IBM Pension Plan (‘the Plan’)

Annual Implementation Statement for the Year Ended 31 December 2021

1. Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles (“SIP”) produced by the Trustee has been followed during the year running from 1 January 2021 to 31 December 2021 (the “**Plan 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 Plan 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 Plan and changes which have been made to the SIP during the Plan Year, respectively.

Section 2.3 of this statement sets out how, and the extent to which, the policies in the Defined Benefit (“DB”) Section and Defined Contribution (“DC”) Section of the SIP have been followed. **The Trustee can confirm that all policies in the SIP have been followed in the Plan Year.**

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 Plan Year.

Sections 4 and 5 include information on the engagement and key voting activities of the underlying investment managers within each Section of the Plan.

2. Statement of Investment Principles

2.1. Investment Objectives of the Plan

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

DB

The objectives for the DB Section of the Plan 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 Plan provides.
- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.

DC

For the DC section of the Plan, the Trustee’s principal mission is to help members to maximise their retirement outcomes with an appropriate level of investment risk, by providing an appropriate investment framework which represents value for members and which is in line with recognised market “good practice”, taking into account guidance from the Pensions Regulator and other appropriate industry and regulatory bodies.

In addition to the principal mission as stated above and the investment objectives below, the Trustee also aims to:

- Ensure that the DC Section’s operational structure is sensible and cost effective.
- Provide members with adequate tools and timely information to enable them to make informed contribution, investment and retirement decisions.

The Trustee has the following investment objectives related to the DC section of the Plan:

- To offer suitable default investment strategies that are appropriate for the profile of defaulting members based on their expected risk tolerances and retirement objectives.
- To offer a range of self-select investment options which are appropriate for the profile of most members.

2.2. Review of the SIP

During the Plan Year, the Trustee reviewed and amended the Plan's SIP, taking formal advice from its Investment Consultant, Mercer Limited ("Mercer"). A revised SIP was finalised in October 2021 and signed on 4 November 2021 to reflect 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 by demonstrating that the Trustee is taking proper account of climate change when it is making decisions about the Plan, 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 Plan'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 2021, the Trustee will adopt the Task Force on Climate Related Financial Disclosures (TCFD) framework recommendations and report against them on an annual basis.

DB

The SIP was updated during the year to reflect the agreed changes to the investment arrangements of the DB section. The Trustee specified that there should be sufficient secure investments in liquid or readily realisable assets to meet short-term cashflow requirements, payments, and other expenses. The revised SIP incorporates the changes in the long-term strategic target allocation including the purchase of a bulk annuity insurance policy with Rothesay Life on the 14 December 2020 to secure 50% of the DB Section's pensioner liabilities (excluding Data Sciences members).

DC

For the DC section, updates to the SIP were made to incorporate changes to the investment arrangements following conclusion of the investment strategy review in 2019 which came into force in the first quarter of 2021. These changes were as follows:

- A new default Lifecycle arrangement (Lifecycle Balanced 2020) for DC members of the Plan.
- The introduction of three further Lifecycle arrangements (which will also constitute default arrangements):
  - Lifecycle to Lump Sum 2020
  - Lifecycle to Drawdown 2020
  - Lifecycle to Annuity 2020
- The introduction of the Legal & General Investment Management Limited ("LGIM") Future World Fund to the self-select (Freestyle) range of investment.

2.3. Assessment of how the policies in the SIP have been followed for the Plan Year

The information provided in this section highlights the actions undertaken by the Trustee during the Plan Year, and longer term where relevant, in meeting the policies set out in the SIP. References to the SIP sections refer to the SIP signed on 4 November 2021.

In summary, it is the Trustee's view that the policies in the SIP have been followed during the Plan Year.

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy

As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Consultant. The policy is detailed in Section 2 (Plan Governance) of the SIP, which applies to the DB and DC Sections of the Plan.

DB **How has this policy been met over the Plan Year?**

In August 2021, the Trustee received advice from its Investment Consultant on the continued suitability of the DB arrangements of the Plan.

DC **How has this policy been met over the Plan Year?**

The Trustee agreed to signpost to a post-retirement Master Trust arrangement (managed by Legal & General Assurance Society Limited ("LGAS")) to enhance member experience and provide a cost-effective solution for members at and during retirement. In January 2021, the Trustee's Investment Consultant provided advice on the suitability of the LGAS Post-Retirement Master Trust option and the respective investment range to be made available to members.

It was recommended that the Plan's existing investment range should also be offered by the LGAS Post-Retirement Master Trust to provide members with a seamless transition at retirement. In addition, it was recommended that the Legal & General Investment Management Limited ("LGIM") Retirement Income Multi-Asset ("RIMA") Fund should also be added to the available fund range, as an option for members targeting drawdown in retirement.

In August 2021, the Trustee received advice from its Investment Consultant on the continued suitability of the DC and AVC arrangements of the Plan.

Realisation of Investments

Policy

The Trustee's policy is that there should be sufficient liquidity within the Plan's assets to meet short-term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Plan's overall investment policy. The policy is detailed in Section 2 (Realisation of Investments) of the SIP, which applies to the DB and DC Sections of the Plan.

DB **How has this policy been met over the Plan Year?**

Over the Plan Year, the Plan held a diversified portfolio consisting mostly of readily realisable assets. This included maintaining sufficient liquid assets to meet both short-term and longer-term cashflow requirements. In addition, the liquidity profile of the Plan was periodically reviewed by the Trustee.

DC **How has this policy been met over the Plan Year?**

Members' investments within the DC Section are traded and priced on a daily basis.

Environmental, Social and Governance ("ESG")

Financial and non-financial considerations and how those considerations are taken into account in the selection, retention and realisation of investments

Policy

The Plan's SIP outlines the Trustee's beliefs on ESG factors (including climate change). Further details are included in Section 3 of the SIP, which applies to the DB and DC Sections of the Plan. The Trustee keeps its policies under regular review.

How has this policy been met over the Plan Year?

DB DC

The Pension Schemes Act 2021 introduced legislation requiring specified pension schemes to ensure there is effective governance with respect to the effects of climate change. The Plan 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 2021, under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (as amended) (the TCFD requirements).

In November 2021, the Investment Consultant provided the Trustee with a review of the Investment Managers' Environmental, Social & Governance (ESG) capabilities (based on the Investment Consultant's internal ESG ratings and manager research). The Trustee also undertook training on Climate Change and TCFD requirements in April 2021 and May 2021 and, during the Plan Year, carried out substantive work in producing its first TCFD report ahead of the July 2022 regulatory deadline. The TCFD report is now publicly available at https://www.smartpensionsuk.co.uk/#/page/governance-documentation.

The Trustee has delegated responsibility for the selection, retention, and realisation of investments to their investment managers and, accordingly, the Trustee seeks to manage the risks and opportunities associated with these ESG factors by selecting industry leaders in investment management who are committed to the UK Stewardship Code and the Principles for Responsible Investment (UNPRI) (as they apply to the sector in which the manager invests or the strategy pursued by the manager) and against criteria which include ESG considerations. ESG and the level of integration will differ across asset classes and by investment manager. The Trustee has also appointed a Stewardship Manager to ensure that the Plan's investment managers are compliant with the UNPRI where appropriate.

The Investment Consultant periodically reports any change in its ESG ratings to the Trustee on an ongoing basis and makes recommendations to the Trustee, as appropriate. ESG ratings are also monitored as part of the annual Value for Members Assessment in respect of the DC Section.

The Trustee does not require the Plan's investment managers to take non-financial matters into account in their selection, retention and realisation of investments.

The Trustee will be considering ESG factors as part of the triennial investment strategy reviews taking place in 2022/2023 for both DB and DC sections of the Plan.

Section 3 of this statement includes further detail on the Responsible Investment and ESG activity the Trustee have undertaken over the Plan Year.

The Trustee added the LGIM Future World Fund to the self-select (Freestyle) fund range and made this available to members in the first quarter 2021. The LGIM Future World Fund invests in a diversified range of global companies but tilts away from companies who generate revenue from fossil fuels or produce a high level of CO_2 in favour of companies less carbon intensive or earning 'Green Revenues'.

The Trustee considers feedback received from members as part of any discussions relating to the range of funds available within the DC Section.

Voting and Engagement Disclosures

The exercise of the rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustee would monitor and engage with relevant persons about relevant matters).

Policy

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to the investment managers. Further details are set out in Section 4 (Rights Attaching to Investments (Stewardship)) of the SIP, which applies to the DB and DC Sections of the Plan. In addition, the Trustee has appointed a Stewardship Manager to ensure the Trustee's expectations for the Plan's investment managers to be compliant with the UK Stewardship Code. It is also the Trustee's policy to obtain reporting on voting and engagement and to periodically review the reports to ensure the policies are being met.

How has this policy been met over the Plan Year?

DB DC

During 2021, voting and engagement summary reports from the Plan's investment managers were provided to the Trustee and responsibility to consider these has been delegated to the ESG Sub-Committee. The Trustee does not use the direct services of a proxy voter.

Section 4 includes examples of engagement activity undertaken by the Plan's investment managers with investments in equities, and section 5 sets out a summary of voting activity and a sample of the most significant votes cast on behalf of the Trustee by these investment managers. The Trustee has decided to consider any voting relating to climate change as part of their criteria for significant votes and the level of climate-related engagement will also be monitored as one of the chosen metrics under the TCFD reporting requirements. As part of this monitoring, the Trustee will engage with the Plan's investment managers where appropriate to understand the climate-related engagement activity undertaken.

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 Plan's investment managers within the DB Section are currently (or are planning to become) signatories to the current UK Stewardship Code. The Plan's investment manager within the DC Section (LGIM) is also a signatory to the current UK Stewardship Code.

Monitoring the Investment Managers

Incentivising asset managers to align their investment strategies and decisions with the Trustees' policies

Policy

The Trustee's policy is set out in Section 5 (Aligning Investment Manager Appointments with the Trustee's Investment Strategy) of the SIP, which applies to the DB and DC Sections of the Plan.

DB **How has this policy been met over the Plan Year?**

For the investments in pooled funds, the Trustee accepts that it cannot specify the risk profile and return targets for these funds. However, appropriate funds have been selected to align with the investment strategy.

For the DB Section's segregated mandates, the Trustee has specified criteria in the investment manager agreements for the managers to meet the Plan's specific investment requirements and to have regard to the Trustee's policies set out in the SIP.

DC **How has this policy been met over the Plan Year?**

As the Trustee invests exclusively in pooled investment funds, it accepts that it cannot specify the risk profile and return targets for these funds.

In the year to 31 December 2021, the Trustee remained satisfied that the contractual arrangement in place with LGAS remained appropriate.

DB DC The Trustee will be communicating carbon emissions targets set as part of the TCFD requirements with the Plan's investment managers and engaging on the approaches to ensure alignment towards the determined targets.

Evaluation of asset managers' performance and remuneration for asset management services

Policy

The Trustee's policy is set out in Section 5 (Evaluating Investment Manager Performance) of the SIP, which applies to the DB and DC Sections of the Plan.

DB **How has this policy been met over the Plan Year?**

Over the year to 31 December 2021, quarterly performance reviews were held with most of the Plan's investment managers. This included quarterly meetings of the Trustee's 'Liability Driven Investments ("LDI") Governance Sub-Committee' with BlackRock to oversee and make an ongoing assessment of the LDI mandate.

In addition, both quarter and longer-term performance metrics for all of the Plan's investment mandates were reported to the Investment Committee quarterly at both an asset class and investment manager level.

DC **How has this policy been met over the Plan Year?**

The performance of each of the Plan's funds, including those used in the Lifecycle and Lifestyle arrangements, were reviewed by the Investment Committee at each of its quarterly meetings. This included fund performance against their benchmarks over both quarter and longer-term periods.

The charges paid to LGIM for their services were analysed as part of the annual Value for Members assessment for the DC Section, which was conducted by the Plan's Investment Consultant. The Investment Consultant determined that the funds available to members were competitively priced.

Monitoring the Investment Managers

Monitoring portfolio turnover costs

Policy

The Trustee's policy is set out in Section 5 (Portfolio Turnover Costs) of the SIP, which applies to the DB and DC Sections of the Plan.

DB **How has this policy been met over the Plan Year?**

As noted in the SIP, the Trustee does not explicitly monitor portfolio turnover costs with respect to the DB Section of the Plan. Investment manager performance was reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets), and where possible, performance objectives for investment managers were set on a net basis. In this way, managers were incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

DC **How has this policy been met over the Plan Year?**

Transaction costs were reviewed by the Investment Committee at each of its quarterly meetings and were also disclosed in the annual Chair's Statement. The transaction costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager.

The duration of the arrangements with asset managers

Policy

The Trustee is a long-term investor and does not seek to change the investment arrangements on a frequent basis. Further details of the Trustee's policy are set out in Section 5 (Manager Turnover) of the SIP, which applies to the DB and DC Sections of the Plan.

DB DC **How has this policy been met over the Plan Year?**

No change to the investment managers were made during the year.

Strategic Asset Allocation

Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

DB **Policy**

The Trustee’s policy on the kinds of investments to be held and the balance between different kinds of investments can be found under Objectives and Policy (Section 6.1 and 6.2) in the SIP.

How has this policy been met over the Plan Year?

A high-level review of the Plan’s investment arrangements was carried out in Q1 2021 following the purchase of a bulk annuity policy with Rothesay Life plc on 14 December 2020, which covered 50% of the DB section’s pensioner liabilities. The current long-term strategic asset allocation, comprising of 9.3% growth assets and 90.7% matching assets, was assessed to have an expected return sufficient to achieve the funding objective of the Plan, with a level of investment risk that was consistent with the return.

The Trustee regards the basic distribution and balance of the assets to be appropriate for the Plan's objectives and liability profile.

The Trustee continues to review the investment strategy to ensure the risk and return investment objectives of the DB Section are met. The triennial investment strategy review, which typically takes place when the Statutory Funding Valuation is carried out, is expected to commence in late 2022 / early 2023. This will carry out a more detailed review of the Plan’s investment strategy.

DC **Policy**

The Trustee’s policy on the kind of investments to be held and the balance between different kinds of investments can be found under the following sections of the SIP:

- Overall Aims and Objectives (SIP Section 6.10 – 6.11)
- Investment Objectives (SIP Section 6.12)
- Investment Policies (SIP Section 6.13 – 6.19)
- Default Investment Strategy - Aims and Objectives, Investment Policies, Members’ Best Interests (SIP Sections 6.20 – 6.28)
- Legacy Default Investment Strategies - Aims and Objectives, Investment Policies, Members’ Best Interests (SIP Sections 6.29 – 6.36)
- Additional Default Arrangements, Aims and Objectives, Investment Policies, Members’ Best Interests (SIP Sections 6.37 – 6.42)

The default investment strategies are designed after careful analysis of the membership demographic and other characteristics in order to offer a suitable approach in so far as is practical, to the needs of the Plan’s members. The Trustee carries out regular assessments of the performance of the default investment strategies and their design to ensure they continue to remain appropriate for the membership.

The Trustee recognises that the default investment strategies will not meet the needs of all members and as such, alternative investment options are available for members to choose from – including alternative Lifecycle arrangements and a range of self-select (Freestyle) funds.

How has this policy been met over the Plan Year?

As part of the quarterly Investment Committee meetings, the Trustee reviewed the performance of the funds within the Plan’s investment range, including the funds that form part of the Lifecycle and Lifestyle arrangements. This included fund performance against benchmarks over both short and longer-term periods.

The Trustee was satisfied with the performance of the funds over the Plan Year which had performed in line with their underlying aims and objectives.

Strategic Asset Allocation

Risks, including the ways in which risks are to be measured and managed

DB **Policy**

The Trustee recognises a number of risks involved in the investment of the assets of the DB Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks can be found under the following section of the SIP:

– Risk Management (Section 6.9) in the SIP.

The Trustee considers both quantitative and qualitative measures for a number of risks on an ongoing basis when deciding investment policies, strategic asset allocation, and the choice of asset classes, funds, and asset managers.

How has this policy been met over the Plan Year?

Details of how the specific risks identified in the SIP are measured and managed can be found under section 6.9 of the SIP.

During the Plan Year, the Trustee periodically reviewed its currency hedging arrangements to ensure the level of unhedged currency exposure was maintained within acceptable limits.

Quarterly meetings of the Trustee's LDI Governance Sub-Committee were held with BlackRock to oversee the LDI hedging arrangements.

DC **Policy**

The Trustee recognises a number of risks involved in the investment of the assets of the DC Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks can be found under the following section of the SIP:

– Investment Policies (SIP Section 6.18 – 6.19)

In determining which investment options to make available the Trustee considers the investment risk associated with DC pension investment. The risk can be defined as the uncertainty over the ultimate amount of savings available on retirement.

How has this policy been met over the Plan Year?

Details of how the specific risks identified in the SIP are measured and managed can be found under section 6.18 of the SIP.

DB DC

The Trustee maintains a register of key risks, including investment risks, which is reviewed annually by the Governance Committee or more frequently if new risks are identified. 'Top' risks are also reviewed quarterly. The register of key risks rates the impact and likelihood of the risks and identifies mitigating factors and additional actions taken. The Trustee has updated their risk register over the Plan Year to include climate-related risks.

As part of the TCFD requirements, the Trustee has carried out climate scenario analysis and a covenant assessment which considers the impact of climate-related risks on future funding position and the employer supporting the Plan.

The Trustee also received updates from its Investment Consultant on developments concerning the Plan's investment managers as required on an ongoing basis.

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

TCFD Reporting

The Trustee has now produced its first TCFD report (which reports on compliance with the TCFD regulations over the Plan Year) and which is publicly available online at https://www.smartpensionsuk.co.uk/#/page/governance-documentation.

The key takeaways from this report are:

- The Trustee has processes in place and increased their level of governance to identify, assess and mitigate climate change risk.
- Climate change risk can have an impact on the long-term funding objectives of the DB portfolio and outcomes for DC members.
- Three metrics have been chosen to monitor the progress against climate change risk.
- The Trustee has set a target to **reduce the level of carbon intensity within the Plan's investment portfolio by 20% over the next 3 years, under Scope 1 and 2 emissions***. Actions have been determined to move towards the agreed target including continuing to engage with the Plan's investment managers and review of the investment strategies in the DB and DC sections referred to earlier in this statement.

* Scope 1 emissions are "direct" emissions from sources owned or controlled by the company (e.g., direct combustion of fuel from vehicles). Scope 2 emissions are "indirect" emissions from those caused by the generation of energy (e.g., electricity) purchased by the company.

ESG Integration Assessment (RITE[1])

Over the year, a quantitative Responsible Investment Total Evaluation ("RITE") assessment was commissioned by the Trustee and undertaken by the Plan's Investment Consultant. RITE assesses how well the Trustee integrates ESG factors into the Plan's investment decision-making. By undertaking this assessment, the Trustee has made significant steps to improve the level of ESG factors within their investment decision-making and the actions from the assessment has also led to enhanced compliance in each area of the TCFD requirements. This is evidenced by an improvement in the RITE rating from **B to B+** for the DB Section and an improvement in the RITE rating from **B to A** for the DC Section.

Further details of the RITE assessment can be found in the Trustee's TCFD report.

Trustee Training

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

- Training on the four segments of the TCFD framework and the importance of ESG.
- Review and update of ESG-related investment beliefs.
- Discussion on how ESG is integrated into the Plan's decision-making and, considering the outcome of the RITE assessment.
- Understanding of potential impacts of climate-change risks and opportunities in relation to the funding and investment strategies of the Plan's DB and DC Sections.
- Considerations on the appropriate climate-related targets for the Plan's DB and DC Sections, as part of the TCFD requirements.

[1] Responsible Investment Total Evaluation (RITE) assesses the extent to which schemes integrate ESG factors. Schemes are scored on a scale from 0-100, with those scores then mapped to a rating of C/C+/B/B+/A/A+/A++. Any rating/ score has been determined at the sole discretion of Mercer, as professional adviser to the Plan. Mercer does not accept any liability or responsibility to any third party in respect of these findings, RITE is an evaluation at a point in time, informed by Mercer's Sustainable Investment Pathway, more details on the Pathway can be found here https://www.uk.mercer.com/our-thinking/wealth/responsible-investing-for-uk-pension-schemes.html.

4. Examples of Engagement Activity by the Plan’s Investment Managers

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

Fixed income managers – Engagement in Practice

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 considered ESG risks to remain high and compensation for these risks to be inadequate.

Wellington discuss with Enel carbon intensity levels and plan to reduce carbon emissions

Industry: Energy and Utilities (Enel)

Reason for Engagement: Wellington had concerns about Enel’s elevated carbon intensity relative to its peer group and sought more clarity on Enel’s plans for managing transition risk.

Action taken: Wellington met with Enel to discuss their plans to close coal plants (within the next five years) and how Enel are working with suppliers to manage their Scope 3 emissions.

Outcome: Wellington already had a positive view on Enel and believed they were a leader in the industry on considering transition risk. Their engagement served to confirm this view.

Western engages with EQT on climate-change targets

Industry: Oil & Gas

Reason for Engagement: The firm had been a laggard when compared to its peers and did not have any emissions reduction targets, methane best in class management, nor executive compensation linked to their climate performance.

Action taken: Western met with the executive team in 2020 and 2021 with the following engagement objectives: 1) commit to emissions reduction targets; 2) accurately report on their methane footprint; and 3) link executive compensation to their climate targets.

Outcome: In H2 2021, the firm delivered on all of Western’s engagement goals. They committed to net zero Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions by or before 2025; announced participation in an initiative to accurately monitor methane emissions and report to stakeholders; and GHG intensity was added as an item for 2021 executive compensation.

LGIM engages with Procter and Gamble on sustainability

In 2020, P&G shareholders, including LGIM, supported a resolution calling on Procter & Gamble (“P&G”) to report on the efforts to eliminate deforestation, filed by Green Century. The resolution was passed with 67% support. Green Century was concerned by P&G’s failure to make a public commitment to end sourcing from intact forests and the lack of goals around the use of recycled fibre in its products.

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.

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 was FSC certified by the end of 2021.

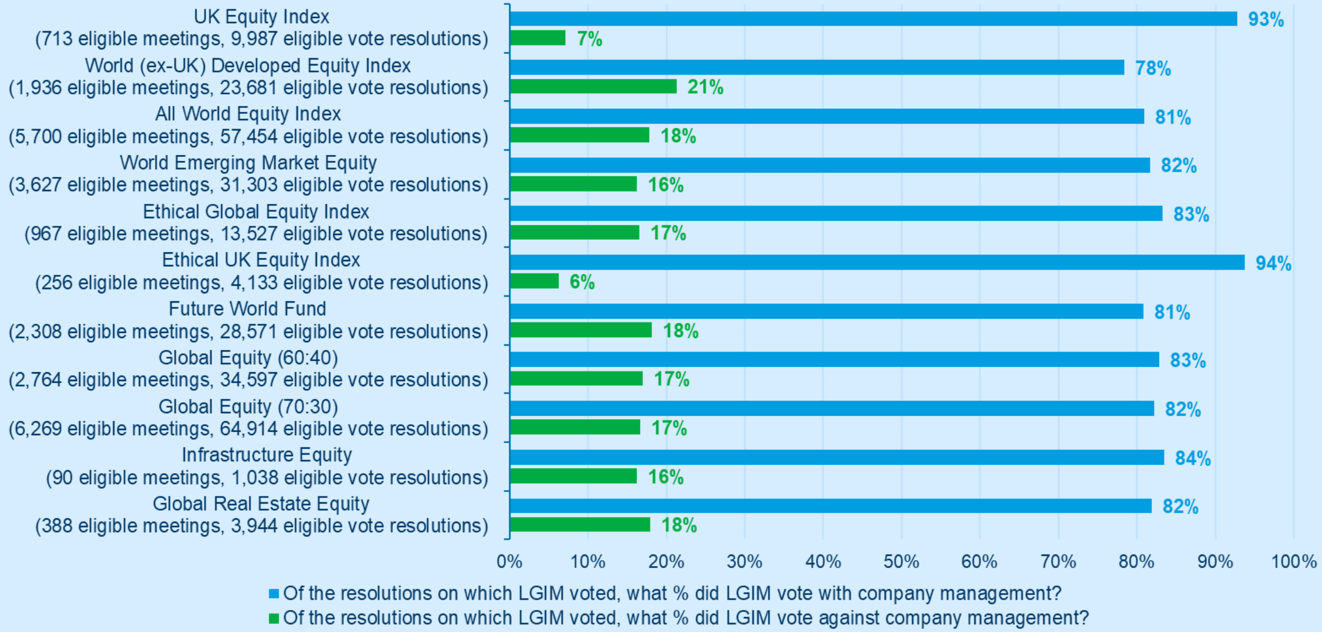
5. Voting Activity during the Plan Year

Due to the nature of the underlying assets of the DB Section, no voting data is available from the investment managers (i.e., there are no equity exposures in the underlying investments). This section therefore focuses on the data available in the DC Section of the Plan.

The Trustee have chosen a metric as part of their TCFD reporting requirements, which monitors engagement or voting on climate-related risks and opportunities. This allows the Trustee to assess the extent to which an asset manager is engaging and/or voting on the topic of climate change and will enable the Trustee to monitor improvement in engagement levels over time which is an area of focus for the Trustee. The chosen metric covers the DB and DC Sections of the Plan and more details on the metric can be found in the Trustee's TCFD report.

DC

Set out below is a summary of voting activity for this reporting period relating to the relevant strategies in the DC Section of the Plan. Funds where voting is not applicable (i.e., non-equity funds) are not included in the list below. Except for certain AVCs invested with Aviva, all DC investments are managed by LGIM.



Of the resolutions on which LGIM voted, LGIM abstained from less than 1% of eligible votes
Resolutions that LGIM did not for vote for which LGIM was eligible were less than 1%.

Source: LGIM

Extracts from LGIM's voting policy (full voting policy can be found on https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf):

> *"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."*

Sample of the most signficant votes

The Trustee considers climate-related votes 'significant votes' and an example of at least one climate-related vote is therefore included for every DC fund below, except where no such votes were held over the year. Further examples of non-climate-related votes are provided by LGIM in line with PLSA guidance.

Fund	Company	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome following the vote
UK Equity Index	Domino's	22 April 2021	LGIM voted against the re-election of Matt Shattock as Director.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. LGIM will continue to engage with the company and monitor progress.	Resolution **not** passed
UK Equity Index	Vivo Energy	18 May 2021	LGIM voted against the re-election of John Daly as Director.	LGIM views gender diversity as a financially material issue. They apply voting sanctions to those FTSE 350 companies that do not have a minimum of 30% women on the board.	Resolution **not** passed
World (ex-UK) Developed Equity Index	Toyo Seikan	25 June 2021	LGIM voted in favour of amending the Articles to disclose the plan outlining the company's business strategy taking into account the Task Force on Climate-related Financial Disclosures.	LGIM expects companies to be taking sufficient action on the key issue of climate change. LGIM views climate change as a financially material issue. This was also a high-profile proposal in Japan, where climate-related shareholder proposals are still rare.	Resolution **not** passed
World (ex-UK) Developed Equity Index	Wells Fargo	27 April 2021	LGIM voted in favour for the Report on Racial Equity Audit.	A vote in favour is applied as LGIM supports proposals related to diversity and inclusion policies as we consider these issues to be a material risk to companies.	Resolution **not** passed
All World Equity Index	American Tower Corporation	26 May 2021	LGIM voted against the election of Pamela D.A. Reeve as Director.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. LGIM will continue to engage with the company and monitor progress.	Resolution **not** passed
All World Equity Index	Texas Instruments Incorporated	22 April 2021	LGIM voted against the election of Richard K. Templeton as Director.	LGIM has a longstanding policy advocating for the separation of the roles of CEO and board chair. These two roles are substantially different, requiring distinct skills.	Resolution **not** passed
World Emerging Market Equity	China Construction Bank	25 June 2021	LGIM voted against the approval of the Report of the Board of Directors.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. LGIM will continue to engage with the company and monitor progress.	Resolution **not** passed
Ethical Global Equity Index	Sysco Corporation	19 November 2021	LGIM voted against the election of Edward D. Shirley as Director.	A vote against was applied as the company has failed to meet LGIM's minimum standards on climate change mitigation. LGIM will continue to engage with the company and monitor progress.	Resolution **not** passed

Source: LGIM

Sample of the most signficant votes

DC

Fund	Company	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome following the vote
Ethical Global Equity Index	Intel Corporation	13 May 2021	LGIM voted in favour of the report on Global Median Gender/Racial Pay Gap.	LGIM decided to support the resolution as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.	Resolution **not** passed
Ethical UK Equity Index	Kier Group plc	19 November 2021	LGIM voted against approving the Remuneration Report – including a substantial salary increase to CEO and LTIP awards at exceptional levels.	Concern over one-off salary increase of 26% to the CEO resulting in £750,000, a significant salary level for a small cap company following sell-off of a number of divisions; additionally provided exceptional LTIP award levels in a difficult environment for other stakeholders.	Resolution **not** passed
Future World Fund	The Travelers Companies, inc	20 May 2021	LGIM voted against the re-election of Alan D. Schnitzer as Director.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. LGIM will continue to engage with the company and monitor progress.	Resolution **not** passed
Global Equity (60:40)	The Progressive Corporation	7 May 2021	LGIM voted against the re-election of Lawton W. Fittas Director.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. LGIM will continue to engage with the company and monitor progress.	Resolution **not** passed
Global Equity (60:40)	Oxford Instruments Plc	21 September 2021	LGIM voted in favour of a resolution to re-elect Neil Carson as Director.	LGIM views gender diversity as a financially material issue. They apply voting sanctions to those FTSE 350 companies that do not have a minimum of 30% women on the board. LGIM's criteria for voting on gender diversity issues was met.	Resolution passed
Global Equity (70:30)	Mitsubishi	29 June 2021	LGIM voted in favour of amending the Articles to disclose a plan outlining the company's business strategy to align investments with the goals of the Paris Agreement.	While LGIM positively note the company's announcements around net-zero targets and exclusion policies, they think that these commitments could be further strengthened.	Resolution passed
Global Equity (70:30)	AT&T	30 April 2021	LGIM voted against the advisory vote to ratify named Executive Officers' compensation.	LGIM identified serious issues with the structure and quantum of AT&T's executive remuneration.	Resolution **not** passed
Infrastructure Equity	PPL Corporation	18 May 2021	LGIM voted against a resolution to elect Craig A. Rogerson as Director.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure. Note that this company was also divested by LGIM across its Future World range of funds.	Resolution **not** passed
Global Real Estate Equity	Mapletree Logistics	13 July 2021	LGIM voted against the adoption of the Report of the Trustee, the Statement by the Manager, as well as the audited Financial Statements and Auditor's Report.	The company is deemed to not meet minimum standards with regards to climate risk management and disclosure.	Resolution **not** passed

Source: LGIM