IBM I.T. Solutions Pension Scheme (‘the Scheme’)

Engagement Policy Implementation Statement for the Year Ended 31 December 2023

July 2024

Contents

Section 1:

Introduction

This statement sets out how, and the extent to which, the Scheme's Engagement Policy in the Statement of Investment Principles ("SIP") has been followed during the year running from 1 January 2023 to 31 December 2023 (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 Statutory Guidance on Reporting on Stewardship in the Implementation Statement dated 17 June 2022. 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 relevant version of the SIP that was in place for the Scheme Year, which was the SIP dated 4 November 2021 covering the period between 1 January 2023 and 12 March 2023, the SIP dated 13 March 2023 covering the period between 13 March 2023 and 1 November 2023, and the SIP dated 2 November 2023 covering the period between 2 November 2023 and 31 December 2023.

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 Engagement Policy during the Scheme Year, respectively.

A copy of the SIP containing the Engagement Policy 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 engagement have been followed during the Scheme Year**

Section 2:

Statement of Investment Principles

2.1 Investment Objectives of the Scheme

The Trustee has set the following objectives for the Scheme as specified in the SIP:

- 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.

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 2022 for Scope 1 & 2 emissions. It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) is reportable.

2.2 Review of the SIP

During Q1 2023, the Trustee reviewed the Scheme's SIP, taking formal advice from its Investment Adviser (Mercer Limited ("Mercer")). The review reflected the Trustee's policy to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021. Accordingly, the SIP was updated to reflect the Trustee's consideration of climate risks and opportunities in its investment decision making process. There were no changes made to the investment arrangements as part of this SIP update and the SIP was signed on 13 March 2023.

In Q3, the Trustee carried out a further review of the Scheme's SIP. During the Scheme Year, the Trustee agreed a target 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 2022 for Scope 1 & 2 emissions. This target was incorporated into the Investment Objectives of the SIP.

Additional wording was also included on the Scheme's efforts to align with the IBM's net zero target and engagement with investment managers on reducing carbon exposure. Details on the Trustee's stewardship priorities were also added, outlining the most significant votes, as determined by the Trustee. There were no changes made to the investment arrangements as part of this SIP update. The SIP was signed on 2 November 2023.

Section 3:

Responsible Investment and ESG Activity during the Scheme Year

Climate Change related Disclosure Reporting

During the Scheme Year, the Trustee produced its first Climate Change-related Disclosures report for the Scheme year end 31 December 2022, with the second annual report being finalised after this Scheme Year. The report is publicly available online at https://www.smartpensionsuk.co.uk/#/page/governance-documentation.

The key takeaways from the first report are:

- The Trustee has processes in place and has increased its level of governance to identify, assess and mitigate climate change risk.
- Climate change risk can have an impact on the long-term funding objectives for the Scheme and its members.
- Four metrics have been chosen to monitor the progress against climate change risk.
- The Trustee will continue to engage with the investment managers to help progress towards its WACI target and will review the appropriateness of the target as part of future strategy reviews.

The Trustee is required to publish their Climate Change-related Disclosures report annually, with the next report in respect of the Scheme year end as at 31 December 2023 due to be published by 31 July 2024.

ESG Integration Assessment (RITE[1])

A quantitative Responsible Investment Total Evaluation ("RITE") assessment was commissioned by the Trustee and undertaken by the Scheme's Investment Adviser in 2023. RITE assesses how well the Trustee integrates ESG factors into the Scheme's investment decision-making. By undertaking this assessment, the Trustee has made further steps to improve the level of ESG factors within their investment decision-making and the actions from the

[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.mercer.com/en-gb/insights/investments/investing-sustainably/responsible-investing-for-uk-pension-schemes/.

assessment has also led to enhanced compliance in each area of the Climate Change-related Disclosures requirements. Following the 2023 RITE assessment, the RITE rating is **B+**.

Further details of the RITE assessment can be found in the Trustee's Climate Change-related Disclosures report.

Trustee Training

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

- Understanding the key findings from the Climate Scenario Analysis for the Scheme, which was carried out in the Scheme Year.
- A detailed annual Stewardship and ESG Rating Review covering how ESG is integrated into each managers' investment process, the extent which investment managers' key themes and priorities align with the Trustee's key ESG beliefs, ESG assessment (considering climate change, biodiversity and DEI), the extent of managers' exclusion criteria against UN Global Compact violators, and Mercer's ESG ratings.
- Education in relation to Energy Efficiency and Diversity, Equity and Inclusion (DEI)
- Education on the developments relevant to pension schemes from a sustainability investment perspective, such as considerations in relation to nature and biodiversity.

Section 4

Engagement Activity by the Scheme's Investment Managers

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

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).

CQS engages with ENI on climate targets and commitments

CQS met with representatives from ENI for a face-to-face meeting in November 2023. As an energy company, CQS challenged ENI on the steps it takes to validate the Science Based Targets initiative ("SBTi") targets set by its underlying portfolio companies, the practicalities of implementing environmental commitments relative to certain projects such as the Verus project, and diversity.

There is currently no SBTi framework for the Oil & Gas sector, but ENI confirmed that they engaged with SBTi directly on this in 2019 during the first round of consultation and noted that the second round of consultation did not engage the oil and gas industry. Since the second round of consultation the SBTi have announced a new Expert Advisory Group ("EAG") with a request for experts from the industry to join. ENI have confirmed that they opted to apply and that they are waiting to hear whether the application has been successful.

ENI took over the Evans Shoal gas field in 2017 and renamed the project 'Verus' in 2023. The Verus project (in the Evans Shoal field) has been heavily criticised as the gas has a very high percentage of carbon dioxide (27% average), which is far higher than any other gas field that is being developed in Australia. ENI has outlined plans for carbon capture for the project so they can meet their overall firm commitments. They explained that they have extensive expertise and demonstrable success in carbon capture for similar projects in Kazakhstan and the Congo, particularly alternating between water and gas. They undertook significant feasibility studies on this before committing to the carbon capture for the Verus project. They also collaborate with peers on carbon capture and storage through the Oil and Gas Climate Initiative (OGCI) to share experiences and make improvements to processes.

We noted the improvements ENI has made with regards to diversity - women represent 26.86% of the workforce (up from 24.82% in 2021), 28.5% of managerial positions are held by women, 101% gender pay gap ratio, and in 2023, ENI was included by Bloomberg in the Gender Equality Index. CQS queried which initiatives were in place to deliver further improvements and retain their position in the index. ENI confirmed that they have a target to increase women in the workforce to 30% by 2030 and that they have introduced mentoring programmes to increase the number of women in management. For example, 3 women now report directly to the CEO for mentoring.

24 AM engages with Lloyds on Scope 3 emissions and Environmental Policy

Lloyds is a founding member of the Net Zero Banking Alliance. In their ESG strategy, set out in February 2022 and outlines their 2050 net zero plans, a target has been set to reduce 50% of financed emissions by 2030 as well as 41% reduction in the carbon intensity of their residential mortgages by 2030.

During 24 AM's engagement Lloyds highlighted that the key challenges lie within mortgages and agriculture sectors. Their plan to tackle the residential mortgages division consists of: (1) educate customers on the energy transition; and (2) offer green products such as cashback products for those with an EPC rating of A or B, or those completing an eligible green home improvement, both of which create incentives for borrowers to make energy improvement. Additionally, they have partnered with renewable energy firm Octopus Energy in which Lloyds provide the financing for electric heat pumps and Octopus Energy carries out the installation.

On agriculture, the main challenges are that the industry is fragmented and highly-subsidised with high costs associated to the climate transition. Lloyds has therefore entered into a partnership with a solar company which looks to provides financing to improve the biodiversity and climate profile for farmers, in addition to discussions with the government to provide incentives.

On disclosures, disappointingly Lloyds only report their finance emission per division, not for their entire book of mortgages and they do not have the financed emission numbers of their new prime Retail Mortgage Backed Securities deal. However, in the future they are looking to breakdown the financed emission into more sectors within motor, mortgages and commercial banking sectors.

24 AM were satisfied that the response from Lloyds was comprehensive. 24 AM will continue to monitor ESG developments, including whether Lloyds are meeting their carbon emission reduction targets. Importantly, 24 AM will maintain engagement to monitor progress on emissions disclosures for Asset Backed Securities deals rather than only for each lending division.

GSAM engages with Glencore on Climate Transition Strategy

In September 2023, GSAM identified Glencore for engagement under their climate engagement initiative. As part of this initiative, GSAM engages with companies in high-impact industries on whether a robust and quantifiable climate transition plan is in place. They had previously engaged with Glencore in 2022 and 2023 to discuss its climate transition plan and to encourage greater disclosure around its climate strategy and capital allocation. At the 2023 annual meeting, GSAM voted against management's proposal to approve the company's climate transition plan, as they believed it did not provide sufficient disclosure on how its coal transition plan aligned with its stated emissions goals.

During this engagement, Glencore shared updates around the future of its coal business. The company is currently exploring a merger with a diversified natural resources company, and if approved, the company intends to spin off its coal business post-merger. In the event the deal is not approved, Glencore will proceed with a managed decline of its coal business and outline how it intends to achieve its net zero goal while still producing unabated coal post 2040. GSAM will seek to continue to engage with the company on its climate transition plan and related disclosures.

Section 5:

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 Scheme's investments to the investment managers. Further details are set out in section 4 (Rights Attaching to Investments (Stewardship)) of the SIP. 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?

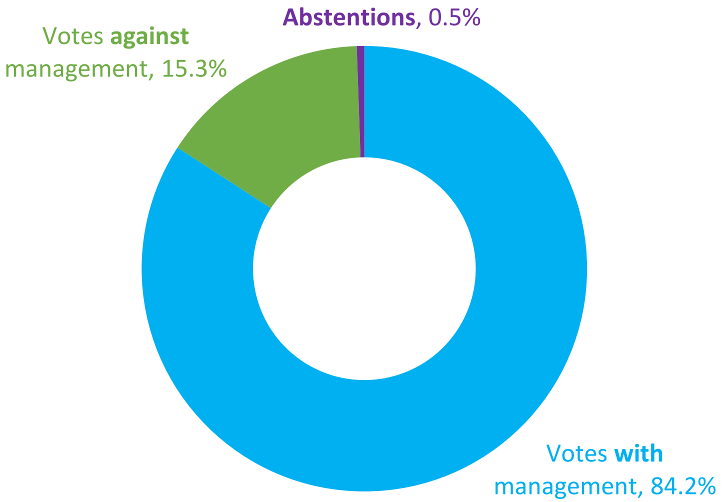
During the Scheme Year, voting and engagement summary reports from the Scheme's investment managers were provided to the Trustee and responsibility to consider these has been delegated to the ESG Sub-Committee. The Trustee does not use the direct services of a proxy voter.

The Trustee supports the aims of the UK Stewardship Code and its investment managers are encouraged to report their adherence to the Code. The Trustee has appointed a Stewardship Manager role to ensure that the Trustee's expectations for the Scheme's investment managers to be compliant with the UK Stewardship Code are met. 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 2023.

Following the DWP's 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.

Set out in the chart 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 is below (specifically for the equity exposure of the Diversified Multi Asset Growth Fund which is managed by Mercer Investment Solutions Europe ("MGIE")).



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/mercer-subdomains/delegated-solutions/CorporatePolicies/Mercer ISE Stewardship Policy.pdf

Most 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 Climate Change, Energy Efficiency and Diversity, Equity & Inclusion that are within the top 10 underlying equity holdings and represent more than 0.5% of the overall portfolio weight for the MGIE Diversified Multi-Asset Growth Fund (the only mandate with exposure to equity and therefore has voting rights). The significant votes that meet the above criteria are provided below.

✗ Resolution not passed ✓ Resolution passed

Fund	Portion of the fund (%)	Company	Date of vote	Resolution	How the Manager voted	Rationale of Manager vote	Final outcome following the vote	Significant Vote Theme
MGIE Diversified Multi Asset Fund	0.88	Microsoft Corporation	7 December 2023	Shareholder Proposal Regarding Report on Climate Risk In Employee Retirement Options	Against	A vote against is applied because the company's retirement plan is managed by a third-party fiduciary that includes investment guidelines on the consideration of ESG and other factors, and employees are offered a self-directed option which includes climate-friendly and ESG-themed investments.	✗	Climate Change
	0.88	Microsoft Corporation	7 December 2023	Shareholder Proposal Regarding Report on Median Compensation and Benefits Related to Reproductive and Gender Dysphoria Care	Against	A vote against this proposal is warranted, as the company appears to provide sufficient information for investors to be able to determine how the company is managing pay equity and health and wellness benefits related risks. Microsoft has reported on pay equity since 2016 in support of their commitment to pay employees equitably for substantially similar work, and the company appears to be able to provide extensive information on the range of benefits available to their employees.	✗	Diversity, Equity and Inclusion

Fund	Portion of the fund (%)	Company	Date of vote	Resolution	How the Manager voted	Rationale of Manager vote	Final outcome following the vote	Significant Vote Theme
	0.88	Microsoft Corporation	7 December 2023	Shareholder Proposal Regarding Equal Employment Opportunity Policy Risk Report	Against	A vote against this proposal is warranted, as the company appears to be taking appropriate steps to protect itself against risks related to discrimination based on political ideology or viewpoint. Microsoft's EEO Policy prohibits discrimination and harassment based on political affiliation, and expects employees to treat each other with dignity and respect, including when addressing any ideological differences, and investigates and addresses complaints. Microsoft has dedicated teams that review and investigates complaints under its EEO Policy and employee concerns or behaviours outside of the EEO Policy.	×	Diversity, Equity and Inclusion

Source: MGIE. The information in relation to the next steps on the votes disclosed were not available at time of writing.