Bristol-Myers Squibb Pension Plan: Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year to 31 December 2021.

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

Investment Objectives of the Plan

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Plan are to invest the Plan's assets in the best interests of the members and beneficiaries, and in the case of a potential conflict of interest between members and beneficiaries and the Principal Employer, in the sole interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed. The Trustee's primary strategic objectives are as follows:

- Hold sufficient assets to make all benefit payments in full.
- To attain full funding on a self-sufficiency basis (defined as "gilts + 0% p.a." or "gilts flat") by 2030 with a 75% probability.
- To limit the risk of the assets failing to meet the liabilities over the long term, in particular in relation to the scheme-specific funding measure, the Statutory Funding Objective Valuation ("SFO").
- To ensure appropriate liquidity which will generate income and capital growth to meet, together with new contributions from the Principal Employer, the cost of accrued benefits which the Plan provides (as defined by the actuarial assumptions in accordance with the Statement of Funding Principles) recognising that the Plan was closed in 2012.
- To minimise the long term costs of the Plan by maximising the return on the assets whilst having regard to the objectives above.

Policy on ESG, Stewardship and Climate Change

The Plan's SIP includes the Trustee's policy on Environmental, Social and Governance ("ESG") factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship. A copy of the latest SIP can be found here:

https://epa.towerswatson.com/doc/BMS/pdf/BMS-SIP-Jun_2020_FINAL--.pdf

The Trustee believes that ESG issues may have a material impact on investment risk and return outcomes and should therefore be considered as part of the Plan's investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. When setting investment strategy, ESG factors including climate change will be considered alongside a number of other factors that may influence investment strategy.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations including engagement, attached to the investments, in accordance with their own corporate governance policies and current best practice, including, where applicable, the UK Corporate Governance Code and UK Stewardship Code.

This policy was last reviewed in March 2021.

The following sets out how the Trustee's engagement and voting policies were followed and implemented during the year. The Trustee believes that the engagement policy has been followed over the year.

Engagement

<u>Monitoring</u>

- The Trustee, working with their investment consultant, considers, amongst other factors, how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring or terminating existing investment managers. The Trustee will also periodically review the responsible investment policies of the managers - Mercer provides their ESG ratings on the Plan's investment managers on a quarterly basis and an ESG ratings review compared to the investment universe was carried out over 2021.

- During 2021, the Trustee decided to make a number of changes to their investment arrangements, although ESG issues were not the driver in all cases. The Trustee terminated their emerging market equities mandate with M&G on performance grounds, which had a Mercer ESG rating of 3. The proceeds of this disinvestment were used in conjunction with the funds disinvested in 2020 from the H2O mandate that the Trustee terminated due to ongoing governance issues at the firm, which had an ESG rating of 4 (being the lowest), to implement a new diversified growth mandate managed by Ruffer, which has a Mercer ESG rating of 1 (being the highest) and was a contributor in the Trustee's selection process.

- Managers will be expected to report on their own ESG policies as and when requested by the Trustee. Over the year, the Trustee asked their investment managers to summarise their approach to ESG when presenting at Trustee meetings. Wellington, Insight and Cantillon presented to the Trustee at their meetings over 2021 and the Trustee was satisfied with the information provided.

- The Trustee received details of relevant engagement activity for the year to 31 December 2021 from each of the Plan's investment managers, covering a wide range of different issues, including ESG factors. Examples of this are given below:

    - **Insight** engaged with companies on a number of issues, including governance issues such as transparency and alignment of management remuneration with shareholder interests, as well as environmental issues, namely environmental risk disclosures. The investment manager also provided a presentation to the Trustee during 2021 focused on their views relating to ESG within the Plan's investments with Insight.

- **M&G** engaged with companies on ESG issues centered on corporate disclosures related to health and safety, board independence and coal emissions.

- **Majedie** engaged with several companies regarding a number of topics. Engagement focused on reviewing carbon emissions and neutrality, sustainability reporting and employee engagement.

- **Wellington** engaged with several companies on a number of issues, including climate change, reputational risks, diversity as well as corporate culture. Wellington also presented in 2021 on how they incorporate ESG into the investment strategy of the Plan's portfolio.

- With regard to the Plan's private debt mandate, **Mercer** manages a fund of funds with no active role in engaging with companies on ESG issues. There are no specific ESG-related restrictions relating to the Private Debt and Senior Private Debt funds in which the Plan invests.

- **Mercer** also manages a pooled global equity mandate for the Plan. This is also managed as a fund of funds and as such, engagement with underlying companies is undertaken by the appointed sub-investment managers. Mercer provides monitoring and reporting on these engagements. Mercer has recently sent out its annual manager engagement survey, which aims to assess managers' engagement activities, both at a general and thematic level which includes a focus on Mercer's key priority engagement areas relating to climate change, modern slavery and diversity. The findings of the survey will be shared with clients in Q2 2022.

- **Cantillon** engaged with a number of companies on several ESG-related issues, including remuneration, shareholder rights, executive selection, carbon emissions reporting and environmental goal setting. Cantillon also provided a presentation to the Trustee during 2021 focused on their views relating to ESG and ESG considerations within the Plan's portfolio.

- **Ruffer** reached out to a number of companies to discuss ESG over 2021. Discussions with these companies were centered on climate change, remuneration, employee relations, board structure and business practices. The investment manager also discussed their approach to ESG integration to the investment strategy at the manager selection meeting in February 2021.

<u>Stewardship</u>

- The Trustee is supportive of the UK Stewardship Code (the "Code"). The Trustee expects its managers who are authorised in the UK to comply with the UK Stewardship Code, including public disclosure of support via an external website.

- Over the period, the Trustee did not set any investment restrictions on the appointed investment managers in relation to particular products or activities.

Voting Activity

Where relevant, the Plan's investment managers exercise voting rights and undertake engagement (collaborative or other) in accordance with their own corporate governance policy, together with climate change considerations, including escalation procedures to protect investment value. Each relevant manager provides the Trustee with their policies reporting on voting and engagement activities on a regular basis. The Trustee did not use the direct services of a proxy voter over the year.

Over the 12 months to 31 December 2021, the voting activity on behalf of the Trustee was as follows:

Insight – Broad Opportunities Fund ("IBOF") and Secured Finance II

Insight actively manage a pooled diversified growth mandate and a secured finance mandate. Insight have the ability to allocate to a number of different asset classes, including equity market investments. Insight also manage a liability driven investment portfolio and an asset-backed securities portfolio, which do not hold any assets that provide voting rights.

Insight uses Minerva Analytics for the provision of proxy voting services and votes at meetings where it is deemed appropriate and responsible to do so.

A summary of the voting undertaken over the year to 31 December 2021 is provided below:

- Insight has voted in 13 meetings of 13 eligible meetings, all for the IBOF, on behalf of the Trustee. In these meetings, there were a total of 142 votable proposals;

- Insight has participated in the vote for 97.9% of all votable proposals. In 99% of these votes for proposals, Insight has indicated their support to the companies' managements.

The Broad Opportunities Fund invests in listed closed-end investment companies. The corporate structure of such companies held in the strategy includes an independent board responsible for providing an overall oversight function on behalf of all shareholders. This includes setting out investment objectives and ensuring that the underlying strategy and portfolio activities within it remain within the agreed framework. This governance framework generally limits contentious issues that can arise with other listed entities. As a result, examples of significant votes cast that may be comparable to other listed entities are not applicable to the Broad Opportunities Fund's exposures.

There were no votes classified as significant by Insight over 2021 in relation to the Plan's investments in the Secured Finance II Fund.

M&G – Global Emerging Markets Fund

M&G actively managed a pooled emerging markets equity mandate. M&G uses research provided by ISS and the Investment Association. M&G uses the ProxyEdge platform from ISS voting platform for managing proxy activity.

A summary of the voting undertaken over the year to the mandate's termination is provided below:

- M&G has voted in 44 meetings of 44 eligible meetings. In these meetings, there were a total of 425 votable proposals;
- M&G has participated in the vote for 99.8% of all votable proposals. In around 85% of these votes for proposals, M&G has indicated their support to the companies' management, while voting against around 15% of the proposals.

M&G define significant votes as votes where there is disagreement between M&G as an investor and the company; and this could be over a range matters including shareholder rights, corporate governance, corporate strategy and corporate behaviour. The investment manager shared four significant votes over 2021:

- Samsung Electronics Co., Ltd, 17 March 2021: voted against electing Jeong Kim over corporate behaviour and insufficient shareholder engagement concerns;
- Shinhan Financial Group Co., Ltd., 25 March 2021: voted against the election of several directors over CEO retaining board seat despite hiring malpractice;
- Etalon Group plc, 22 March 2021: voted against authorization of issuance of equity or equity-linked securities with or without preemptive rights over capital management concerns; and
- China Mobile Limited, 29 April 2021: voted against a resolution to adopt new articles of association over virtual meetings concerns.

Mercer – Passive Global Equity Fund

Mercer manage a fund of funds pooled global equity mandate. The Trustee's investments take the form of shares or units in the underlying Mercer Funds. Any voting rights that apply with respect to the underlying investments attached to the Mercer Funds are ultimately delegated to the third party investment manager appointed by Mercer. Mercer accepts that the investment manager may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled the manager to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such, the Trustee does not use the direct services of a proxy voter. Irish Life Investment Managers (ILIM), the Fund's underlying manager, subscribes to research and proxy-related services provided by Institutional Shareholder Services (ISS) to assist the firm with the mechanics of voting.

A summary of the voting undertaken over the year to 31 December 2021 is provided below:

- The underlying managers were eligible to vote in a total of 20,489 proposals; 99% of all eligible proposals over the period were actioned. A very small portion (less than 0.5%) of votes were not actioned, those of which largely relate to circumstances where managers explicitly opted not to vote a meeting, for example where conflicts of interest could be present.

- In around 88% of voted proposals, the underlying investment managers indicated their support to the companies' managements, while voting against in around 12% of the proposals.

Mercer bases its definition of significant votes on its Global Engagement Priorities, based on its Beliefs, Materiality and Impact ("BMI") Framework. In order to capture this in the monitoring and reporting of managers voting activities, significant votes focus on proposals covering these priority areas, with specific focus placed on shareholder proposals ("SHP") relating to these priority areas and taking into account the size of holding across funds. Three examples of significant votes over 2021 can be found below, all of which were votes in favour of shareholder proposals:

- Microsoft Corporation: regarding median gender and racial pay equity reporting;

- Alphabet, Inc.: regarding human rights/civil rights expertise on board ;

- Tesla, Inc.: regarding diversity and inclusion reporting.

Mercer also manage a fund of funds private debt mandate. Mercer did not provide voting activity details for this mandate as it is a fixed income portfolio that does not have voting rights.

Majedie – UK Equity Fund

Majedie actively manage a pooled UK equity mandate. Majedie subscribes to voting research from ISS and places vote instructions through its platform, ISS ProxyExchange.

A summary of the voting undertaken over the year to 31 December 2021 is provided below:

- Majedie has voted in 172 meetings of 173 eligible meetings. In these meetings, there were a total of 2,547 votable proposals, of which Majedie voted in 2,535 of these proposals;

- Majedie has participated in the vote for 99.4% of all votable proposals. In around 96% of these votes for proposals, Majedie has indicated their support to the companies' managements, while voting against in around 4% of the proposals and abstaining or withholding less than 1% of the time.

- Majedie has confirmed to the Trustee that they did not vote at one possible meeting (and consequently, on all possible proposals). This was due to the meeting being held by an unlisted company with a less than 1% weighting in the portfolio.

Majedie define significant votes where the holding has a top weighting in the Fund or the voting recommendations of the company's Board and ISS differ. There were 4 significant votes over 2021:

- Ascential, 5 June 2021: voted for (against the recommendation of ISS) the approval of the company's Remuneration Policy and for (against the recommendation of the ISS) the approval of the proposed Ten Year Equity Plan;

- AstraZeneca, 11 May 2021: voted against the approval of the company's Remuneration Policy and against the proposed amendment of the Performance Share Plan.

Cantillon – Global Equity Fund

Cantillon actively manage a pooled global equity mandate. Cantillon subscribes to research and proxy-related services provided by Institutional Shareholder Services (ISS) to assist the firm with the mechanics of voting. Cantillon also have access to ISS's research, and reviews their voting recommendations and rationale for proxies relevant to the firm.

A summary of the voting undertaken over the year to 31 December 2021 is provided below:

- Cantillon has voted in 57 meetings of 58 eligible meetings. In these meetings, there were a total of 810 votable proposals. Cantillon advised that there was one meeting where the investment manager did not vote as it was a holding that was in the process of being disinvested.

- Cantillon has participated in all of these votable proposals. In around 94% of the these votes for proposals, Cantillon has indicated their support to the companies' managements, while voting against in around 5% of the proposals and abstaining or withholding around 1% of the time.

Cantillon define significant votes as votes where the company scores very poorly on ISS's Governance Quality Score and where ISS has recommended voting against a company proposal and votes that the firm's investment team deem significant. There were two significant votes for the Global Equity Fund over 2021:

- Meta Platforms, 26 May 2021: voted against management's proposal regarding the amendment of non-employee director compensation policy as it would provide services such as personal security to the Non-Executive Directors without imposing any limits or estimation of the potential costs. ISS noted that the company has "historically provided sizable security-related perquisites to the CEO and NEOs, at a magnitude which is considered extraordinary, including for the year in review". Cantillon agreed with ISS's view that a vote against this proposal was warranted.

- Alphabet, 2 June 2021: voted against two management proposals to approve Alphabet's omnibus stock plan and the election of certain directors. The investment managers agreed with ISS's view that a vote against these proposals was warranted. The omnibus stock plan cost was excessive as was the three-year average burn rate; the disclosure of change-in-control vesting treatment was incomplete; the plan permitted liberal recycling of shares and the plan allowed broad discretion to accelerate vesting. The concerns regarding certain directors included poor stewardship of the company's pay programs as evidenced by recurring and significant executive compensation, and one director serving on more than five public company board.

Wellington – Buy and Maintain Fund

Wellington did not provide voting activity details as they manage a fixed income portfolio that does not have voting rights.

Ruffer – Absolute Return Fund

Ruffer actively manage a pooled absolute return mandate. Ruffer subscribes to research and proxy-related services provided by Institutional Shareholder Services (ISS) to assist the firm with the mechanics of voting. Ruffer also have access to ISS's research, and reviews their voting recommendations and rationale for proxies relevant to the firm.

A summary of the voting undertaken over the year to 31 December 2021 is provided below:

- Ruffer has voted in 95 meetings of 95 eligible meetings. In these meetings, there were a total of 1265 votable proposals.
- Ruffer has participated in all of the votable proposals. In around 92% of these votes for proposals, Ruffer has indicated their support to the companies' management, while voting against in around 6% of the proposals and abstaining or withholding around 2% of the time.

Ruffer define significant votes as votes that the firm thinks will be of particular interest to its clients. In most cases, these are when they form part of continuing engagement with the company and/or Ruffer has held a discussion between members of the research, portfolio management and responsible investment teams to make a voting decision following differences between the recommendations of the company, ISS and the investment manager's internal voting guidelines. Ruffer provided one example of significant vote since the implementation of the mandate to 31 December 2021:

- II-VI Incorporated, 18 November 2021: voted for the appointment of Vincent Mattera to the role of Chair and CEO on the basis that a vote against this appointment would detract from Ruffer's existing investment case and also raise the risk profile of the company, given the complexity of the company's operations and Dr Mattera's knowledge of these, the acquisition of Coherent (the largest deal in the company's history) and the fact that succession for his replacement as CEO is underway. The Lead Independent Director conveyed that Dr Mattera knows the company better than anyone else and he has been with the company in various roles since 2004. The resolution passed with 96% votes in favour. The company has followed this same transition plan for the prior two CEO/Chair roles and felt it worked well as it meant the Chair understood the business very well, which is important given the complexity of its operations. Ruffer also mentioned that this is a rare case where the firm has voted in favour of a Chairman/CEO joint role, where normally Ruffer might suggest these two roles to be separate.