

IBM I.T. Solutions Pension Scheme ('the Scheme')

Annual Engagement Policy Implementation Statement for the Year Ended 31 December 2020

1. Introduction

This statement sets out how, and the extent to which, the Scheme's Engagement Policy has been followed during the year running from 1 January 2020 to 31 December 2020 (the "Scheme Year"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The statement is based on, and should be read in conjunction with, the relevant versions of the SIP that were in place for the Scheme Year, which were the SIP dated July 2019 (covering the period between 1 January 2020 and 9 September 2020) and the SIP dated August 2020 (covering the period between 10 September 2020 and 31 December 2020).

Sections 2.1 and 2.2 of this statement sets out the investment objectives of the Scheme and changes which have been made to the Statement of Investment Principles ("SIP") during the Scheme Year, respectively.



A copy of the SIP is available at <https://www.smartpensionsuk.co.uk/#/page/governance-documentation>.

Sections 3 and 4 include information on the engagement and key voting activities of the underlying investment managers of the Scheme, and also sets out how the Scheme's engagement and voting policy has been followed during the Scheme Year. **The Trustee can confirm that all policies in the SIP on investment rights (including voting) and engagement have been followed during the Scheme Year.**



2. Statement of Investment Principles

2.1. Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the objectives they have set.

The objectives for the Scheme specified in the SIP are as follows:

- The acquisition of suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with any new contributions from the Company, the cost of current benefits that the Scheme provides.
- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.

2.2. Review of the SIP



During the year, the Trustee reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). A revised SIP was signed on 10 September 2020 in order to reflect new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 to outline the Trustee's arrangements with its asset managers including:

- How the arrangements with the asset managers incentivise them to align their investment strategies and decisions with the Trustee's investment policies.
- How those arrangements incentivise the asset managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of the asset managers' performance and the remuneration of asset managers are in line with the Trustee's investment policies.
- How the Trustee monitors "portfolio turnover costs" incurred by the asset managers.
- The duration of the arrangements with the asset managers.



The SIP was also updated during the year to reflect interim changes to the investment arrangements whilst the Trustee undertook a review of the investment strategy. This encompassed an increase in the strategic target allocation to matching assets (from 45.3% to 81.1%) and a decrease in the strategic target allocation to growth assets (from 54.7% to 18.9%). The Trustee has since concluded the strategy review and has agreed a revised investment strategy which will be reflected in the next SIP review due to take place in 2021.

3. Examples of Engagement Activity by the Scheme's Investment Managers

The following are examples of engagement activity undertaken by the Scheme's investment managers.

See section 4 below for more details on how the Trustee's policies on engagement have been implemented, as well as its policies on the exercise of investment rights (including voting).

CQS engages with Survitec to bring diversity to Company management and deliver better value to stakeholders



CQS engaged with Survitec, a leading global designer and manufacturer of survival equipment for the aerospace & defence and marine sectors, after identifying a Governance development. Survitec was acquired by private equity sponsor Onex in 2015. As a result of mismanagement and a poorly executed corporate strategy, limited post-merger integration of M&A and a number of product quality issues, the business breached its June 2019 leverage covenant. Shortly afterwards, Onex announced they would not be injecting

more money to cure the breach and would instead facilitate a consensual transition of ownership to lenders.

CQS formed part of an Ad-Hoc Group to stabilise the business then spearhead a full debt restructuring, including the injection of additional capital

The outcome of CQS' engagement with Survitec has been wholesale business transformation, with a new Board of Directors and new Executive Chairman bringing greater diversity in terms of experience and expertise, and a set of values for the company which CQS believe are more in keeping with the 21st century and better for all stakeholders.

LGIM engages with Samsung C&T on its investment in new coal plants

During the fourth quarter of 2020, LGIM came to understand that a portfolio company – Samsung C&T, which has a market capitalisation of KRW 28.45 trillion – was considering becoming one of the engineering and construction contractors of a new planned Vung Ang 2 coal power fired plant in Vietnam. This presented an issue as it has been well-established through low-carbon energy models that in order to remain consistent with a Paris-aligned emissions trajectory, coal-fired power generation must be phased out. Furthermore, given the large climate and health impacts of coal power, we believe that companies involved in the project face significant reputational and/or financial risks.

In August 2020, LGIM wrote to Samsung C&T urging the company to reconsider its involvement in Vung Ang 2 and to

commit to no involvement in the construction of new coal plants without carbon capture and storage. Just two months later, following significant pressure from LGIM and other like-minded shareholders, the company announced with immediate effect, that it will no longer participate in coal-fired power generation projects in any capacity, including investment or construction. However, to our disappointment, the company reaffirmed its participation in the Vung Ang 2 as its final coal project. In response LGIM will be sanctioning the board at its next AGM.



4. Voting Activity and Engagement during the Scheme Year

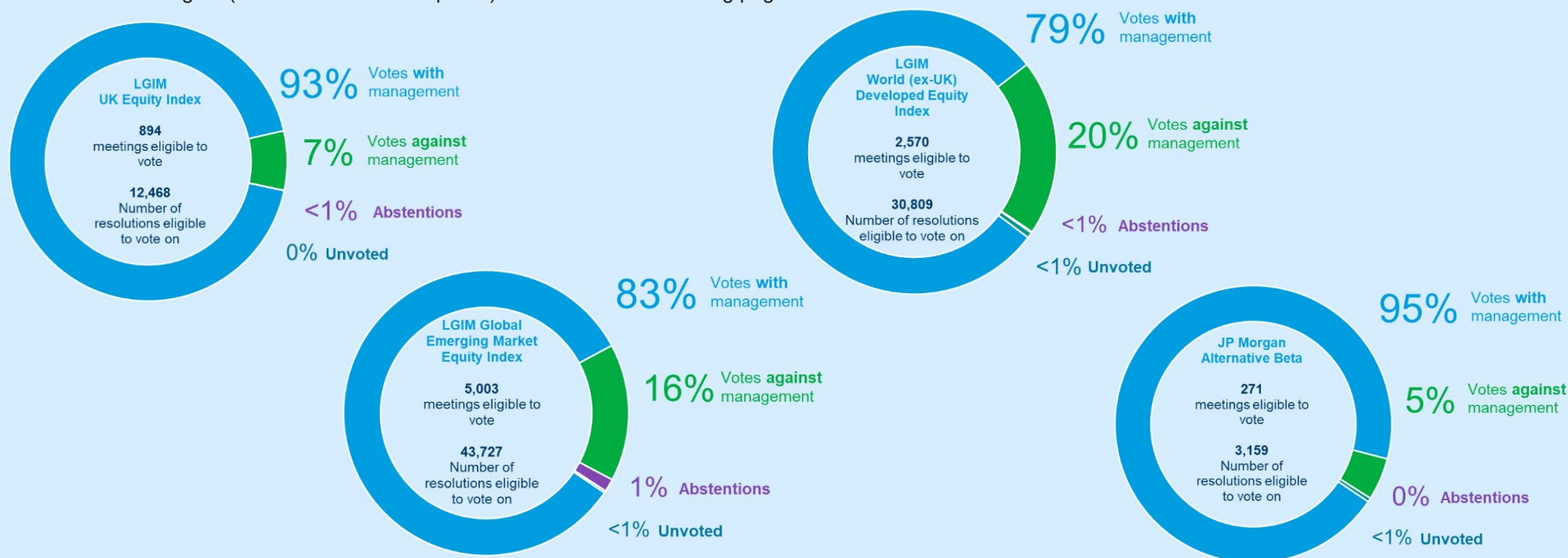
The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the investment managers. In addition, it is the Trustee's policy to obtain reporting on voting and engagement and periodically review the reports to ensure the policies are being met. Further details are set out in Section 4 (Rights Attaching to Investments (Stewardship)) of the SIP.

How has this policy been met over the Scheme Year?

During 2020, voting and engagement summary reports from the Scheme's investment managers were provided to the Governance Committee for review to ensure that they were aligned with the Trustee's policy. The Trustee does not use the direct services of a proxy voter.

The Trustee supports the aims of the UK Stewardship Code and its investment managers are encouraged to report their adherence to the Code. Most of the Scheme's investment managers are currently (or are planning to become) signatories to the current UK Stewardship Code.

Set out below is a summary of voting activity for this reporting period and a sample of the most significant votes cast on behalf of the Trustee by the Scheme's investment managers (with investments in equities) is shown on the following page.



Source: Investment managers, data may not sum due to rounding.

The figures from JP Morgan reflect the actual period of the Scheme's investment from 1 January 2020 until redemption on 18 September 2020.



Sample of the most significant votes

There is no official definition of what constitutes a significant vote; managers have adopted a variety of interpretations such as:

- There is a particular interest in a specific vote relating to an issue,
- The potential impact on the financial outcome,
- Size of the holding in the fund / mandate, and
- Whether the vote was high-profile or controversial.



Resolution **not** passed



Resolution passed

Manager	Fund	Company	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome following the vote
LGIM ¹	UK Equity Index	Pearson	18 September 2020	LGIM voted against an amendment to the remuneration policy.	LGIM considered the amendment to be unusual and discussed the shortcomings of the remuneration policy with the chair of the board, given performance conditions were weak.	
LGIM ¹	World (ex-UK) Developed Equity Index	ExxonMobil	27 May 2020	LGIM voted against the chair of the board at ExxonMobil's proposal to appoint a new director following on from LGIM's announcement that they will be supporting shareholder proposals for an independent chair and a report on the company's political lobbying.	Due to recurring shareholder concerns, LGIM's voting policy also sanctioned the reappointment of the directors responsible for nominations and remuneration.	
LGIM ¹	Global Emerging Market Equity Index	There were no significant votes to the Scheme over the year.				
JP Morgan ²	Alternative Beta	Woodside Petroleum Limited	30 April 2020	Voted for approving the company to disclose Paris goals and targets.	The company's current level of disclosure regarding its capital expenditure strategy and GHG emissions did not appear to align with Paris goals under reasonable assumptions.	n/a*
		B2Gold Corp.	12 June 2020	Voted for approving all director elections at Board level.	No further rationale provided.	

Source: Investment managers

*Resolution was not put forward at the Annual General Meeting

¹ Extracts from LGIM's voting policy:

"LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.

All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually.

LGIM's Investment Stewardship team uses Institutional Shareholders Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions."

² JP Morgan voted in line with its voting policy, where it was given voting rights by its clients (in its role as manager). The manager used a third party corporate governance data provider, Institutional Shareholder Services ("ISS"), to receive meetings notifications, provide company research and process its votes. JP Morgan defines significant votes as the ones where it is a major shareholder in its portfolios, where the vote is likely to be close or contentious or where there may be potential material consequences for the manager's clients. Over 2020, none of JP Morgan most significant votes were in breach with the voting policy.