the Scheme's SIP and they have confirmed that the management of the assets is consistent with those policies relevant to the mandate in question.
- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Investment Consultant will, on behalf of the Trustee, engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and the investment manager's engagement activities. If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

Through its monitoring processes, the Trustee did not identify any issues of non-compliance with the policies outlined in the SIP, and therefore no remedial actions were required during the year.

In the opinion of the Trustee, its policies in relation to undertaking engagement activities in respect of Scheme investments, and its policies in relation to the exercise of the rights (including voting rights) attaching to the investments held were followed during the Scheme year. Considerable thought went into updating the Scheme's policy around engagement when revisiting the SIP in September 2020 to ensure that it is fit for purpose, whilst quarterly monitoring reports, which are discussed at each Trustee meeting, incorporate the investment consultant's views and any relevant updates on the Scheme's investment manager. Whilst there were no changes in investment managers over the year, subsequent discussions around the portfolio have included ESG as a factor in decision-making.

Voting behaviour

As part of monitoring the stewardship of the Scheme's investments, the table below sets out the voting activities of the Scheme's investment managers. This includes any votes cast on the Trustee's behalf, detail on the Scheme's investment manager use of proxy voting and examples of votes cast that they deem to be significant.

The below table details the voting behaviour of the relevant investment managers, and highlights a selection of "significant votes" as set out by the manager, over the 12 months to 31 December 2020. Such votes are determined by the Scheme's investment managers with reference to guidance provided by the Pension and Lifetime Savings Association (PLSA), and including consideration of the potential impact on financial outcome, the potential impact on stewardship outcome, the size of holding and whether the vote was high-profile or controversial. Some of the Scheme's underlying investment strategies, such as fixed income holdings, do not have voting rights attached, and they have therefore been excluded from the table below. Please note that the voting behaviour of the AVC managers has not been included due to the different structure of such assets and lack of available information.

Manager and strategy	Portfolio structure	Voting activity	Most significant votes cast	Use of proxy voting
BlackRock UK Equity Index Fund	Pooled equity fund	Number of votes cast: 15,172 Percentage of eligible votes cast: 97% Percentage of votes with management: 94% Percentage of votes against management: 5% Percentage of votes abstained from: 1%	**Company 1: Exxon Mobil Corporation** Resolution: Item 1.2: Elect Director Angela F.Braly Item 1.4: Elect Director Kenneth C.Frazier Item 4: Require Independent Board Chair Decision: Against election of Directors for insufficient progress on TCFD aligned reporting. For the Independent Chair. Rationale for inclusion: The issue of climate risk and transition-readiness are paramount investment concerns for BlackRock as they consider the financial risks facing companies in the years ahead. As they have discussed during our most recent conversations with Exxon Mobil Corporation (Exxon), they continue to see a gap in the company's disclosure and action with regard to several components of its climate risk management. When effective corporate governance is lacking, they believe that voting against the re-election of the responsible directors is often the most impactful action a shareholder can take. **Company 2: Royal Dutch Shell Plc** Resolution: Item 21: Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions Decision: Against	BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS). They subscribe to research from the proxy advisory firm's Institutional Shareholder Services (ISS) and Glass Lewis, and is just one among many inputs into their vote analysis process, and they do not blindly follow their recommendations on how to vote. They primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship analysts can readily identify and prioritise those companies where their own additional research and engagement would be beneficial. Other sources of information they use include the company's own reporting (such as the proxy statement and the website), their engagement and voting history with the company, and the views of their active investors, public information and ESG research.

			Rationale for inclusion: Given the company's progress towards aligning its reporting with TCFD recommendations, which has been one of BIS' key requests of large carbon emitters, and its responsiveness to shareholder engagement on portfolio resilience and reduction of scope 1, 2, and 3 GHG emissions, BlackRock are supportive of management for the time being.	
BlackRock World Equity ex-UK Index Fund	Pooled equity fund	Number of votes cast: 25,380 Percentage of eligible votes cast: 94% Percentage of votes with management: 94% Percentage of votes against management: 6% Percentage of votes abstained from: <1%	**Company 1: Chevron Corporation** Resolution: Item 6: Report on Climate Lobbying Aligned with Paris Agreement Goals Decision: For Rationale for inclusion: The company recommends shareholders vote against this proposal, however, BIS voted FOR this proposal, as greater transparency into the company's approach to political spending and lobbying as aligned with their stated support for the Paris Agreement will help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy. **Company 2: AGL Energy Ltd.** Resolution: Item 7b: Approve Coal Closure Dates Decision: For Rationale for inclusion: Whilst the Board recommended voting against the proposal, BlackRock Investment Stewardship voted FOR this proposal because they	

			believe the company, and its shareholders, would benefit from a continued focus on long-term strategic planning covering several decades.	
BlackRock Emerging Markets Equity Index Fund	Pooled equity fund	Number of votes cast: 30,477 Percentage of eligible votes cast: 98% Percentage of votes with management: 90% Percentage of votes against management: 9% Percentage of votes abstained from: 2%	**Company 1: Korea Electric Power Corporation** Resolution: Item 1.2: Elect Choi Young-ho as an Inside Director Item 2: Elect Choi Young-ho as a Member of the Audit Committee Decision: For Rationale for inclusion: While BlackRock remain concerned about the company's coal projects in Indonesia and Vietnam, they voted in favour of the candidate for reasons including that he is a new nominee and therefore not responsible for KEPCO's past decisions. **Company 2: PT Indofood CBP Sukses Makmur Tbk** Resolution: Approve Acquisition of the total issued share capital of Pinehill Company Limited Decision: Against Rationale for inclusion: The proposed acquisition has merit from a strategic perspective. ICBP has in-depth knowledge of Pinehill's Indomie business and Pinehill's established footprint in its current markets could provide ICBP a strong platform for overseas growth.	

			Nevertheless, BlackRock believes it is in their clients' economic interests to vote against the proposed acquisition due to the following concerns: - The valuation and terms of the transaction; and - The board's oversight in relation to the inherent conflict of interest	