

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

Annual Engagement Policy Implementation Statement for the Year Ended 31 December 2022

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 2022 to 31 December 2022 (the "Scheme Year"). This statement has been produced in accordance with the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, the subsequent amendment in The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 and the guidance published by the Pensions Regulator. The Scheme is a DB scheme with DC Additional Voluntary Contributions ("AVCs").

The statement is based on, and should be read in conjunction with the Statement of Investment Principles ("SIP") dated 4 November 2021.

Sections 2.1 and 2.2 of this statement set 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 SIP 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.

Sections 4 and 5 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 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"). This review of the SIP was ultimately completed after the Scheme year end with a revised SIP being finalised in February 2023 and signed on 13 March 2023. Therefore, the below changes noted weren't applied in the Scheme Year. The aim of the review was to ensure the Scheme was compliant 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 Scheme, and that its advisers are helping the Trustee to do this. The updated SIP therefore specifies:

- The Trustee requires detailed information on significant votes, as determined by the Trustee, to be provided by the investment managers on an annual basis. The significant votes are reviewed by the ESG Sub-Committee (a dedicated group which was set up by the Trustee to oversee ESG considerations in respect of the Scheme) and disclosed on an annual basis in the Implementation Statement. The Trustee defines a 'significant vote' to be one that aligns with the Trustee's beliefs and stewardship priorities.

- Reports on corporate governance produced by the investment managers along with their voting and stewardship policies are considered as part of the annual Stewardship Report which is discussed at ESG Sub-Committee meetings.
- The Trustee engages with managers on climate-related risks and exposure to these risks within the Scheme's investments. These risks and opportunities are reported annually in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. Further information can be found in the Climate Change-related Disclosures Report (available at <https://www.smartpensionsuk.co.uk/#/page/governance-documentation>).
- The Trustee has agreed a target, as set out in the Climate Change-related Disclosures Report, with the aim of reducing the level of carbon intensity within the Scheme's investment portfolio by 20% over the 3 years from 31 December 2021 (where carbon emissions data is available and can be reported).
- As part of the Scheme's triennial investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.

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



Climate Change-related Disclosures 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) and report against these on an annual basis. The Trustee is complying with these requirements and is in the process of producing its first Climate Change-related Disclosures 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:

- A review of the climate change risk within the Scheme's investment strategy.
- Climate change risk has been added to the risk register and will be reviewed at least annually.
- An annual assessment of the Scheme's investment adviser against their agreed objectives which includes the consideration of ESG factors and climate change.
- Undertaking a review of the ESG Manager Ratings of the portfolio, comparing them to a wider universe of strategies.
- Assessing whether funds held by the Scheme were signatories to the 2020 Stewardship Code and UN PRI.
- Climate scenario analysis was conducted on the Scheme's funding and investment strategy.

A quantitative Responsible Investment Total Evaluation ("RITE") assessment was commissioned by the Trustee and undertaken by the Scheme's Investment Consultant in 2022. RITE assesses how well the Trustee integrates ESG factors into the Scheme'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 have also led to enhanced compliance in each area of the Climate Change-related Disclosure requirements. This is evidenced by an improvement in the RITE rating from **B** in 2021 to **B+** in 2022.



ESG Training

Over the Scheme Year, Mercer held training sessions covering a variety of topics for the ESG Sub-Committee meetings. 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:

- Reviewing and updating the Trustee's beliefs on ESG.
- Discussion on how ESG is integrated into the Scheme'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 Scheme's funding and investment strategies.
- Considering appropriate climate-related targets for the Scheme, which are disclosed as part of the Scheme's Climate Change-related Disclosures reporting.
- Annual Stewardship assessment covering how ESG is integrated into each managers' investment process but also including Mercer's ESG ratings and what the managers are doing around Stewardship.

¹Responsible 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 Scheme. 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 Scheme's Investment Managers

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

See section 5 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 (GSAM) votes against company directors given lack of diversity

Industry: I.T.



Reason for Engagement: A Chinese I.T Company at its Annual General Meeting ("AGM") put forward its incumbent directors for re-election despite no female representation in these directors. This is increasingly concerning for GSAM given the HK Exchange's upcoming requirement for a minimum of one-woman director on company board by 2024.

Action taken: In July 2022, Goldman Sachs' Global Stewardship Team met with representatives from a company to give them feedback on their AGM. GSAM actively encouraged the company to recruit outside their existing connections to find a qualified woman director candidate before the HK Exchange requirement kicks in.

Outcome: GSAM at the AGM voted against the election of the incumbent directors.

24AM engage with Virgin Money UK PLC on its carbon emissions reporting

Industry: Banking



Reason for Engagement: 24AM engaged with Virgin Money PLC (a company who provide banking and financial services) as a follow up engagement as part of their Carbon Emissions Engagement Policy. 24AM were pleased that the company already had Scope 1 and 2 emission targets in the annual report and accounts, but 24AM wanted greater details and progress on scope 3 emissions and their internal data project to capture Energy Performance Certificate ("EPC") data.

Action taken: Virgin Money noted that they had already disclosed some scope 3 emissions, but further work was in progress. In terms of EPC data, a full breakdown had been provided for 69% of mortgages, and they are currently exploring an external data provider. The proportion of sustainable leaders increased from 2.8% to 3.7% over the 2021 financial year.

Outcome: 24AM note Virgin Money have made reasonable progress since their previous engagement. 24AM plan further engagements to ensure consistent progress.

PIMCO engage with multinational telecoms giant on human capital management and their environmental strategy

Industry: Telecoms



Reason for Engagement: PIMCO spoke with the bond issuer as a follow up engagement with a focus on their environmental strategy and their labour management practices.

Action taken: The issuer provided further details on their unionisation policy, efforts to upskill employees and employee benefits. In addition, they detailed recent efforts to improve disclosures and increase transparency in the area of Diversity, Equity and Inclusion (DEI).

Outcome: PIMCO encouraged the issuer to further increase its DEI and labour related disclosures through using a more standardised reporting framework and incorporating further Key Performance Indicators. PIMCO also encouraged the issuer to establish and publish DEI targets with a time to achieve these targets to enable investors to contextualise their efforts in this area.

Western meet with Delta Airlines to discuss their actions to combat climate change

Industry: Airlines



Reason for Engagement: Western met with Delta Airlines (a major US airline) to discuss their climate lobbying amongst stakeholders, progress on Sustainable Aviation Fuel ("SAF") and efforts to decarbonise.

Action taken: Western pushed for greater reporting on Delta's performance on meeting its SAF goal for 2030. In regards to the push to SAF, Western asked what steps the company are taking to ensure sustainability at a farm level for the sources of the fuel. Western also pushed the company on how they are progressing with other stakeholders to progress their climate policy.

Outcome: Western are pleased with Delta meeting their medium-term net-zero target, though pushed for greater reporting on Delta's performance on meeting its SAF goal for 2030. In regards to the push to SAF Western asked what steps the company are taking to ensure sustainability at a farm level for the sources of the fuel. Western also pushed the company on how they are progressing with other stakeholders to progress their climate policy. Western arranged a follow up meeting to discuss progress.

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. Further details are set out in section 4 (Rights Attaching to Investments (Stewardship)) of the SIP. In addition, the Trustee has appointed a Stewardship Manager to ensure the Trustee's expectations for the Scheme's investments managers to be compliant with the UK Stewardship Code. It is also the Trustee's policy to obtain reporting on voting and engagement and periodically review the reports to ensure the policies are being met.

How has this policy been met over the Scheme Year?

During 2022, voting and engagement summary reports from the Scheme'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.

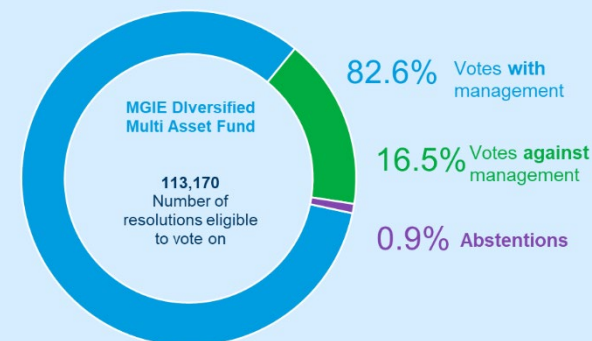
Following the DWP's consultation response and outcome regarding Implementation Statements on 17 June 2022 ("Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance**") one of the areas of interest was the significant vote definition. The most material change was that the Statutory Guidance provides an update on what constitutes a "significant vote":

- A significant vote is defined as one that is linked to the Scheme's stewardship priorities/themes.
- A vote could also be significant for other reasons, e.g. due to size of holdings.
- The Trustee are to include details on why a vote is considered significant and rationale for the voting decision.

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 signatories to the current UK Stewardship Code. An analysis of compliance of its investment managers to the UK Stewardship Code was completed in 2022.

Set out in the chart 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 is below (specifically for the equity exposure of the Diversified Multi Asset Growth Fund).

Mercer Investment Solutions Europe ("MGIE") proxy voting responsibility is given to listed equity investment managers with an expectation that all shares are to be voted in a timely manner and a manner deemed most likely to protect and enhance long term value. Mercer expects its investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised. Managers' stewardship activity is monitored on an ongoing basis, and also evaluated as part of the manager selection process. The full MGIE's stewardship policy can be found at [https://investment-solutions.mercer.com/content/dam/mercercer-subdomains/delegated-solutions/CorporatePolicies/Mercer ISE Stewardship Policy.pdf](https://investment-solutions.mercer.com/content/dam/mercercer-subdomains/delegated-solutions/CorporatePolicies/Mercer%20ISE%20Stewardship%20Policy.pdf).



Significant Votes



The Trustee annually looks at the significant votes of the underlying holdings of the Scheme. The Trustee has decided to consider any voting aligned with key stewardship themes of ESG and Climate Change and/or if the vote is a significant proportion of the portfolio to be a significant vote, 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 has engaged with the Scheme's investment managers where appropriate to understand the climate-related engagement activity undertaken.

Examples of such significant votes are provided below for the Scheme's holdings in the MGIE Diversified Multi-Asset Fund. Voting is not applicable to the rest of the funds held by the Scheme which do not have exposure to equities (i.e., those investments do not have voting rights), and has therefore not been included in the table below.

Fund	Company	Portion of Fund (%)	Date of vote	How the Manager voted	Rationale of Manager vote	Final outcome following the vote	Why Vote is Significant
MGIE Diversified Multi-Asset Growth Fund	Standard Bank Group Ltd.	0.21%	31 May 2022	MGIE voted in favour of a Shareholder Proposal Regarding Disclosure of Greenhouse Gas Emissions.	Support for all climate-related shareholder proposals was warranted in light of the benefits of progressive disclosure on the company's financed emissions and climate strategy, noting that the company considering putting the proposals to vote is a positive development.	Resolution passed	The Trustee has deemed votes related to climate change to be a significant vote.
	Electric Power Development	0.04%	28 June 2022	MGIE voted in favour of a Shareholder Proposal Regarding Aligning Business Strategy to the Paris Agreement.	In light of the company's already high GHG emissions and the lack of a concrete plan to retire old coal power facilities, it is in shareholders' interest to better understand how the company intends to remain viable in the long term, with the help of critical climate information which would be ensured with the proposed change. Finally, the proposed contents do not appear to be unduly burdensome or overly prescriptive.	Resolution not passed	The Trustee has deemed votes related to climate change to be a significant vote.
	Sketchers USA, Inc.	0.09%	26 May 2022	MGIE voted in favour of a Shareholder Proposal Regarding the Reporting of Greenhouse Gas Targets and Alignment with the Paris Agreement.	The company lacks meaningful targets, strategy and actions in regards to climate change. MGIE therefore supported the proposal.	Resolution passed	The Trustee has deemed votes related to climate change to be a significant vote.

Source: MGIE