

Baxter Healthcare Pension Plan

Engagement policy implementation statement for the year ended 5 April 2024

During the year ended 5 April 2024, the Plan's investment policies were implemented in line with the principles set out in the Plan's Statement of Investment Principles.

The Trustee purchased a bulk purchase annuity policy in March 2023 covering all known members of the Plan. The surplus assets are currently invested in a cash fund.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager, Legal and General Investment Management (LGIM), and to encourage the manager to exercise those rights in accordance with the Statement of Investment Principles. The Plan invests through pooled fund arrangements and so acknowledges that the investment manager exercises those rights in accordance with its own corporate governance policies on behalf of all investors in its funds. In doing so, LGIM takes account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee considers the fees agreed with LGIM incentivise LGIM to provide a high-quality service that meets the objectives of the Plan. The Trustee monitors LGIM and would consider terminating any investment manager appointment if that investment manager appeared to be acting contrary to the Plan's Statement of Investment Principles.

The Trustee has considered LGIM's stewardship activities in relation to the specific funds the Plan holds having received specific training from LGIM on the topic. The Trustee reviews LGIM's approach to stewardship on an on-going basis.

The Trustee concludes that, based on these considerations, LGIM has followed the requirements of the SIP.

Voting behaviour

LGIM's voting decisions are made by their Investment Stewardship team and in accordance with their relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures the stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

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. LGIM's use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with LGIM's position on ESG, they have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards that all companies globally should observe, irrespective of local regulation or practice.

LGIM summarises its voting record across all markets each quarter. This information is available on request.

Examples of LGIM's engagement activities during the year ended 31 March 2024:

Active ownership, which is a broader topic than voting in isolation, forms a key part of how LGIM conducts responsible investing. This is reflected in the following activities that are conducted on behalf of the Plan.

- Company engagement
- Using voting rights globally, with one voice across all active and index funds
- Addressing systemic risks and opportunities
- Seeking to influence regulators and policymakers
- Collaborating with other investors and stakeholders.

The examples below demonstrate some of the specific initiatives undertaken by LGIM in this regard during the year.

LGIM Climate impact pledge – Expanding the scope in 2023

At LGIM, climate change and supporting a drive to net zero remain a priority. As such, LGIM has further expanded their dedicated climate engagement programme, the Climate Impact Pledge, by strengthening their climate expectations and red lines for investee companies, with the goal of accelerating progress towards net zero greenhouse gas (GHG) emissions globally. LGIM has expanded the scope of their climate engagement programme in three main ways:

1. **Increased the number of sectors:** In 2016, LGIM's first iteration of the Climate Impact Pledge covered 6 sectors. In 2020 this increased to 15 and LGIM has now expanded coverage to 20 sectors. These companies are responsible for the majority of global carbon emissions from listed companies and also have been identified as the most carbon-intensive sectors within our portfolio.
2. **Increased the number of companies covered by data driven assessment:** By publishing their climate ratings on their dedicated website, LGIM enables companies to verify their progress and identify areas in their climate disclosures and strategies which need improvement. There may be voting implications for those companies not meeting LGIM's minimum standards.
3. **Increased the number of companies subject to direct engagement from 60 to over 100 companies:** In October 2022, LGIM began their next cycle of direct climate engagement with selected companies. These companies are influential in their sectors, but not yet leaders on climate change and sustainability; LGIM believes they can and should embrace the transition to net zero carbon emissions in the next few years. Complementing their data-driven approach, this qualitative approach enables LGIM's stewardship team sector experts to conduct an in-depth assessment of each company, based on the framework set out in the net zero sector guidelines published on their website – the sector and net zero guides have also been updated further details are available on the website or on request. This engagement aims to help companies remove roadblocks and encourage progress. LGIM expects these in-depth engagement companies to meet their published sector-specific red lines. There are potential voting and divestment implications for companies not meeting these after a certain period of engagement.

Measuring and minimising methane emissions

Since 2021, LGIM has worked in partnership with the Environment Defense Fund ('EDF')¹. LGIM's work has been focused on transferred emissions and methane emissions, which have more than 80 times the warming power of carbon dioxide over a 20 year period. LGIM believe that reducing methane emissions can be a powerful and cost-effective way for oil and gas companies to make progress towards climate goals and manage regulatory and reputational scrutiny. LGIM also believe in the importance of collaborative work on this front, working through EDF with like-minded peers to exert pressure on oil and gas companies to be more transparent about the actions they are taking to measure and reduce methane emissions.

¹ About EDF+Business – EDF+Business

Policy dialogue

UK highlights: Social factors in pension investment decisions consultation

LGIM responded to the consultation by the Taskforce for Social Factors, a UK organisation which aims to support pension scheme trustees and the wider pensions industry in the consideration of social risks and opportunities. The consultation includes more than 30 recommendations about how social factors can be better incorporated into investment decisions.

International highlights: Japan climate and energy policy

LGIM are ramping up their climate policy engagement in Japan, where preparations for the next round of policy deliberations that determine the nation's mid-term climate and energy policies are underway. LGIM continue to advocate for Paris-aligned policies and that provide the right backdrop to enable Japanese businesses, once leaders in low-carbon technologies, to remain competitive.

NA100 Collaboration

LGIM has announced that it is a formal member of Nature Action 100 (NA100), a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and clear set of expectations for companies. 190 institutional investor participants – representing US\$23.6 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.

Joining NA100 is an important part of acting on the commitments LGIM has made regarding collaboration and knowledge-sharing under the Finance for Biodiversity Pledge, as set out in our biodiversity policy.