

Novartis UK Pension Scheme (the “Scheme”) Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Scheme’s Engagement Policy in the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year to 31 December 2024 (the “Scheme year”).

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

The statement does not include detailed reference to Additional Voluntary Contribution (“AVC”) and Voluntary Purchase Account (“VPA”) assets held by the Scheme as these form a small proportion of total Scheme assets.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives it has set. The objectives for the Scheme specified in the SIP dated May 2022, which remained in force over the Scheme year, are as follows:

“The primary objective of the Trustee is to ensure that members’ benefits are payable as they fall due. From an investment perspective, this involves (given the agreed Schedule of Contributions) balancing a wish to generate investment returns to meet payments with a wish to limit the potential (downside) volatility of the returns (and the consequent impact on member benefit security). The view of what is and is not acceptable to the Trustee in investment terms ties in with funding and covenant considerations.*

The Trustee recognise that the Scheme liabilities are long term (several decades) and hence the investment time horizon is potentially also very long term. They also recognise the potential for risk transfer opportunities e.g. through bulk annuities which could reduce the investment time horizon substantially for a proportion of the invested assets.”

**in practice no contributions were due over the Scheme year*

Policy on ESG, Stewardship and Climate Change

The Scheme’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://novartis.compendiatouch.co.uk/>

The Trustee has also adopted a Responsible Investment (“RI”) Policy document, which sets out the Trustee’s Responsible Investment beliefs and policies in more detail.

The Trustee’s policy in relation to ESG factors, stewardship and climate change over the course of the year, as set out in the SIP, is as follows:

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

The Trustee will ensure that an appropriate governance budget is available for developing and implementing ESG and Climate Change related governance policies. The Trustee will adhere to the annual reporting requirements under the Task Force on Climate-Related Financial Disclosures (“TCFD”) regulations.

The Trustee’s intention is to align the Scheme’s investments with the targets set under the Paris Agreement (which aims to limit climate change to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels) in relation to greenhouse gas emissions and carbon neutrality, to the extent that this is consistent with overall risk and return considerations (including for example, avoiding, a material detriment to return expectations through the existence of “green premia” or a concentration of risk that could result from an excessively narrow investment universe). Further detail on the Trustee’s beliefs and policies in relation to ESG factors and Climate Change is set out in the Trustee’s Responsible Investment Policy document.

Subject to this Policy the Trustee has given the appointed investment managers full discretion when evaluating ESG factors, including climate change considerations, and in exercising voting rights and stewardship obligations attached to the Scheme’s investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. Where investment is in multi-investor pooled funds, the Trustee will consider the guidelines of the relevant pooled fund when deciding to appoint or retain the manager. The Trustee expect its managers to take these factors into account as appropriate to the mandate in the selection, retention and realisation of investments. This covers a range of matters including the issuers’ performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental and social impact and corporate governance.

The Trustee will review periodically the responsible investment policies and practices of the appointed investment managers, with the assistance of their advisers. The Trustee will, where it is deemed appropriate, engage the managers in discussion on their responsible investment policies and may request the managers consider collective engagement further. It will however be made clear to the managers that any decisions taken by the managers should be in the best long term financial interest of the Scheme and its members.

The Trustee considers the ESG credentials of investment managers in the selection and ongoing monitoring of investment managers, making use of Mercer’s ESG ratings and investment reports. Given a shortlist of highly rated strategies, the Trustee would consider those strategies with positive ESG tilts more favourably and under normal circumstances, the Trustee would not expect to appoint a strategy that is afforded the lowest rating by their adviser in relation to ESG.

The Trustee will consider the ESG policies and practices of prospective annuity providers to the extent possible. Furthermore, the Trustee will consider the ESG policies and practices of AVC providers noting that the impact of AVC performance is on individual members, but notes also that these contracts are a small proportion of total assets and hence will not have a significant impact on the Scheme's overall ESG."

Engagement

The following work was undertaken during the Scheme year relating to the Trustee's policy on ESG factors, stewardship and climate change, and sets out how the Trustee's engagement and voting policies were followed and implemented during the year.

- All of the Scheme's investment managers confirmed that they are signatories of the current UK Stewardship Code.
- Managers are expected to report on their own ESG related policies and activities as and when requested by the Trustee. Over the Scheme year, the Trustee asked their investment managers to summarise their approach to ESG when presenting at Trustee or Investment Sub-Committee ("ISC") meetings. Schroders, Aviva, Wellington, RLAM and LGIM presented at meetings during 2024.
- The Scheme's investment performance report is reviewed by the Trustee on a quarterly basis. This includes ratings (both general and specific to ESG) from the investment consultant. All of the managers remained generally highly rated during the year. The investment performance report includes how each investment manager is delivering against their specific mandates.
- In July 2024, the Trustee published the Scheme's second annual TCFD report. The report outlines how the Trustee has established and maintained oversight and processes to ensure that relevant climate related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Scheme.
- In July 2024, the Trustee conducted a Responsible Investment Total Evaluation (RITE) survey, which measures how effectively ESG factors are integrated into Trustee decision making. The Trustee tracks progress in the results of the survey over time.
- The Trustee also requested details of relevant engagement activity over the year from each of the Scheme's investment managers, noting that the Scheme does not invest in equity mandates and therefore its managers have little or no ability to influence investee companies through voting activity.
 - The Scheme's investment managers engaged with companies over the year on a wide range of different issues, including ESG factors. This included engaging with companies on climate change to ensure that companies were making progress in this area and better aligning themselves with the wider objectives on climate change in the economy (i.e. those linked to the Paris agreement).
 - The Scheme's managers provided examples of instances where they had engaged with companies they were invested in/about to invest in which resulted in a positive outcome. These engagement initiatives were driven mainly through regular engagement meetings with the companies that the managers invest in, or by voting on key resolutions at companies' Annual General Meetings. Examples are set out below. The Trustee notes that, while it does not invest in Equity mandates, its

appointed managers do manage equities for other investors, and expects its managers to apply its views consistently across mandates and for this to influence the behavior of investee companies. Examples of key activities are shown on this basis.

Engagement activity

The following is based on information provided to the Trustee by the Scheme's investment managers:

LGIM

LGIM's investments and stewardship teams made 281 engagements on ESG issues with 134 companies within the Scheme's Buy & Maintain Credit Fund over the Scheme year, focussing on corporate strategy, climate change and remuneration policy. A few examples are set out below:

Amazon

LGIM's engagement with Amazon during 2024 was focussed on the following objectives:

- The living wage: an extension of Amazon's living wage policy into contractors and supply chains
- Independence: ensuring appropriate independence on the nomination & governance committee.

Regarding LGIM's living wage objective, Amazon is one of the few companies in retail and technology that does pay the living wage in most (albeit not all) regions. LGIM have discussed with Amazon both levels of wages and the frequency with which they are updated. They have also discussed Amazon's work with Non-Governmental Organisations on pay, and how they monitor their contractor pay, including benchmarking exercises.

Regarding LGIM's independence objective, Amazon's nomination and governance committee, which is formed of long-tenured directors, does not meet LGIM's minimum expectations for independence and their discussions with Amazon have focused on why the nomination & governance committee is structured differently to its other committees.

LGIM have seen some developments from Amazon and would describe the company as "on track" to meet their living wage objective; LGIM anticipate that Amazon's 2025 Sustainability Report will enable them to assess progress. Regarding independence, this objective has been raised with Amazon and is at an earlier stage of discussion. In terms of completion, LGIM are mindful of the cycle of director (re-) elections. Having met with the company a number of times in 2024, LGIM will continue to engage as they pursue the objectives outlined above.

PepsiCo

As one of the largest food and beverage manufacturers in the world, with global markets and a range of products, PepsiCo is a natural focus for LGIM's engagement activity. LGIM commits to engage with companies in which they invest to sustainably manage their product lifecycle to limit the amount of raw material as well as waste and the negative impacts from pollution.

PepsiCo has been named as one of top plastic polluters globally. The company has ambitious commitments and targets related to plastics and sustainable packaging, but progress against those targets has stalled.

LGIM's objective for their engagement with PepsiCo is for the company to transition away from single-use (fossil-fuel-based) plastics. They also expect the company to support the Global Plastics Treaty and refrain from negative lobbying regarding the Treaty or any other plastic - related regulations.

In 2024, as part of the Plastic Solutions Investor Alliance, convened by NGO As You Sow and comprising over 60 asset managers and asset owners, LGIM co-led engagement with PepsiCo to discuss their approach to plastics and the steps they are taking to transition to more sustainable packaging. LGIM expect the company to disclose information on how it aims to transition away from single-use plastics by increasing the sales of reuse products and concentrate (e.g. Sodastream), increasing recycled content in its packaging and reducing virgin plastics, tackling challenges related to flexible packaging, and advocating for supportive regulatory environments.

At PepsiCo's 2024 AGM, LGIM supported a shareholder resolution requesting a report on the PepsiCo's risks related to biodiversity and nature loss. Although the company reports on several sustainability activities it undertakes, including reporting related to biodiversity loss and protection associated with the company's agriculture practices, LGIM believes a comprehensive assessment identifying the nature-related impact and dependencies, risks and opportunities across the company's supply chains and operations would benefit both the company and its investors.

LGIM consider the objective outlined above to be in progress and look forward to continuing their engagement with PepsiCo in order to encourage this large and globally influential company to adopt more sustainable practices.

RLAM

RLAM made 110 engagements over the Scheme year at a portfolio level, engaging with companies on a number of issues, including climate risk (transition & physical), corporate governance, remuneration policy and Just Transition. Two such examples are set out below.

Barclays Plc

As part of RLAM's collaborative engagement with banks on Just transition, RLAM met with Barclay's sustainability team to discuss its net zero plan and address questions regarding RLAM's recently published investor expectations. Barclays acknowledged the importance of Just transition integration and identified it as a key area in its human rights assessment. Barclays is incorporating Just transition into products like greener home rewards and green mortgages. The bank's decarbonisation target for the mortgage sector aims to avoid restricting financing for those in need. Just transition is also part of its transition finance framework. Barclays is refining Just transition in commercial lending and recognises its importance in North America, aligning with RLAM's guidelines.

RLAM will continue to monitor the bank's disclosures on Just transition and will look to assess the bank against their investor expectations in the future.

BNP Paribas SA

As part of a collaborative investor group coordinated by ShareAction, RLAM asked a question at BNP Paribas' AGM regarding its financing of oil and gas companies. The CEO of BNP Paribas expressed confidence in the bank's decision to cease involvement in oil and gas bond transactions since mid-February 2023. This move is indicative of the bank's disinterest in participating in oil and gas bonds and is seen as a positive step. BNP Paribas utilises International Energy Agency scenarios as a guide and seeks to reflect its insights in its

policies. During the meeting, the CEO reaffirmed the bank's commitments, including its 10-90 goal, which aims for 90% of its energy sector financing to be low carbon, with the remainder for fossil fuels, contingent on suitable opportunities for financing.

RLAM will continue to monitor BNP's disclosures and assess the company's progress.

Aviva

Aviva has stated that the concept of engagement and voting in Real Assets (such as property), or private markets, is fundamentally different to listed equity and fixed income. This is because:

- Where real assets managers invest in companies, the companies are not listed and so don't operate a traditional listed company voting system.
- Where real assets managers invest directly, the manager's staff make decisions about how the asset is managed, so there is no 'company' to engage with.
- Where real assets managers invest in private debt, the opportunity to engage with counterparties concerns only the management of the secured asset, and not the general management of the borrowing company itself.

Based on these factors, Aviva Investors believe engagement in real assets should focus on structured interaction on environmental and social issues with the occupier, sponsor or counterparty. The engagement should be carried out through the transaction process, or through ongoing asset management, dependent on the asset class.

Aviva's property engagement has focussed on occupiers and providing support for decarbonisation of their assets in line with the occupier's own business priorities / ambitions. Aviva have made engagements with 19 separate entities over the Scheme year. An example of Aviva's engagement activity is set out below.

John Wood Court, University of Bath

Aviva believe that investing in more sustainable buildings, for example green certified buildings, allows them to generate value. John Wood Court, a student accommodation building at the University of Bath was not meeting Aviva's sustainability standards. Aviva took action by carrying out a net zero due diligence audit of the tenant's demise and proposed recommendations for improvements. Aviva subsequently invested £11m in an effort to improve energy performance and enhance living conditions to promote health and well-being for students. Additionally, Aviva collect energy data annually and analyse energy efficiency.

Wellington

Wellington see opportunity to supplement their knowledge of companies and enhance their influence on their long-term success, through engagement. They have regular conversations with management and boards in order to establish a two-way dialogue. They believe their exchanges help them assess companies for their corporate culture, adaptability, responsiveness and their alignment with incentives of sustainable long-term targets.

Over the reporting period, 25 engagements with the fund's held names were conducted on a broad range of ESG topics. Wellington assign an ESG rating between 1 and 5 by scoring a series of ESG data indicators for a given issuer that are material within that issuer's peer universe. A rating of 1 is the most positive ESG rating, indicating that the company is a leader among its peers in managing material ESG risks. A rating of 5 is the most negative, indicating that the company may be lagging its peers in managing certain material ESG risks.

Bank of America

Bank of America has issued green bonds dedicated to financing renewable energy projects, with a focus on wind and solar power. These initiatives accelerate the low-carbon transition and can mitigate the effects of climate change. Wellington hold the latest green bond (issued June 2023) and they measure and aggregate the avoided emissions for Bank of America's pool of active green bonds to present a consistent time series for their core impact Key Performance Indicator (total greenhouse gas emissions avoided). Wellington believe that Bank of America's investment partnerships with renewables businesses are continuing to help accelerate the clean energy transition by increasing available capital for wind and solar projects, and so are happy to continue holding the bonds.

Wellington plan to use future engagements with Bank of America to obtain more consistent impact datapoints. Specifically, Wellington would like to see the annual estimated CO2 avoided for each bond, which would allow them to track progress more accurately. Additionally, Wellington are keen to learn more about how Bank of America maintains its partnerships with renewable energy companies to ensure long-term environmental impact.

Voting Activity

The Trustee is required to identify key themes and priorities as part of what constitutes a significant vote. The Trustee has previously completed an ESG beliefs session and have a Responsible Investment policy in which their beliefs are set out. The Trustee will follow their Responsible Investment Policy to determine significant voting activity and report them as such.

The Trustee has delegated their voting rights to the investment managers. Where applicable, investment managers are expected to provide voting summary reporting on a regular basis, at least annually.

The Trustees does not use the direct services of a proxy voter, although the investment managers may employ the services of proxy voters in exercising their voting rights on behalf of the Trustee.

During the Scheme Year, the Trustee has not actively challenged any of their investment managers on their voting activity.

The Scheme's current investment strategy is composed of fixed income and property portfolios only. These portfolios do not typically have securities that hold voting rights. However, one of the preferred stock holdings within the Wellington fund, Lincoln National Corporation, carried voting rights and Wellington cast votes during a meeting on 23 May 2024. Details are set out below.

Company	Date	Proposal	Wellington for/against management	Outcome
Lincoln National Corp.	23 May 2024	Shareholder Proposal Regarding Independent Chair	Against	Fail
		Advisory Vote on Executive Compensation	Against	Pass

No voting activity was provided by any of the Scheme's other investment managers for the year to 31 December 2024.