

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

## Annual Engagement Policy Implementation Statement for the Year Ended 31 December 2021

### 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 2021 to 31 December 2021 (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 Scheme is a DB scheme with DC AVCs.

The statement is based on, and should be read in conjunction with, the relevant versions of the Statement of Investment Principles (SIP) that were in place for the Scheme Year, which were the SIP dated 10 September 2020 (covering the period between 1 January 2021 and 3 November 2021) and the SIP dated 4 November 2021 (covering the period between 4 November 2021 and 31 December 2021).

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 SIP during the Scheme Year, respectively.

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

Section 3 of this statement provides some highlights of the activity undertaken by the Trustee in relation to Responsible Investment and Environmental, Social and Governance (ESG) over the Scheme Year.

Section 4 includes 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 in respect of the Scheme's DB assets. **The Trustee can confirm that all policies in the SIP on investment rights (including voting) and engagement in relation to the Scheme's DB assets have been followed during the Scheme Year.**

### 2. Statement of Investment Principles

#### 2.1. Investment Objectives of the Scheme

The Trustee believes that 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 Scheme Year, the Trustee reviewed and amended the Scheme's SIP, taking formal advice from its Investment Consultant (Mercer Limited ("Mercer")). A revised SIP dated November 2021 reflects forthcoming requirements under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 to show that the Trustee is taking proper account of climate change when it is making decisions about the Scheme, and that its advisers are helping the Trustee to do this. The updated SIP therefore specifies:

- That the Trustee expects its investment managers to be signatories of the UN's Principles for Responsible Investment ("PRI") and requires them to report on their commitment and how these principles have been implemented.
- How the Trustee approaches and takes decisions on ESG and climate-related risks in relation to the Scheme's investment arrangements.
- That the Trustee has appointed a Stewardship Manager to ensure that compliance with the UK Stewardship Code and the PRI are met where applicable.
- That the Trustee supports the goals of the Paris Agreement and believes that sustainability issues present risks and opportunities which require explicit consideration.
- That from 2022, the Trustee will adopt the Task Force on Climate Related Financial Disclosures (TCFD) framework recommendations and report against them on an annual basis.



Updates to the SIP were also made to incorporate changes to the DC investment arrangements following conclusion of the investment strategy review in 2019 which came into force at the end of 2020. These changes were as follows:

- A new default Lifecycle arrangement (Lifecycle to Lump Sum 2020) for AVC members of the Scheme.
- The introduction of three further Lifecycle arrangements:
  - Lifecycle Balanced 2020
  - Lifecycle to Drawdown 2020
  - Lifecycle to Annuity 2020.
- The introduction of the Legal and General Investment Management Limited (“LGIM”) Future World Fund to the self-select (Freestyle) range of investment.

The SIP was also updated during the year to reflect changes in the long-term strategic target allocation of the Scheme.

### 3. Responsible Investment and ESG Activity by the Trustee during the Scheme Year



#### TCFD Reporting

The Scheme is required to have in place effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities from 1 October 2022, under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (as amended) (the TCFD requirements) and report against these on an annual basis. The Trustee is in the process of complying with these requirements and preparing its first TCFD report for the Scheme which will be made publicly available to members by 31 July 2023.



#### ESG Integration

Over the Scheme Year, the Trustee implemented measures to improve the integration of ESG factors within its investment decision making which included:

- Establishing a set of ESG beliefs for climate change risks and opportunities
- Strengthening Scheme governance documentation to explicitly incorporate climate change risk.
- Including climate change risk within the Scheme's risk register, which is reviewed on an annual basis.
- Setting Investment Consultant objectives, as required by the Competition and Markets Authority, which includes the requirement for the Scheme's Investment Consultant to raise climate-related risks and opportunities as appropriate.
- Undertaking reviews of the ESG credentials on all managers the Scheme invests with.



#### Trustee Training

Over the Scheme Year, Mercer conducted training sessions with the ESG Sub-Committee (a dedicated group which was set up by the Trustee to oversee ESG considerations in respect of the Scheme). The ESG Sub-Committee report to the Trustee, who has the ultimate responsibility for ensuring the effective governance of climate-related risks and opportunities. These training sessions included:

- Training on the four segments of the TCFD framework and the importance of ESG.
- Reviewing and updating the Trustee's beliefs on ESG.
- Considering appropriate climate-related targets for the Scheme.
- Training on the Responsible Investment Total Evaluation (RITE) assessment. The RITE assesses how well the Trustee integrates ESG factors into the Plan's investment decision-making.

## 4. 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).

### Goldman Sachs declines investment with high ESG risk debt issuer



Industry: European Utilities

**Reason for Engagement:** This Investment Grade rated European utility company operates under a regulatory regime that applies financial penalties for operational weaknesses. This company has previously been fined for water pollution and alleged falsification of related reported data.

**Action taken:** GSAM's credit analysts met with the company in relation to a new bond issue and centered the discussion around governance issues and pollution. GSAM's analysts remained cautious as they did not see evidence of an improved track record and noted historical operational weaknesses were a hurdle to achieving challenging environmental targets set by its regulator.

**Outcome:** GSAM did not participate in the new debt issue as they consider ESG risks to remain high and compensation for these risks to be inadequate.

### Western engages with Vale on improving ESG outlook



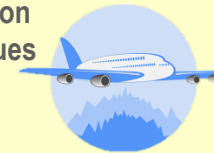
Industry: Oil & Gas

**Reason for Engagement:** Vale (a metals and mining issuer) suffered a series of infrastructure failures. Following those events, Western conducted multiple engagements with the issuer to confirm that management is committed to de-risking and improving its ESG practices.

**Action taken:** Western determined that the issuer has made progress in deactivating its highest risk infrastructure. Also, the issuer has invested heavily in technology that would reduce its reliance on this infrastructure for metals processing. The issuer is also committed to best-in-class climate actions, including targets aligned with the 2°C Scenario and engaging with its suppliers to decrease its indirect GHG emissions.

**Outcome:** Western believes the company's ESG outlook is improving. Based on the engagement the outcome was that Western remained a holder of the issuer given strong fundamentals and improving ESG outlook.

### CQS engages with American Airlines on climate-related issues



Industry: Airlines

**Reason for Engagement:** CQS engage with American Airlines on an ongoing basis as part of CQS' participation in collaborative engagements with Climate Action 100+. CQS note that American Airlines has come a long way with regard to both its disclosure and climate change goals, however, argue that it is important to continue to engage on the transition plans with biofuels, scenario reporting and TCFD alignment.

**Outcome:** The engagement provided more detail into American Airways' plans to achieve targets and the challenges they continue to work through.

### LGIM engages with Proctor & Gamble to address deforestation



Industry: Consumer Goods

**Reason for Engagement:** LGIM, a sub-investment manager of the Diversified Multi-Asset Growth Fund, engaged with Procter & Gamble (P&G) supporting a shareholder proposal to eliminate deforestation from its supply chain, encouraging the company to increase the percentage of sustainably certified pulp.

LGIM engaged with P&G ahead of their 2021 AGM to discuss Green Century's concerns and for an update on the key actions they had asked P&G to take during their engagement in 2020 – namely, report to CDP Forests, and to accelerate their programme to source more Forest Stewardship Council (FSC) certified pulp because 2025 was not an ambitious target.

**Outcome:** P&G has satisfied all LGIM's requests. They have submitted to CDP Forests, and they have brought forward their commitment to ensure that 95% of their pulp from Canada and Quebec is FSC certified by the end of 2021.

### 24AM engage with specialist UK lender Together to improve ESG disclosures

**Reason for Engagement:** Together is a regular issuer in different asset classes within the fixed income sector and 24AM have exposure across public and private investments. 24AM targeted it as part of their Carbon Emissions Engagement Policy as they felt that Together has been slow to adopt ESG data collection, something made more difficult given a manual approach to underwriting. 24AM want to work with them over the long term to ensure that they can provide the data needed to assess them fully, including the carbon footprints of their deals.

**Action taken & Outcome:** 24AM hold monthly calls with Together's treasury team providing two-way dialogue on lending, capital markets and opportunities. Through 24AM's recent engagements they helped identify investor requirements such as Energy Performance Certificate (EPC) and Co2 emissions data which they want included in their deal information. Significant progress was made during Q2 2021 through data capture and third-party agents in one of their deals issued in September 2021. Together had over two-thirds of the data requested, including property level carbon estimates which is a significant improvement.

**Outcome:** As per 24AM's Carbon Emissions Engagement Policy they will continue to liaise with this firm to ensure that they continue to make improvements in data provision so that they can assess the deals' ESG credentials more effectively.



## 5. Voting and Engagement Disclosures during the Scheme Year

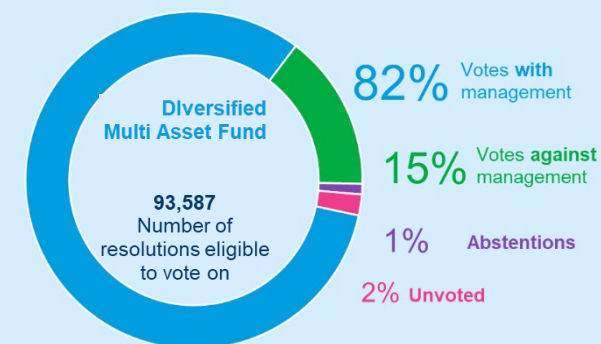
The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's investments to the investment managers. In addition, it is the Trustee's policy to obtain reporting on voting and engagement and periodically review the reports to ensure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

### How has this policy been met over the Scheme Year?

During 2021, voting and engagement summary reports from the Scheme's investment managers were provided to the Trustee. 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 in the graphic on the right 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 (specifically for the equity exposure of the Diversified Multi Asset Strategy Fund) is shown in the table below



### Sample of the most significant votes

There is no official definition of what constitutes a significant vote. The Trustee considers ESG and climate-related votes 'significant votes' and therefore examples are provided below:

Fund	Sub-investment manager (appt'd by MGIE)	Company	Date of Vote	Manager vote	How the Manager voted	Rationale of Manager vote	Final outcome following the vote
Diversified Multi-Asset Fund	Legal and General Investment Management Limited	Microsoft	30 November 2021	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	FOR shareholder proposal	The company is being asked to report on median pay gaps across race and gender. While the company provides granular workforce diversity data, this proposal goes beyond existing disclosure by showing any structural inequalities which may exist within the organisation.	Resolution <b>not</b> passed
	Irish Life Investment Managers Limited	Alphabet	2 June 2021	Shareholder Proposal Regarding Linking Executive Pay to Sustainability and Diversity	FOR shareholder proposal	Companies that are exposed to high levels of environmental, social or reputational risk should include relevant and clearly measurable targets that focus management in mitigating these risks. A vote in favour is therefore warranted as LGIM supports proposals related to how ESG issues are integrated into the company's strategy as we consider these disclosures to be material information for investors.	Resolution <b>not</b> passed

Source: Investment manager. Diversified Multi-Asset Growth Fund (DMAG) is managed by Mercer Global Investment Europe (MGIE), which is a sub-fund of the IBM Global Strategy Fund which is managed by Northern Trust. Voting is delegated to the sub-investment managers within DMAG. MGIE voting policy is set out in [MGIE's Engagement Policy](#).