Statement of Investment Principles – MSD Animal Health Pension Scheme

August 2023

Introduction

1 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the MSD Animal Health Pension Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it) and the Occupational Pension Schemes (Investment) Regulations 2005 ("the Investment Regulations").

2 In preparing this statement, the Trustee has had regard of the requirements of the Pensions Act (as amended) and the Occupational Pensions Schemes (Investment) Regulations 2005 concerning the exercise of its investment powers and, in particular, concerning diversification and the specified criteria to be applied in choosing investments. The Trustee will consider those requirements on any review of this statement or any change in its investment strategy. These requirements were also taken into account in determining the benchmark, permitted asset classes and the investment restrictions applicable to the investment managers.

3 Before finalising this SIP, the Trustee took written advice from the Scheme's Investment Consultant (Aon Investments Limited) and consulted MSD Animal Health UK Limited (the 'Employer'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.

4 The Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. A copy of the SIP is available to members of the Scheme on the Scheme's publicly available website or on request.

Scheme objectives

5 To maintain a portfolio of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Employer, the cost of current and future benefits which the Scheme provides, as set out in the Trust Deed and Rules.

6 To limit the risk of the assets failing to meet the liabilities of the Scheme over the long term and, in particular, any statutory funding requirements set out in the Pensions Act 2004.

7 To minimise the long-term costs of the Scheme by maximising the return on the Scheme's assets, whilst having regard to the objective shown under 6.

8 The Trustee will review this performance objective regularly and amend as appropriate.

Investment strategy

9 The Trustee has received advice to determine an appropriate investment strategy for the Scheme. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently.

10 The investment strategy currently make use of a range of instruments that provide a better match to changes in liability values to preserve the strong funding position, but may also include:

- return-seeking assets, including equities; and
- actively managed portfolios, if and when it is deemed appropriate

11 The balance within and between these investments will be determined from time to time with regard to maximising the chance of achieving the Scheme's investment objective.

12 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.

13 The Trustee will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.

14 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.

15 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible. The Trustee, together with the Scheme's administrators, will hold sufficient cash to meet benefit and other payment obligations.

Investment managers

16 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

17 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives, and an acceptable level of risk.

18 The Trustee seeks to ensure that its investment manager(s) are incentivised to operate in a manner that is aligned with the Scheme's policies and make decisions based on medium to long-term measures. The Scheme uses one manager with many different mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

19 To maintain alignment with the Trustee's policies, the investment manager is provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and

are required to confirm that the management of the assets is consistent with those policies relevant to the mandate in question.

20 The Trustee believes that having appropriate governing documentation, setting clear expectations to the Managers, and regular monitoring of the investment manager's performance and investment strategy, is sufficient to incentivise the Managers to make decisions that align with the Trustee's policies and are based on assessments of medium and long-term financial and non-financial performance. Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will 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.

21 For most of the Scheme's investments, the Trustee expects the investment manager to invest with a medium to long-term horizon and to have regard to the medium to long-term performance of the issuers in which they invest, and to use their engagement activity to drive improved performance over these periods.

22 There is typically no set duration for arrangements between the Trustee and its investment managers although the continued appointment will be reviewed periodically. The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

23 Investment managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement and this is monitored and reviewed by the Trustee periodically to ensure the investment manager's remuneration remains aligned to its policies.

24 The Trustee reviews the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate based on advice from the Scheme's Investment Consultant.

25 In respect of the existing investment manager, the Trustee considered any actual or potential conflicts of interest at the time of their appointment. For any new appointments, the Trustee will take into account any actual or potential conflicts of interest prior to their appointment and deal with them accordingly. If a conflict of interest comes to the Trustee's attention then this will be considered by the Trustee and they will take appropriate action.

Financially material considerations

26 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.

27 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.

28 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.

29 The Trustee's policy is that day-to-day decisions relating to the investment of Scheme assets is left to the discretion of the investment manager(s). Whilst the Trustee has delegated its voting activities to third party investment managers, the Trustee accepts it has ultimate responsibility for the Stewardship of the Scheme's assets. The Trustee has reviewed and accepted the ESG policies implemented by the Scheme's investment manager(s). The Trustee recognises the UK Stewardship Code as best practice and encourages their investment manager(s) to exercise their voting rights and other rights as a shareholder in a manner that is consistent with the Code.

30 When considering the appointment of new managers, reviewing existing managers, and to fulfil it's responsibility for the Stewardship of the Scheme's assets, 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.

Non-financial matters

31 The Trustee recognises that members and beneficiaries may have ethical views or views on matters such as the social and environmental impact of the Scheme's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population, it is the Trustee's view that financial factors should take precedence in seeking to maximise the security of member benefits. As such, it is the Trustee's policy not to take into account the non-financial factors when taking investment decisions related to this Scheme.

Other matters

32 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.

33 The Scheme's AVC arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members, given that members' benefits will be directly determined by the value of the underlying investments. The Trustee recognises that members and beneficiaries may have ethical views or views on matters such as the social and environmental impact of the Scheme's investments. In conjunction with there being practical challenges of capturing and maintaining a consensus view on multiple issues across a varied membership population the Trustees' approach will be to consider requests for alternative fund options, where these are made proactively by members, but they will not actively seek members' views.

34 The Scheme's Investment Managers are prohibited from directly investing more than 5% of the Scheme's assets directly in securities issued by Merck & Co. Inc and its subsidiaries as per the Pension Act 1995. Further to this, the Scheme complies with Merck & Co Inc's policy of having zero direct holdings in the securities of Merck & Co.

35 The Trustee recognises a number of risks involved in the investment of the Scheme's assets:

- Deficit risk:

    - is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies.

    - is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

- Manager risk:

    - is measured by the expected deviation of the return relative to the benchmark set.

    - is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

- Liquidity risk:

    - is measured by the level of cashflow required by the Scheme over a specified period.

    - is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

- Political risk:

    - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.

    - is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.

- Sustainability and Corporate Governance risk:

    - are measured by the level of concentration in individual stocks leading to the risk of an adverse impact of investment values arising from corporate failure

    - are managed by regular reviews of stock concentration and regular discussions with the Investment Managers about sustainability risks

- Sponsor risk:

    - is measured by receiving regular financial updates from the Employer and periodic independent covenant assessments. The Employer's level of ability and willingness to support the continuation of the Scheme and to make good any current or future deficit

    - is managed through an agreed contribution and funding schedule.

Signed:

Name:

Date:

Authorised for and on behalf of the Trustee of the Scheme