IBM I.T. Solutions Pension Scheme
Annual Report and Financial Statements
Year Ended 31 December 2023

Pension Scheme Registry Number: 10199630

All enquiries about the Scheme should be addressed to:

IBM United Kingdom Pensions Trust Limited
Building 5000 Ground Floor, Lakeside, North Harbour, Western Road, Portsmouth, Hampshire, PO6 3AU

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www.smartpensionsuk.co.uk

Corporate Trustee	IBM United Kingdom Pensions Trust Limited Building 5000 Ground Floor, Lakeside, North Harbour, Western Road, Portsmouth, Hampshire, PO6 3AU
Trustee directors	**Non-member appointed:** Mark Hobbert Frederick Klutey Naomi Hill [a] Zoe Hughes Christopher McBrayne[a] (resigned 31 May 2024) The Law Debenture Pension Trust Corporation P.L.C. [c] **Member nominated:** Robert Tickell (Chair) [b] Ian Shore [a] Robert Clark [b] (a) Member of an IBM Pension Trust plan (b) Retiree member of an IBM Pension Trust plan (c) Represented by Andrew Harrison and Anna Eagles
Company secretary	Claire Smith (appointed 10 June 2024) Paul Butler (resigned 10 June 2024)
Administrator	XPS Pensions Group Legal & General Assurance Society Limited IBM Pensions Trust for retained responsibilities
Actuary	Graham McLean FIA, Towers Watson Limited t/a Willis Towers Watson
Independent auditors	PricewaterhouseCoopers LLP
Legal advisers	CMS Cameron Mckenna Nabarro Olswang LLP Sacker & Partners LLP
Investment advisers	Towers Watson Limited t/a Willis Towers Watson (appointed 3 April 2024) Mercer Limited
Investment custodians	The Northern Trust Company
Employer covenant	Cardano Advisory Limited
Bankers	The Northern Trust Company Barclays Bank plc
Sponsoring employer	IBM United Kingdom Holdings Limited

Participating employer	IBM United Kingdom Limited

Defined benefit Investment managers

Growth assets	
Property	CBRE Global Investment Partners Limited
Alternative Investments:	
Alternative Credit	CQS Investment Management Limited
Reinsurance	Nephila Capital Limited
	Securis Investment Partners LLP
Diversified Multi Asset Growth (DMAG)	Northern Trust Fund Services (Ireland) Limited
Secured Finance	TwentyFour Asset Management LLP
Matching assets	
Cash	Northern Trust Global Funds plc
Liability matching	Cardano Risk Management Limited
Global Bond	Northern Trust Fund Services (Ireland) Limited
Core Credit	PIMCO Europe Limited
	Western Asset Management Company Limited
	Goldman Sachs Asset Management International
Currency Overlay	Russell Implementation Services Limited
AVC investments	
Managed funds	Legal & General Assurance (Pensions Management) Limited
	HSBC Global Asset Management
With profits funds	Aviva Life & Pensions UK Limited

The Trustee of the IBM I.T. Solutions Pension Scheme (the “Scheme”) presents its annual report and financial statements for the year ended 31 December 2023.

SCHEME CONSTITUTION

The Scheme is an occupational pension scheme set up under trust to provide retirement benefits for certain groups of employees of IBM United Kingdom Limited and IBM Limited Partnership (to 8 February 2019) (together “IBM” or the “Company”). The Scheme is currently governed by a single Definitive Trust Deed and Rules dated 25 March 2022.

CHANGES TO THE SCHEME

There were no changes to the Scheme during 2023. An Interim Deed of Amendment was approved on 01 July 2024 which gives the Trustee a discretionary power to offer the new Pension Commencement Excess Lump Sum (PCELS) as defined in [paragraph 3C of Schedule 29 to the Finance Act 2004] from 6 April 2024.

SCHEME MANAGEMENT

The Board of Directors of the corporate trustee, IBM United Kingdom Pensions Trust Limited, is responsible for all aspects of the administration and management of the Scheme. The corporate trustee is appointed by the Company.

The Articles of Association of IBM United Kingdom Pensions Trust Limited set out the rules for the appointment and removal of Trustee Directors. There will be a maximum of nine Trustee Directors, one third of whom must be Member Nominated Directors ("MNDs") nominated and selected by a process which involves all of the active and all retiree members of the Scheme. MNDs will hold office for a period of four years from the date of their appointment. The sponsoring employer, IBM United Kingdom Holdings Limited, retains the authority to appoint and remove Non-Member Appointed Directors.

The Board of Directors of the corporate trustee was chaired by Robert Tickell.

The Trustee has delegated overall responsibility for the day-to-day administration, investment services and management of the Scheme to IBM Pensions Trust (“PT”). XPS Pensions Group ('XPS') were appointed as administrators of the DB benefits on 1 June 2021 and Legal & General Assurance Society Limited ('LGAS') were appointed as administrators of the AVC and ASC investments from 6 January 2021, together referred to as the Third-Party Administrators ("TPAs").

Scheme management activities

The Trustee reviews the performance and manages the activities of the Scheme through regular Trustee Management Meetings. There were four Trustee Management Meetings held during the year.

SCHEME MANAGEMENT (continued)

Scheme management activities (continued)

To ensure the effective management of its responsibilities, the Trustee has delegated certain responsibilities to the Trustee committees as noted below, and operational responsibility to IBM Pensions Trust. IBM Pensions Trust is a department within, but independent from, IBM United Kingdom Limited and IBM United Kingdom Holdings Limited, whose sole purpose is providing secretarial, investment and certain administrative services to the Trustee of the Scheme. Ultimate responsibility for the delegated functions remains with the Trustee. All Trustee committee meetings are minuted, with decisions being passed by simple majority voting.

The ***Investment Committee***, which is supported by independent investment advisers, has been appointed by the Trustee to direct the policies governing the investment of the Scheme assets and to supervise the execution of that policy. The Investment Committee met on four occasions during the year to review and monitor investment performance and to consider the investment strategy for the Scheme.

The ***Governance Committee*** is responsible for monitoring scheme risks, compliance with regulatory requirements, monitoring the effectiveness of IBM Pensions Trust, the oversight of the preparation and annual audit of this annual report and financial statements, and monitoring the effectiveness of the Trustee Board. There were four meetings of the Governance Committee during the year.

The review and approval of benefits payable to the spouse or dependants of recently deceased scheme members is delegated to the ***Benefits Allocation Committee***. The Benefits Allocation Committee met on four occasions during the year.

The ***Disputes Resolution Committee*** meets as required to review complaints made by scheme members, together with any other related matters referred to it by the Trustee Board, and to make recommendations in respect of these matters to a meeting of the full Trustee Board of the Scheme. The Disputes Resolution Committee met once during the year.

In addition to the four Trustee Committees, sub-committees are established where a small number of Trustee Directors are tasked with a detailed investigation into one or more defined issues on behalf of the Trustee Board.

The ***ESG Sub-Committee*** was established in 2021 to support and guide the Trustee's work on Environmental, Social & Governance ("ESG") related topics, improve engagement reporting, and to ensure compliance with Climate Change Regulations. The ESG Sub-Committee met on four occasions during the year to review the risks and opportunities arising from climate change, the climate-related investment beliefs of the Trustee, to consider a strategy to deal with climate change which included scenario analysis and risk management and to approve the Trustee’s Climate Change report. The ESG Sub-Committee also reviewed how the investment managers, responsible for the management of the Scheme’s assets, complied with the UK Stewardship Code and how well the managers integrated ESG factors into their investment process.

SCHEME MANAGEMENT (continued)

Scheme management activities (continued)

The Trustee Directors holding office for the year ended 31 December 2023, and their membership of the delegated committees, and their attendance at meetings of the Trustee board and relevant committees, is summarised below. The full movement of Trustee Directors, including up to the date of approval of this Trustee's Report, is set out on page 2.

Trustee directors	Trustee Board Meeting (TMM)	Investment Committee Meeting (ICM)	Governance Committee Meeting (GCM)	Benefits Allocation Committee (BAC)	Disputes Resolution Committee (DRC)
Robert Tickell	4 of 4	4 of 4	2 of 2	-	1 of 1
Frederick Klutey	4 of 4	4 of 4	-	-	-
Mark Hobbert	4 of 4	4 of 4	-	-	1 of 1
Naomi Hill	3 of 4	4[2] of 4	3 of 4	-	0 of 1
Ian Shore	4 of 4	4[2] of 4	2 of 2	4 of 4	1 of 1
Robert Clark	4 of 4	3[2] of 3	4 of 4	4 of 4	-
Zoe Hughes	3 of 4	2[2] of 2		3 of 4	-
Christopher McBrayne	2 of 4	3 of 4	-	-	-
The Law Debenture Pension Trust Corporation P.L.C[1]	4 of 4	4 of 4	4 of 4	4 of 4	-

[1] Represented by Andrew Harrison (TMM, ICM) and Anna Eagles (GCM, BAC).

[2] Not required to attend, attended as an observer only.

Conflicts of interest

The Trustee Directors recognise that they are in a position of trust and need to have policies and arrangements in place to identify, monitor, and manage conflicts. The Trustee has implemented a formal Conflicts of Interest Policy and maintains a log of any potential or actual conflicts which are identified. Trustee Directors are also required to declare any potential or actual conflicts at the start of each Trustee Meeting.

Risk and control

The Trustee has overall responsibility for risk management and internal controls. The Trustee is committed to identifying, evaluating, and managing risk, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level. A risk register documenting the major risks faced by the Scheme together with associated control mechanisms and mitigation/recovery plans is maintained and reviewed quarterly and approved annually by the Governance Committee.

SCHEME MANAGEMENT (continued)

Trustee training

The Trustee has a formal Training Policy which is based upon the Trustee Knowledge and Understanding (TKU) framework issued by the Pensions Regulator, ("tPR"), and education requirements are reassessed annually.

An induction programme is provided for new Trustee Directors on appointment. The induction programme covers a significant amount of material and will usually take several months to complete.

Training is provided in a range of formats by a variety of providers. Trustee Directors are required to complete the Pensions Regulator's Trustee Toolkit and are encouraged to support this formal training by accessing other resources such as pensions related publications and industry conferences and seminars. Records of all training undertaken are maintained in respect of each individual Trustee Director.

In addition, a Trustee Effectiveness programme is followed as per tPR's requirements. At the December 2022 Governance Committee Meeting, the Governance Committee agreed that the focus for 2023 would be on continuing to work on the Trustees' effectiveness through compliance with tPR's new General Code of Practice (previously known as the 'Single Code of Practice'). This would include continuing to work on a 'gap analysis' against the new code, identifying policy changes or new policy requirements and ensuring an "Effective System of Governance" with training to the full board.

FINANCIAL DEVELOPMENTS AND FINANCIAL STATEMENTS

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

Guaranteed Minimum Pension ("GMP") Equalisation

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. The Trustee is still reviewing, with its advisers, the implication of this ruling on the Scheme and the equalisation of guaranteed minimum pensions between men and women; in the context of the rules of the Scheme and the value of any liability. As soon as this review is finalised and any liability quantified, members will receive further communication and any financial impact will be considered by the Trustee.

There was a further High Court judgement, in November 2020, in relation to the equalisation of GMP benefits. This judgement focused on the GMP treatment of historic transfers out of members, an issue which had not been addressed in the 2018 ruling. Under the recent ruling, trustees are required to review historic transfer values paid from May 1990 to assess if any top up payment is required to the receiving scheme, to reflect the member’s right to equalised GMP benefits. As soon as this review is finalised and any liability quantified, the financial impact will be considered by the Trustee.

MEMBERSHIP AND BENEFITS

The change in membership during the year is as follows:

	Total
Active members	
At the start of the year	25
Members retiring	(1)
Members deferring	(2)
Deaths	-
At the end of the year	22
Pensioners brought forward	1,601
In year adjustment	6
At the start of the year	1,607
New spouses and dependants	10
Active members retiring	1
Deferred members retiring	114
Deaths	(11)
Cessation of dependent pensions	(5)
At the end of the year	1,716
Deferred members brought forward	2,118
In year adjustment	(4)
At the start of the year	2,114
Active members moving to deferred	2
Deferred members retiring	(114)
Deferred members leaving / transferring out	(8)
Deaths	(5)
At the end of the year	1,989
Total at the end of the year	**3,727**

- 63 (2022: 76) of the deferred members are active members of the Enhanced or Hybrid sections of the IBM Pension Plan DC section,
- 521 (2022: 550) of the deferred members are deferred members of the Enhanced or Hybrid sections of the IBM Pension Plan DC section,
- 118 of the 1,716 pensioners are spouses and dependants (2022: 108 of 1,601).

MEMBERSHIP AND BENEFITS (continued)

Pension increases
In accordance with Scheme rules, pensions in payment were increased on 6 April 2023 by RPI as at the previous September, capped at 5.0%. The increase awarded was 5% (2022: 4.9%). No discretionary increases were awarded in 2023 (2022: nil).

Guaranteed Minimum Pensions earned for service after 6 April 1988 were increased in line with statutory requirements. Deferred pensions are increased in line with statutory requirements (except for members with Government Actuary Department, "GAD", benefits).

Transfer payments
Members leaving IBM with over three months’ pensionable service have the right to transfer pension benefits accrued to the date of leaving to either a new occupational pension scheme or an approved scheme operated by an independent pension provider.

With effect from April 2015, members who have left service or who have withdrawn from the Scheme have the statutory right to transfer their DB benefits separately from their AVC benefits (providing they are not within 12 months of their normal retirement age).

Transfer payments paid during the year were calculated in accordance with the regulations under the Pension Schemes Act 1993 and the Pensions Act 1995 as appropriate and no discretionary payments were included in any of the transfers made.

Effective December 2006, the Trustee decided to allow members to separately transfer out their Additional Voluntary Contributions /Additional Smart* Contributions fund benefits.

Life Assurance Benefits
Life assurance benefits are fully insured with Legal & General Assurance Society Limited ("Legal & General"), with 50% underwritten by Allianz. The premiums are borne by the Company and any payments due are administered by the trustees of the IBM Group Life Assurance Plan. Each member’s benefits are paid in full by Legal & General.

REPORT ON ACTUARIAL LIABILITIES

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland", (FRS 102), these financial statements do not include liabilities in respect of accrued retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover the present value of benefits to which members are entitled based on pensionable service at the valuation date (known as the technical provisions). The technical provisions are assessed at least every three years as part of the Actuarial Valuation using assumptions agreed between the Trustee and the Company which is set out in the Statement of Funding Principles document, a copy of which is available from IBM Pensions Trust on request.

Actuarial valuation

The most recent Actuarial Valuation of the Scheme was carried out as at 31 December 2021. The table below sets out the Scheme's liabilities/technical provisions and the market value of the Scheme's assets for the current and prior Actuarial Valuations:

Actuarial valuation as at 31 December:	**2021**	2018
	£m	£m
Value of technical provisions	**1,394**	1,153
Market value of assets (excluding AVCs)	**1,470**	1,184
Past service surplus	**76**	31
Funding level (assets as a percentage of technical provisions)	**105%**	103%

The value of technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and salary increases, when members will retire, and how long members will live.

Statutory estimate of solvency

The estimate of the solvency of the Scheme as at 31 December 2021 is set out below. This estimate has been prepared on the basis that no further payments are received from the Company, and an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the valuation date.

Statutory estimate of solvency as at 31 December:	**2021**	2018
	£m	£m
Estimated cost of buying insurance policies to cover liabilities	**1,712**	1,477
Market value of assets (excluding AVCs)	**1,470**	1,184
Solvency (deficit)	**(242)**	(293)
Solvency level (assets as a percentage of liabilities)	**86%**	80%

REPORT ON ACTUARIAL LIABILITIES (continued)

Actuarial report

In the years when an Actuarial Valuation is not conducted the Trustee is required under Part 3 of the Pensions Act 2004 to obtain an "actuarial report". The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Scheme relative to its statutory funding objective since the last actuarial valuation and any subsequent actuarial reports.

The results of this actuarial report of the Scheme as at 31 December 2022, are set out below:

Actuarial report as at 31 December:	**2022** **£m**
Value of technical provisions	855
Market value of assets (excluding AVCs)	963
Past service surplus	108
Funding level (assets as a percentage of technical provisions)	112%

Next actuarial valuation

The next triennial valuation is due to be prepared no later than as at 31 December 2024.

REPORT ON ACTUARIAL LIABILITIES (continued)

Actuarial method and significant actuarial assumptions
The actuarial method used in the calculation of the technical provisions is the Projected Unit Method. The significant actuarial assumptions used in the calculations are as follows:

- Initial **discount rates** are set as a 0.65% per annum margin over the Willis Towers Watson gilt yield curve.

- **Retail Price Inflation** has been assessed as being equal to the Willis Towers Watson gilt break even inflation curve.

- **Future Consumer Price Inflation** has been assessed as an adjustment to the assumed level of future Retail Price Inflation taking into account the expected differences in the two measures of inflation due to structural differences in the calculation of the two indices and the different constituent parts.

- **Pension increases** are applied to each different element of pensions in excess of (GMP) according to the provisions in the Scheme's rules.

- **Salary increases,** including any remuneration that a member consents to being a non-pensionable supplement under the Scheme Rules, will increase at a rate of 0.75% per annum higher than assumed Retail Price Inflation.

- **Mortality** assumptions for the period in retirement are based on the standard tables "S3 All for males" with a scaling factor of 86% for male active members and male dependants; "S3 All for females" with a scaling factor of 95% for female active members and female dependants. Allowance is then made for improvements in longevity from the valuation date onwards in line with the CMI 2020 Core Projection with a long-term annual rate of improvement of 1.5% per annum and (2021 only) an initial addition of 0.25% per annum for improvements for both males and females.

CONTRIBUTIONS

Under the Schedule of Contributions in place at the start of the year, as signed on 22 August 2019, it was agreed that, from 1 April 2019 to 31 December 2021, the Company shall pay nil contributions in respect of future service.

From 1 January 2022 to 22 August 2023, if the Scheme Actuary estimates that the Scheme's funding level on a technical provisions basis is less than 101% at the start of each calendar year, the employer shall pay a quarterly contribution in respect of future service of £0.6 million. No such contributions have been payable by the Company during 2023 or 2022.

A further Schedule of Contributions was signed on 20 March 2023.

This Schedule sets out revised payments from 1 January 2022 to 20 March 2028, if the Scheme Actuary estimates that the Scheme's funding level on a technical provisions basis is less than 101% at the start of each calendar year, the Company shall pay a quarterly contribution in respect of future service of £0.3 million. No such contributions were payable by the Company during the year.

The contributions payable to the Scheme under the Schedules of Contributions in force are detailed in note 4 to the financial statements.

CONTINUATION OF THE SCHEME

The Company has the right under the Trust Deed and Rules of the Scheme to discontinue its contributions at any time and to terminate the Scheme subject to the provisions set forth in the Trust Deed and Rules and the Pensions Act 1995. The Company has not expressed any intent so to do.

Whether or not all Scheme members receive their benefits in full should the Scheme be wound up at some future time will depend on the sufficiency at that time of the Scheme’s net assets to provide for the accrued benefits. If the Scheme goes into wind up a debt will fall due from the employer of the full buy out cost of benefits for all members of the Scheme. The extent to which such debt can be paid will depend on the Participating Employer’s assets at that time and the terms of the guarantee.

A level of further protection was introduced with effect from April 2005 by the establishment of the Pension Protection Fund (PPF). The PPF was set up to provide compensation to members of eligible defined benefit schemes, when there is a “qualifying insolvency event” in relation to the employer, and where there are insufficient assets in the pension scheme to cover the level of compensation due to members as set out by the PPF regulations.

The provisions relating to both eligibility and payment of benefits are complex but in summary members who have already reached normal pension age or who have retired on ill-health grounds at the date that a plan is accepted by the PPF will receive compensation of 100% of their entitlement. Members who have not reached normal pension age will receive compensation of 90% of their entitlement. Dependants’ pensions generally will be payable at 50% of the members’ pension.

CONTINUATION OF THE SCHEME (continued)

In 2018, the European Court of Justice ruled that individual members should receive at least 50% of the value of their accrued old age pension if the employer responsible for funding the scheme they have paid into fails.

INVESTMENT MANAGEMENT

The Trustee is responsible for setting and monitoring the performance of the investment strategy of the Scheme and is responsible for ensuring that there is a suitable range of investment options for members seeking to make Additional Voluntary Contributions ("AVCs").

The Trustee has prepared, in accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles (the "SIP") which explains the Trustee's policy regarding the types of investments to be held, expected return on investments, its approach to Environmental, Social and Governance ("ESG") factors and related matters. In preparing the SIP the Trustee has obtained appropriate investment advice and has consulted the Company. The SIP can be accessed on the IBM Pensions Trust website www.smartpensionsuk.co.uk/#/page/governance-documentation A hardcopy of the SIP is available upon request by using the contact details www.smartpensionsuk.co.uk/#/page/contact-us.

Within the SIP, the Trustee has set the following long-term investment objectives in relation to the Scheme's DB investments:

- 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 and future 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 the following investment objective related to the AVC and ASC investments:

- To offer suitable default investment arrangements and self-select ('Freestyle') options which are appropriate for members based on their expected risk tolerances and retirement objectives and embed climate change risks and opportunities in their design.

The Trustee believes that ESG factors, including climate change, can impact the performance of the Scheme's investments, both DB as well as AVC and ASC, over the medium to long-term. The Trustee has delegated responsibility for the selection, retention, and realisation of investments to its 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 and against criteria which include ESG considerations.

Climate Change Governance and Reporting

The Pension Schemes Act 2021 introduced legislation requiring specified pension schemes to ensure that there is effective governance with respect to the effects of climate change.

A report has been prepared by the Trustee to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 using the Department for Work and Pensions ("DWP") statutory guidance. 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, and to produce a report.

INVESTMENT MANAGEMENT (continued)

Climate Change Governance and Reporting (continued)

The report explains how the Trustee has established and maintained oversight and processes to satisfy themselves that the Scheme's relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Scheme.

The Scheme's report for the year ended 31 December 2023 can be found at https://www.smartpensionsuk.co.uk/#/page/governance-documentation.

The report covers the following four areas:

- **Governance:** How the Trustee maintains oversight and incorporates climate change into its decision making.
- **Strategy:** How potential future climate warming scenarios could impact the Scheme.
- **Risk Management:** How the Trustee incorporates climate–related risk in its risk management processes.
- **Metrics and Targets:** How the Trustee measures, and monitors progress against different climate related indicators known as metrics and targets.

The key points from the report are:

- The Trustee has processes in place and has increased its level of governance over the reporting period to identify, assess and mitigate climate change risk.
- Climate change risk can have an impact on the long-term funding objectives of the Scheme and its members.
- Four metrics have been chosen to monitor the progress against climate change risk and progress has been made to report on carbon metrics as far as possible, with an increase in the proportion of assets reported over the year.
- Scope 3 emissions data has been reported, but the Trustee notes that the data in this area is still very limited and expects this position to improve over time.
- Over 2023, the Trustee has considered ESG factors in further detail as part of the annual Stewardship Assessment, whereby there was greater focus on the extent that the Scheme's investment managers are aligned with the Trustee's ESG beliefs relating to climate change, energy efficiency and diversity, equity and inclusion (DEI). The Trustee has formed a framework in order to monitor and better understand how its investment managers approach these areas in order to align with the Trustee's key priorities.
- The Trustee has made encouraging progress towards its target in the reduction of Weighted Average Carbon Intensity (WACI) within the Scheme's portfolio.
- 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 in future strategic decision-making and on an annual basis for climate reporting purposes.

INVESTMENT MANAGEMENT (continued)

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's DB and AVC/ASC investments to the investment managers. Managers are encouraged to exercise these rights.

The Trustee supports the aims of the UK Stewardship Code, and its investment managers are invited to operate in accordance with the guidelines laid out in the Stewardship Code which covers matters of both voting and engagement. The investment managers are encouraged to report their adherence to the Stewardship Code using the "comply" or "explain" principle where appropriate.

The Trustee requires its investment managers to report on corporate governance, and particularly on their voting and engagement records. Furthermore, 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 and the most significant votes, as determined by the Trustee, are disclosed on an annual basis in the Engagement Policy Implementation Statement.

The Trustee defines a 'significant vote' to be one which relates to one of the Trustee's beliefs and stewardship priorities, which are:

- Climate Change
- Diversity, equity and inclusion
- Energy Efficiency

The Trustee has delegated management of investments to professional investment managers which are listed on page 3. These managers, who are regulated by the Financial Conduct Authority in the United Kingdom (or the Trustee is satisfied that they have the necessary skills and experience if outside the UK), manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objectives and policies set out in the SIP are followed.

The Trustee has less information over the underlying investments within pooled investment vehicles held by the Scheme but reviews the managers' policies and statements of compliance in respect of these matters.

The Trustee has appointed The Northern Trust Company to keep custody of the Scheme's investments, other than:

- Pooled investment vehicles where the manager makes its own arrangements for custody of the underlying investments.
- AVCs and other investments (which are in the form of insurance policies) where the master policy documents are held by the Trustee.

INVESTMENT MANAGEMENT (continued)

In accordance with the Disclosure Regulations Schedule 3, 30(d)(iv) Investment Regulations 2(3)(d), from October 2020 the Trustee has set out in its SIP its policies in relation to the following matters:

i. how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the Trustee's policies mentioned in sub paragraph b of the Investment Regulations;
ii. how that arrangement incentivises the asset manager to make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long term;
iii. how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the Trustee policies mentioned in sub paragraph b of the Investment Regulations;
iv. how the Trustee monitors portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and
v. the duration of the arrangement with the asset manager.

The Trustee's Implementation Statement, which sets out further voting and engagement information undertaken by the Scheme's investment managers for the year ended 31 December 2023, is set out on pages 89 to 100, and forms part of the Trustee's Report.

INVESTMENT STRATEGY

DB sections investment strategy

The Trustee's long-term strategy comprises:

- 81.7% invested in **Matching assets,** which are investments that move broadly in line with the long-term liabilities of the Scheme. These are referred to as Liability Driven Investments ("LDI") and comprise UK and overseas government and corporate bonds and help mitigate the impact of interest rate and inflation rate movements on the long-term liabilities. In addition to this, the Scheme also uses derivatives such as interest rate and inflation swaps to hedge changes in the Scheme's liabilities.
- 18.3% invested in **Growth assets,** which are return seeking investments comprising property, a diversified multi-asset growth strategy and alternative assets.
- Approximately 0.7% of the Scheme's assets have unhedged currency exposure. The Trustee mitigates this risk by using currency forwards to hedge 100% of this unhedged Dollar, Euro and Yen currency exposure. The hedging was increased from 0% to 100% on 31 December 2023.

The investment strategy is broadly diversified and invested in domestic and overseas bonds, index linked gilts, property and a diversified multi-asset growth fund.

In addition, the Trustee hedges a proportion of the interest rate and inflation rate risk (liability risks), which the Trustee regards as unrewarded "funding" risks.

INVESTMENT STRATEGY (continued)

DB sections investment strategy (continued)

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investments. More details about investments are given in the notes to the financial statements.

The investment policy weighting of the Scheme's investments at 31 December 2023, together with the Scheme's actual asset allocations is shown below:

Asset class	2023 Actual	2023 Policy	2022 Actual
Growth assets	**18.7%**	**18.3%**	**21.5%**
Property	7.1%	7.9%	8.2%
Alternative investments	11.6%	10.4%	13.3%
Matching assets	**81.3%**	**81.7%**	**78.5%**
Core credit	17.9%	16.6%	16.0%
Global bonds	8.8%	8.8%	8.5%
Liability matching assets	53.7%	54.5%	51.8%
Other	0.9%	1.8%	2.2%

The 2023 policy differs from the strategy detailed in the SIP, which reflects the relative outperformance of growth assets and the property allocation, which is an illiquid asset class that the Trustee does not actively rebalance. Actual growth assets were correspondingly 2.4% overweight and matching assets 2.4% lower than the strategic policy targets detailed in the SIP.

The Trustee is currently reviewing its long-term strategy as part of the triennial investment strategy review and a new SIP will be prepared on conclusion of this review.

INVESTMENT PERFORMANCE

The Trustee regularly reviews the performance of the Scheme's investments, which are grouped into three core segments consistent with the overall strategy:

- **Growth assets** (defined above) are assessed by reference to benchmarks and performance targets set and agreed with each manager.
- **Matching assets** (defined above) are compared with benchmarks although the Trustee's main concern being security of cash flows and therefore growth in these assets (which is normally linked to growth in the Scheme's liabilities, or vice versa) is of less relevance.
- **AVC/ASC assets** are assessed by reference to performance against benchmarks. Members are able to access performance information for the majority of AVC & ASCs from the L&G website.

INVESTMENT PERFORMANCE (continued)

DB sections investment performance

The Scheme delivered a return of 1.8% (2022: -32.5%) net of fees in 2023 which was 0.1% below the Scheme's policy benchmark with both growth and matching assets performing as expected:

Annualised return over:	1 year	3 years	5 years
Scheme return (net of fees)	1.8%	-10.9%	-1.9%
Policy benchmark	1.9%	-10.4%	-1.4%

The net return on the Scheme investments for the year ended 31 December 2023 is set out below, with the Pooled Investment Vehicle investments being allocated in line with their underlying asset class (note 11 to the financial statements) as opposed to being shown as a single investment type. This analysis is in line with the approach adopted by the Trustee in its review of investment performance.

Asset class	Value £m	Return
Scheme total net investments*	**960.8**	**1.8%**
Growth assets	**177.6**	**4.2%**
Property	67.2	-7.8%
Alternative investments	110.4	12.4%
Matching assets	**770.1**	**1.2%**
Global bonds	83.1	1.3%
Core credit	169.3	10.4%
Liability matching assets	509.7	-1.6%
Other	8.0	-1.4%
AVC/ASC investments **	**13.1**	*

* Totals in the table above are based on mid-price valuation data as at 31 December 2023, which is used by Northern Trust to calculate the Scheme's performance. Therefore, the totals cannot be reconciled to the financial statements, which are prepared on a bid price valuation basis. In addition, certain categories of investment are presented on a different basis between the table and the financial statements, as the table has been categorised to match the performance reporting criteria.
** Asset allocation and return information for the AVC/ASC investments is shown on page 23.

AVC/ASC investments

During the year, members wishing to make AVC/ASC contributions had four "Lifecycle 2020" strategies targeting a balanced objective (incorporating a mixed annuity, drawdown and cash objective), purchasing an annuity, generating a lump sum or transferring to a drawdown arrangement on retirement.

In 2023, changes were made to the "Lifecycle 2020" strategies to provide greater focus on sustainable investing (including in relation to climate change) and inflation protection. These changes included the introduction of sustainable equity and corporate bond funds, as well as increasing exposure to inflation-linked bonds where applicable.

INVESTMENT PERFORMANCE (continued)

AVC/ASC investments (continued)

In addition, several legacy lifecycle strategies were closed in 2023 and members' AVCs and ASCs were transferred to the equivalent Lifecycle 2020 strategies.

The Scheme offers a range of Freestyle self-select investment funds for members who wish to take a more active role in the investment of their AVC and ASC savings. These funds are offered at competitive fees and comprise traditional and alternative asset classes (including sustainable and ethically focussed funds, and more illiquid investments). In 2022, a Shariah-compliant fund was also introduced to the Freestyle fund range.

The Trustee has negotiated competitive annual management charges with Legal & General Assurance Society Limited ("LGAS") in respect of all of the funds available to members for their AVC/ASC investments. The charges range from 0.04% (£0.40 per £1,000 invested) to 0.35% (£3.50 per £1,000) depending on the asset class and complexity of implementation. These charges are inclusive of additional fund expenses such as custodian fees.

INVESTMENT PERFORMANCE (continued)

AVC/ASC investments (continued)

The performance of the AVC/ASC funds included within the lifecycle strategies and the self-select range, along with the benchmarks, are set out in the following table:

Annualised return	2023		3 Years	
	Fund	B'mark	Fund	B'mark
Equities				
Global Equity 60:40 Index Fund	10.8%	10.8%	8.5%	8.5%
Global Equity 70:30 Index Fund	10.1%	10.2%	8.8%	8.7%
Global Real Estate Equity – GBP Hedged Fund	10.5%	10.8%	3.5%	3.7%
Ethical UK Equity Index Fund	8.0%	8.1%	8.6%	8.7%
Ethical Global Equity Index Fund	22.3%	22.4%	10.2%	10.3%
UK Equity Index Fund	7.7%	7.7%	8.7%	8.6%
World Emerging Markets Equity Index Fund	2.6%	2.6%	-1.3%	-1.1%
Infrastructure Equity MFG – GBP Hedged Fund	0.5%	1.0%	4.3%	4.7%
All World Equity Index Fund	20.2%	20.2%	7.4%	7.5%
World ex UK Developed Equity Index Fund	20.5%	20.6%	9.1%	9.3%
Future World Fund (started in 2021)	17.3%	17.7%	-	-
HSBC Shariah Fund *	27.2%	27.5%	-	-
Sustainable Global Equity Index Fund *	20.8%	20.4%	-	-
Sustainable Developed (ex-UK) Equity Index Fund *	21.9%	21.7%	-	-
Sustainable UK Equity Index Fund *	6.1%	6.1%	-	-
Sustainable Emerging Markets Equity Index Fund *	2.0%	2.5%	-	-
Fixed Income				
Over 15 Year Gilts Index Fund	2.1%	2.2%	-17.4%	-17.4%
Annuity Protection Index Fund	1.9%	1.9%	-14.6%	-14.5%
Pre-retirement (Annuity Target) Fund	8.1%	3.8%	-10.1%	-10.0%
Pre-retirement Inflation Linked (Annuity Target) Fund	4.9%	3.0%	-11.7%	-8.7%
Investment Grade Corporate Bond – All Stocks Index Fund	8.8%	8.8%	-4.7%	-4.7%
Emerging Market Debt Fund	8.0%	8.2%	-2.4%	-2.6%
All Stocks Index-Linked Gilts Fund	2.3%	2.3%	-11.2%	-11.2%
Money Fund (was Cash Fund)	4.7%	4.7%	2.0%	2.0%
Sustainable Corporate Bond Fund*	9.8%	9.8%	-	-
Multi Asset Strategies				
Growth Plus Fund (former Consensus)	14.3%	14.2%	6.3%	6.2%
Growth Fund	8.7%	8.9%	-0.1%	-0.3%
Growth Plus Fund	14.3%	14.2%	6.3%	6.2%

Source: LGAS, net of fees. The performance figures shown above reflect the underlying pooled fund used by the Scheme and are daily midday mid-prices.
*Funds started in Q4 2022, so limited performance returns data available.

The Trustee undertakes an annual legal review to ensure the asset security under this arrangement is acceptable relative to the security available in the wider market.

Previously members were also able to invest AVCs in the Aviva Life & Pensions UK Limited's With-Profits Fund and the Equitable Life Assurance Society's ("ELAS") With-Profits Fund. The ELAS With-Profits Fund was closed in 2020. No contributions can be made to the Aviva With-profits fund. Further information is included in note 13 to the financial statements.

INVESTMENT PERFORMANCE (continued)

Competition and Markets Authority Compliance Statement

With effect from 1 October 2022, the provisions of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 ("the Order") which imposed prohibitions and obligations on Pension Scheme Trustees, including in relation to compliance reporting, have ceased to be in force. Equivalent provisions have been brought into force, from that date, by The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022. Pension Scheme Trustees are no longer required to submit compliance statements to the CMA.

The Trustee last updated the strategic objectives of the Investment advisor in December 2021 and undertook a review of the objectives in December 2023 with formal confirmation in March 2024.

Remuneration of Investment Managers

Investment management fees for the DB section are either invoiced directly for segregated mandates or collected direct from the Fund for pooled investment vehicles. For the AVC and ASC investments, an annual management charge on each member's fund is reflected in the price of units.

EMPLOYER-RELATED INVESTMENTS

Details of employer-related investments are given in note 21 to the financial statements.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the trustee. Pension scheme regulations require, and the trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the scheme will continue as a going concern.

The trustee is also responsible for making available certain other information about the scheme in the form of an annual report.

The trustee has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The trustee is also responsible for the maintenance and integrity of the www.smartpensionsuk.co.uk website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The trustee's responsibilities in respect of contributions

The trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the scheme by or on behalf of employers and the active members of the scheme and the dates on or before which such contributions are to be paid.

The trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

DATA PROTECTION

IBM United Kingdom Pensions Trust Limited and companies processing data on its behalf will, from time to time, hold and use such personal information about members as is reasonably necessary in connection with the administration of the Scheme.

The General Data Protection Regulation ("GDPR") took effect across the EU from May 2018. The Trustee complies with all applicable data privacy laws and is fully committed to protecting the personal data of its members.

FURTHER INFORMATION

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be made to the contact listed on page 1.

APPROVAL

The Trustee's Report on pages 4 to 26 was approved by the Board of Directors of the Trustee Company and signed on its behalf by:

e-Signed by Robert Tickell
on 2024-07-25 15:48:14 GMT

Robert Tickell
Chair
Date: 25 July 2024

Report on the audit of the financial statements

Opinion

In our opinion, IBM I.T. Solutions Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 December 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included within the Annual Report and Financial Statements, which comprise: the Statement of Net Assets Available for Benefits as at 31 December 2023; the Fund Account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the scheme's ability to continue as a going concern.

Our responsibilities and the responsibilities of the trustee with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report and Financial Statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the trustee for the financial statements

As explained more fully in the statement of trustee's responsibilities, the trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework and for being satisfied that they show a true and fair view. The trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the scheme and its environment, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the scheme in accordance with the Pensions Acts 1995 and 2004 and regulations made under them, and codes of practice issued by the Pensions Regulator; and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered the direct impact of these laws and regulations on the financial statements. We evaluated incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of override of controls, by the trustee and those responsible for, or involved in, the preparation of the underlying accounting records and financial statements, and determined that the principal risks were related to posting inappropriate journals to conceal misappropriation of assets. Audit procedures performed by the engagement team included:

- Testing journal entries where we identified particular fraud risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, and significant contracts and agreements.
- Holding discussions with the trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.
- Assessing financial statement disclosures, and agreeing these to supporting evidence, for compliance with the Pensions Acts 1995 and 2004 and regulations made under them.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Use of this report

This report, including the opinion, has been prepared for and only for the trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
Date: 25 July 2024

Year ended 31 December	Note	2023 £m	2022 £m
Contributions and other income			
Employee contributions	4	**0.0**	0.0
Employer contributions	4	**0.1**	0.1
		0.1	0.1
Benefits and other payments			
Benefits paid or payable	5	**(27.0)**	(24.0)
Transfers out	6	**(2.2)**	(11.6)
Administrative expenses	7	**(1.5)**	(1.3)
		(30.7)	(36.9)
Net withdrawals from dealings with members		**(30.6)**	(36.8)
Net returns on investments			
Investment (expense) / income	8	**(4.9)**	11.5
Change in market value of investments	9	**23.6**	(483.8)
Taxation		**0.0**	(0.1)
Investment management expenses	10	**(1.5)**	(1.5)
Net returns on investments		**17.2**	(473.9)
Net (decrease) in the fund		**(13.4)**	(510.7)
Net assets at 1 January		**976.2**	1,486.9
Net assets at 31 December		**962.8**	976.2

The notes on pages 32 to 51 form part of these financial statements.

At 31 December	**Note**	**2023**	2022
		£m	£m
Investment assets			
Bonds		**619.9**	579.8
Pooled investment vehicles	11	**255.8**	284.1
Derivatives	12	**45.7**	78.4
AVC / ASC Investments	13	**13.1**	13.2
Cash	14	**33.1**	49.5
Other investment balances	14	**4.9**	4.8
		972.5	1,009.8
Investment liabilities			
Derivatives	12	**(22.7)**	(58.4)
Other investment balances	14	**(0.4)**	-
		(23.1)	(58.4)
Total net investments		**949.4**	951.4
Current Assets	17	**14.2**	25.5
Current liabilities	18	**(0.8)**	(0.7)
Net current assets		**13.4**	24.8
Total net assets available for benefits		**962.8**	976.2

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such liabilities, is dealt with in the Report on actuarial liabilities on pages 11 to 13 of the Annual Report and these financial statements should be read in conjunction with them.

These financial statements on pages 30 to 51 were approved by the Board of Directors of the Trustee Company and signed on its behalf by:

e-Signed by Robert Tickell
on 2024-07-25 15:48:23 GMT

Robert Tickell
Chair
Date: 25 July 2024

The notes on pages 32 to 51 form part of these financial statements.

1. General information

The IBM I.T. Solutions Pension Scheme (the “Scheme”) is an occupational pension scheme established in the United Kingdom as a trust under English law. The Scheme was established to provide retirement benefits to certain groups of employees within IBM United Kingdom Limited and IBM Limited Partnership (to 8 February 2019), referred to as the “Company” or “IBM”. The address of the Scheme’s registered office is Building 5000 Ground Floor, Lakeside, North Harbour, Western Road, Portsmouth, Hampshire PO6 3AU.

The Scheme is a defined benefit (“DB”) scheme which was closed to future accrual for the majority of members with effect from 6 April 2011. A number of active members remain as per the Company's direction, as detailed in the deed of amendment dated 26 August 2016.

The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment. To the Trustee's knowledge there is no reason why this registration should be prejudiced or withdrawn.

2. Basis of preparation of the financial statements

The individual financial statements of IBM I.T. Solutions Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised June 2018) ("the SORP”).

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. The policies have been applied consistently to all years presented unless otherwise stated. The financial statements have been prepared on an accruals basis of accounting.

Currency

The Scheme’s functional currency and presentation currency is pounds sterling (GBP).

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

3. **Summary of significant accounting policies** (continued)

Contributions
Normal contributions, and those paid by employees via salary sacrifice (known as "Smart*" contributions), are accounted for in the month in which they are deducted from payroll. Additional Voluntary Contributions ("AVC") and Additional Smart* Contributions ("ASC") paid by members are accounted for in the month in which they are deducted from the payroll.

Employer augmentations are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Benefits paid or payable
Pensions in payment are accounted for the period to which they relate.

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised. On-going benefits are accounted for on an accruals basis.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Scheme as appropriate.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that members' benefits receivable from the Scheme, this is shown separately within benefits.

Transfers out
Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension scheme of new employers for members who have left the Scheme.

Individual transfers are accounted for when the transfer has been agreed by both parties and the receiving scheme has accepted liability for the transfer, which is usually when paid. Group transfers, where the Trustee has agreed to accept the liability prior to the receipt, are accounted for in accordance with the agreement.

Refunds of contributions on death are accounted for on an accruals basis on the date of death of the member.

Administrative expenses
Administrative expenses are accounted for on an accruals basis.

3. **Summary of significant accounting policies** (continued)

Investment income and expenditure

- Income from any pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks are quoted ex-dividend or, in the case of unquoted instruments, when the dividend is declared.

- Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.

- Interest on cash and short-term deposits and income from other investments are accounted for on an accruals basis.

- Receipts or payments under swap contracts, representing the difference between the swapped cash flows at the fixed revaluation dates within the contract, are included in investment income. Receipts or payments upon settlement of swap contracts are included within purchases and sales in note 9.

- Investment income includes withholding taxes. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.

- Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees charged directly to the Scheme such as fees, commissions, stamp duty and other fees.

- Investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrelated changes in market value. In the case of pool investment vehicles which are accumulation funds, where income is reinvested within the fund without the issue of further units, change in market value also includes such income.

3. **Summary of significant accounting policies** (continued)

Valuation of investments

Investments are valued at their fair value at 31 December each year and are determined as follows:

- Securities traded through the Stock Exchange Electronic Trading Service (“SETS”) are valued on the basis of the bid price, where both bid and offer prices are available. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market.

- Pooled investment vehicles which are unitised, including AVCs and ASCs, are valued at the closing bid price if both bid and offer prices are published or, if single priced, at the closing single price as advised by the investment managers.

- Shares in pooled investment vehicles have been valued at the latest available net asset value (NAV) determined in accordance with fair value principles, provided by the pooled investment manager.

- Unlisted securities are valued by the investment managers, having regard to latest dealing, professional valuation, asset values and other appropriate financial information.

- Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Futures contracts’ fair value is determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. Swaps are valued at the net present value of future cash flows arising therefrom. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

- Bonds are valued “clean”, excluding interest accruing from the previous interest payment date to the valuation date.

- Currency forwards held by the Scheme under a currency overlay programme are expressed in sterling at the rates of exchange ruling at year end.

- Cash includes short term bonds and notes with maturity under one year. These items are valued "clean", excluding interest accruing from the previous interest payment date to the valuation date.

3. **Summary of significant accounting policies** (continued)

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Trustee makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

For the Scheme, the Trustee believes the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to the valuation of the Scheme investments and, in particular, those classified in Level 2 and Level 3 of the fair-value hierarchy. An explanation of the key assumptions underpinning the valuation of investments are included within the policies above and within note 15.

4. **Contributions**

	2023	2022
	£m	£m
Employee contributions		
Normal contributions[2]	**0.0**	0.0
Employer contributions		
Augmentations	**-**	-
Smart* contributions [1]	**0.1**	0.1
Additional ***Smart**** Contributions [1]	**-**	-
	0.1	0.1

[1] Employees have the option of paying their contributions (at the same rate as indicated below) by means of a salary sacrifice arrangement. These contributions, known as ***Smart**** contributions, are recorded as Employer Smart* and Employer Additional Smart* contributions ("ASC") within these financial statements.

[2] Normal employee contributions of £1.2k (2022: £2.3k) were paid during the year, as shown in the Summary of Contributions, on page 53.

Employee contributions are payable at 5% of their pensionable earnings.

Employer contributions

In accordance with the Schedule of Contribution in force at the start of the year, as signed on 22 August 2019, the Employer is not required to pay any further contributions for future service or deficit contributions until 31 December 2021.

4. **Contributions** (continued)

Employer contributions (continued)

From 1 January 2022 to 22 August 2023, if the Scheme Actuary estimates that the Scheme's funding level on a technical provisions basis is less than 101% at the start of the year, the employer shall pay quarterly contributions of £0.6 million. Contributions from 1 January 2022 to 22 August 2023 in respect of future service are payable each quarter and are due no later than the last working day of the middle of the month of the quarter. The first payment date will be 28 February 2022 and the last payment date will be 22 August 2024. No such contributions have been payable by the Company during 2023 or 2022.

In addition to the contributions shown above, additional contributions will only be required in specific circumstances, subject to confirmation by the Scheme Actuary.

A revised Schedule of Contributions was signed on 20 March 2023, setting out the employer contributions payable from 1 January 2022 to 20 March 2028. If the Scheme Actuary estimates that the Scheme's funding level on a technical provisions basis is less than 101% at the start of the year, the employer shall pay quarterly contributions in respect of future service of £0.3 million. Contributions from 1 January 2022 to 20 March 2028 in respect of future service are payable each quarter and are due no later than the last working day of the middle of the month of the quarter. The first payment date will be 28 March 2022 and the last payment date will be 20 March 2028. No such contributions have been payable by the Company during 2023.

The Schedule signed on 22 August 2019 also set out that if the total annual Pension Protection Fund (PPF) levy exceeds £500k in any year, the excess is payable by the employer unless the Trustee agrees otherwise. 2023: nil (2022: nil). This continues under the revised Schedule signed on 20 March 2023.

5. **Benefits paid or payable**

	2023	2022
	£m	£m
Pensions/allowance to dependants	**21.3**	19.6
Lump sums on retirement	**5.6**	4.3
Other benefits[2]	**0.1**	0.1
	27.0	24.0

[2] other benefits include refunds of contributions upon death, these were previously included within the analysis of note 6, transfers out. 2022 figures have been reclassified accordingly.

6. **Transfers out**

	2023	2022
	£m	£m
Individual transfers out	**2.2**	11.6
	2.2	11.6

7. Administrative expenses

	2023	2022
	£m	£m
Administrative expenses	**1.5**	1.3

The following costs are included within administrative expenses:

- £33,200 (2022: £27,300) in respect of audit fees,
- £4,800 (2022: £4,800) paid to the Member Nominated Directors, fees of £8,400 (2022: £8,400) paid to the Chair of the Trustee, and fees of £18,900 (2022: £18,638) paid to The Law Debenture Pension Trust Corporation P.L.C. in respect of their services as a Trustee Director of the Scheme.
- The remaining balance relates to payment of the PPF levy, legal fees, actuarial and consultancy fees.

All expenses listed above are initially paid by the Company and are then recharged to the Scheme. Staff are provided by IBM UK without charge.

The Pension Protection Fund levy costs totalling £39.2k (2022: £52.4k) were paid solely by the Scheme as they were below £500k as set out in the Schedule of Contributions signed on 22 August 2019.

8. Investment (expense) / income

Investment income by asset type during the year is shown inclusive of accruals and net of withholding tax.

	2023	2022
	£m	£m
Bonds	**14.1**	15.7
Derivatives – net	**(23.7)**	(7.3)
Pooled investment vehicles	**2.1**	2.2
Interest on cash deposits	**2.6**	0.9
	(4.9)	11.5

9. Reconciliation of net investments

	Opening value at 1 January 2023 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Closing value at 31 December 2023 £m
Bonds	579.8	282.1	(238.9)	(3.1)	619.9
Pooled Investment Vehicles	284.1	1.9	(35.2)	5.0	255.8
Derivatives – net	20.0	11.2	(28.6)	20.4	23.0
AVC/ASCs	13.2	0.0	(1.4)	1.3	13.1
Sub-total	897.1	295.2	(304.1)	23.6	911.8
Cash	49.5			-	33.1
Other investment balances – net	4.8			-	4.5
Total Investments	951.4			23.6	949.4

The above purchases and sales figures for bonds include transactions connected with UK Gilt Total Return Swaps. The above sales figure for pooled investment vehicles is predominantly global equities relating to the de-risking of the portfolio, with an associated increase in segregated bond holdings. Also included in the above purchase and sales figures are direct transaction costs of nil (2022: £0.2m). Indirect transaction costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

Direct transaction costs analysed by main asset class and type of cost are as follows:

	Fees £m	Commission £m	Taxes £m	2023 Total £m
Pooled Investment Vehicles	0.0	-	-	0.0
Total 2023	0.0	-	-	0.0
Total 2022	0.2	-	-	0.2

10. Investment management expenses

The amount shown as Investment management expenses (which includes investment management, custodian and performance measurement costs) represents only those fees charged directly to the Scheme. In addition, the Scheme has a number of investments in pooled investment vehicles, in which the management fees are reflected in the unit value.

11. Pooled investment vehicles

	2023	2022
	£m	£m
Bonds	**147.0**	154.6
Reinsurance	**0.7**	2.9
Multi Asset	**45.7**	52.3
Property	**62.4**	74.3
	255.8	284.1

12. Derivatives

The Scheme has direct holdings of derivative contracts (either exchange traded or over-the-counter (OTC)) for efficient portfolio management purposes through hedging liabilities and reducing inflation, interest rate, and currency risks over the longer term. The table below shows a summary of the positions as at 31 December 2023.

	2023		2022	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Derivatives				
Futures contracts (exchange traded)	**0.5**	**(0.1)**	0.1	(0.2)
Forward foreign exchange contracts (OTC)	**0.1**	**-**	-	(0.1)
Swaps (OTC)	**45.1**	**(22.6)**	78.3	(58.1)
	45.7	**(22.7)**	78.4	(58.4)
Net derivatives		**23.0**		20.0

Futures contracts (exchange traded) maybe used to generate bond like returns from cash holdings. The average length of a contract is a three-month rolling contract.

	2023 Nominal Value	**2023**		2022	
		Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m
Fixed income bonds	13.1	**0.5**	**(0.1)**	0.1	(0.2)
	13.1	**0.5**	**(0.1)**	0.1	(0.2)

12. **Derivatives** (continued)

Forward foreign currency contracts (OTC) have been bought and sold in various currencies mainly Dollars, Euros and Yen, all with less than one-year duration. The nominal value is the value subject to market movements and is the economic exposure.

	2023 Nominal Value £m	**2023 Assets £m**	**Liabilities £m**	2022 Assets £m	Liabilities £m
41 contracts (2022: 25 contracts)	82.1	**0.1**	**-**	0.0	(0.1)

Swaps (OTC) The Scheme also holds a number of derivative contracts (currently interest rate and inflation rate swaps and gilt total return swaps) which are held in a segregated portfolio managed by Cardano Risk Management B.V. with the objective of matching the interest rate and inflation sensitivity of a prescribed portion of the Scheme's liabilities. The fair value of the derivatives held with Cardano at the year-end was £23.0m (2022: £21.9m), £0.9m (2022: £0.1m) held by PIMCO and Goldman Sachs Asset Management (£1.4m) (2022: (£1.8m)).

	Notional Value £m	**2023 Assets £m**	**Liabilities £m**	2022 Assets £m	Liabilities £m
Swaps (OTC)					
Foreign interest rate swaps					
(4 contract < 10 years)	5.5	**0.4**	**-**	0.6	-
(1 contract 10-20 years)	0.2	**-**	**-**	-	-
(1 contract 20-30 years)	1.2	**0.5**	**-**	0.7	-
(1 contract 30-40 years)	0.3	**-**	**-**	-	-
UK interest rate swaps					
(13 contracts < 10 years)	131.9	**0.6**	**(19.0)**	0.5	(11.6)
(4 contracts 10-20 years)	4.5	**0.1**	**(0.3)**	2.2	(13.0)
(1 contract 20-30 years)	2.5	**0.3**	**-**	-	(0.4)
(4 contracts 30-40 years)	3.1	**0.1**	**(0.9)**	-	(1.8)
(2 contracts > 40 years)	0.9	**-**	**(0.6)**	-	(0.6)
UK inflation swaps					
(10 contracts < 10 years)	265.0	**43.1**	**-**	58.3	-
(0 contracts 10-20 years)	0	**0**	**0**	16.0	-
(1 contract 20-30 years)	1.9	**-**	**(0.1)**	-	-
UK total return swaps					
(2 contracts < 10 years)	32.1	**-**	**(1.7)**	-	(30.7)
	449.1	**45.1**	**(22.6)**	78.3	(58.1)

The Scheme holds a net collateral position of £25.0m (2022: £20.2m) for net unrealised gains on derivative positions. This collateral comprises cash and government bond securities.

13. Additional Voluntary Contributions and Additional *Smart** Contributions (AVC/ASCs)

AVC/ASC benefits are provided on a money purchase basis. In 2021, the Trustee transferred the Scheme's AVC/ASC investments and their administration to a new bundled arrangement with Legal & General Assurance Society Limited ("LGAS"). Current contributions are invested into a range of money purchase funds managed by Legal & General Investment Management Limited ("LGIM") on behalf of the Trustee. All of these funds, which are provided by LGAS, are held in unit-linked policies.

The Scheme also holds AVCs with Aviva Life & Pensions UK Limited, although these funds are not open for current contributions. Aviva Life & Pensions UK Limited are with profits arrangements and may add a final bonus when benefits are payable, or units are otherwise moved out of the FP With Profits Fund, on units held continuously for one or more years. The final bonus rate is dependent on when the units were allocated. The annual management charge is applied by a unit cancellation method. Aviva Life & Pensions UK Limited has not applied a Market Value Reduction to this type of business since 1 January 2010.

The market value of AVC/ASC was as follows:

	2023	2022
	£m	£m
Aviva Life & Pensions UK Limited	**0.7**	0.7
Legal & General:		
- Global Equity 60:40 Index Fund	**2.8**	2.9
- Global Equity 70:30 Index Fund	**3.4**	3.2
- Annuity Protection Index Fund	**0.2**	0.2
- Money Fund (was Cash Fund)	**1.1**	1.0
- Growth Plus Fund (former Consensus) *	**1.3**	1.5
- World Emerging Markets Equity Index Fund	**0.0**	0.0
- Ethical UK Equity Index Fund	**0.6**	0.6
- Over 15 Year Gilts Index Fund	**0.2**	0.3
- Pre-retirement (Annuity Target) Fund	**0.1**	0.3
- Pre-retirement Inflation Linked (Annuity Target) Fund	**0.2**	0.0
- UK Equity Index Fund	**0.1**	0.2
- World ex-UK Developed Equity Index Fund	**0.6**	0.5
- Ethical Global Equity Index Fund	**0.3**	0.2
- Investment Grade Corporate Bond – All Stocks Index Fund	**0.0**	0.0
- Growth Plus Fund *	**1.0**	0.8
- Growth Fund *	**0.2**	0.4
- All Stocks Index-Linked Gilts Fund	**0.2**	0.2
- All World Equity Index Fund	**0.1**	0.1
- Infrastructure Equity MFG – GBP Hedged Fund	**0.0**	0.1
	13.1	13.2

*Multi-asset strategies

13. **Additional Voluntary Contributions and Additional *Smart** Contributions (AVC/ASCs)** (continued)

The investment options available to members use 'white-labelled' funds, specifically created for the Trustee, managed by LGIM and HSBC Global Asset Management and provided by LGAS, within the following asset classes:

- Equities
- Fixed Income (including cash funds)
- Specialist
- ESG and ethical
- Multi asset strategies

14. **Cash & Other net investment balances**

	2023	2022
	£m	£m
Sterling	**33.2**	50.1
Foreign currencies	**(0.1)**	(0.6)
	33.1	49.5
Accrued investment income	**4.7**	4.5
Other investment balances (assets)	**0.2**	0.3
	38.0	54.3
Other investment balances (liabilities)	**(0.4)**	-
	37.6	54.3

Foreign currency cash balances in 2022 includes collateral due to broker at year end.

15. **Fair value of investments**

The fair value of investments has been determined using the following hierarchy.

Level 1
The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2
Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3
Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Pooled investment vehicles and AVC/ASC investments which are traded regularly are generally included in level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair value applies, other valuation techniques are adopted and the assets are included in level 3.

15. **Fair value of investments** (continued)

The fair value of investments as at 31 December 2023 is shown below:

Category	Level 1 £m	Level 2 £m	Level 3 £m	2023 £m
Investment assets				
Bonds	**-**	**619.9**	**-**	**619.9**
Pooled investment vehicles	**-**	**192.6**	**63.2**	**255.8**
Derivatives	**0.5**	**45.2**	**-**	**45.7**
AVC/ASCs	**-**	**12.4**	**0.7**	**13.1**
Cash	**33.1**	**-**	**-**	**33.1**
Other investment balances	**4.9**	**-**	**-**	**4.9**
	38.5	**870.1**	**63.9**	**972.5**
Investment liabilities				
Derivatives	**(0.1)**	**(22.6)**	**-**	**(22.7)**
Other investment balances	**(0.4)**	**-**	**-**	**(0.4)**
Total investments	**38.0**	**847.5**	**63.9**	**949.4**

The fair value of investments as at 31 December 2022 is shown below:

Category	Level 1 £m	Level 2 £m	Level 3 £m	2022 £m
Investment assets				
Bonds	-	579.8	-	579.8
Pooled investment vehicles	-	206.9	77.2	284.1
Derivatives	0.1	78.3	-	78.4
AVC/ASCs	-	12.5	0.7	13.2
Cash	49.5	-	-	49.5
Other investment balances	4.8	-	-	4.8
	54.4	877.5	77.9	1,009.8
Investment liabilities				
Derivatives	(0.2)	(58.2)	-	(58.4)
Total investments	54.2	819.3	77.9	951.4

16. **Investment risks disclosures**

Investment risks
FRS 102 requires the disclosure of information in relation to certain investments risks. These risks are set out below.

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk, and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all similar instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional independent adviser and will also engage with IBM Retirement Funds Europe (which is a European centre of excellence providing the IBM European pension plans with advice and support in relation to asset and risk management).

The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Investment strategy
The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

The Trustee sets the investment strategy taking into account considerations such as the strength of the Company covenant and the long-term liabilities of the Scheme. The investment strategy is set out in the Statement of Investment Principles ("SIP").

16. **Investment risks disclosures** (continued)

Investment risks (continued)

The Scheme is invested in line with the Trustee's long-term strategy, which comprises:

- An 81.7% allocation to investments that move broadly in line with the long-term liabilities of the Scheme. These are referred to as Liability Driven Investments ("LDI") and comprise UK and overseas government and corporate bonds and help mitigate the impact of interest rate and inflation rate movements on the long-term liabilities. In addition to this, the Scheme also uses derivatives such as interest rate and inflation swaps to hedge changes in the Scheme's liabilities.
- An 18.3% allocation to return seeking investments comprising a diversified multi asset growth fund, property and alternative assets.
- Approximately 0.7% of the Scheme's assets have an unhedged currency exposure. The Trustee mitigates this risk by using currency forward to hedge 100% of this unhedged Dollar, Euro and Yen currency exposure. The hedging was increased from 0% to 100% on 31 December 2023.

The Trustee also regularly reviews the Scheme's funding level and, if the funding level has materially improved, the Trustee will consider de-risking the investment strategy.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Market risk			**2023**	2022
		Currency	Interest rate	Other	**£m**	£m
Bonds	●	◒	●	○	**619.9**	579.8
Other investment balances – net	●	○	●	○	**4.5**	4.8
Derivatives – net	●	◒	●	○	**23.0**	20.0
Pooled investment vehicles	●	◒	◒	◒	**255.8**	284.1
AVC/ASCs	●	◒	◒	◒	**13.1**	13.2
Cash	●	◒	●	○	**33.1**	49.5
					949.4	951.4

In the above table, the risk noted affects the asset class [●] significantly, [◒] partially, or [○] hardly/not at all.

Further information on the Trustee’s approach to risk management, credit and market risk, is set out below. This does not include the legacy insurance policies nor ASC/AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

16. **Investment risks disclosures** (continued)

Credit risk

The Scheme is subject to credit risks because the Scheme directly invests in bonds, derivatives and holds cash balances. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk via the pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

For segregated mandates, the investment management agreements contain minimum requirements around acceptable credit ratings for investment instruments, benchmarks, counterparties, and collateral. These are primarily investment grade mandates although the managers do have some limited ability to hold high yield or sub-investment grade credit investments.

The Trustee considers bonds as investment grade if they are rated by Standard & Poor's or Fitch as ‘BBB-’ or higher or rated as ‘Baa3’ or higher by Moody's. Credit ratings for counterparties and collateral are more stringent than this. At the year end, around 99% (2022: c.99%) of bonds were investment grade.

For pooled investment vehicles the Trustee ensures it is satisfied with the legal documentation and the fund's investment parameters before funding any investment. This includes ensuring the indirect credit risks are appropriately managed, as well as understanding the manager's counterparty credit evaluation process.

Cash balances in major currencies held by Northern Trust, the Scheme's custodian, are swept daily to money market funds which carry the highest available ratings from Moody's and Standard & Poor's.

A summary of defined benefit pooled investment vehicles by legal nature of arrangement is as follows:

	2023 £m	2022 £m
Authorised unit trusts	**186.8**	204.0
Open ended investment companies	**69.0**	80.1
Total	**255.8**	284.1

Currency risk

The Scheme is subject to currency risk because some of the Scheme’s investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. Where possible and cost effective, the Trustee manages this currency risk by hedging the currency exposure at the individual mandate level or through a currency overlay strategy, which hedges 100% of the remaining Dollar, Euro and Yen exposure.

16. **Investment risks disclosures** (continued)

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme’s investments are held in bond and interest rate swaps, either as segregated investments or through pooled investment vehicles, and cash. These assets contribute to the LDI investment strategy where the Trustee has agreed to hedge 95% of the interest rate risk of the liabilities. Under this strategy, if interest rates increase, the value of the LDI investments will fall in value, as will the liabilities due to a higher discount rate.

Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which include a diversified multi asset growth fund, property, and alternative assets, which are all held in pooled investment vehicles. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

Other matters

During 2023, the markets were impacted by geo-political events, as well as economic factors. Many central banks maintained their course of interest rate hikes and whilst inflation slowed throughout the year, it remained elevated. The Trustee, in conjunction with its advisers, monitors the situation closely and determines any actions that are considered to be necessary. This includes monitoring the Scheme’s investment portfolio and the operational impact on the Scheme.

17. **Current assets**

	2023	2022
	£m	£m
Cash balances	**14.2**	25.5

18. **Current liabilities**

	2023	2022
	£m	£m
Sundry creditors	**0.8**	0.7

19. Concentration of investments

The Scheme had the following holdings of more than 5% of the total value of the net assets of the Scheme at 31 December 2023:

	2023 £m	**2023 %**	2022 £m	2022 %
IBM GSF Global Bond Fund (note 22)	**83.1**	**8.6**	82.1	8.4
Diversified Multi-Asset Growth Fund (note 22)	**45.6**	**4.7**	52.3	5.4

20. Contingent liabilities and capital commitments

Guaranteed Minimum Pension ("GMP") Equalisation

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. The Trustee is still reviewing, with its advisers, the implication of this ruling on the Scheme and the equalisation of guaranteed minimum pensions between men and women; in the context of the rules of the Scheme and the value of any liability. As soon as this review is finalised and any liability quantified, members will receive further communication and any financial impact will be considered by the Trustee.

There was a further High Court judgement, in November 2020, in relation to the equalisation of GMP benefits. This judgement focused on the GMP treatment of historic transfers out of members, an issue which had not been addressed in the 2018 ruling. Under the recent ruling, trustees are required to review historic transfer values paid from May 1990 to assess if any top up payment is required to the receiving scheme, to reflect the member's right to equalised GMP benefits. As soon as this review is finalised and any liability quantified, the financial impact will be considered by the Trustee.

In the opinion of the Trustee the Scheme had no other contingent liabilities at 31 December 2023 (2022: nil).

The Scheme had investment commitments at 31 December 2023 relating to pooled investment vehicles, in the form of uncalled capital for property funds of £3.3m (2022: £4.6m).

21. Employer related investments

The Scheme had indirect holdings in International Business Machines Corporation ordinary shares through its pooled investment vehicles which amounted to 0.00% (2022: 0.01%) of the Scheme's net assets at the year end. There were no other employer-related investments at the year-end (2022: nil).

22. Related Party Transactions

Key management personnel of the Scheme
The Trustee Directors appointed by IBM United Kingdom Holdings Limited are members or pensioners of an IBM Pensions Trust plan ("the Plans"), active 2, (2022: 2), deferred 0, (2022: 0), with the exception of Frederick Klutey, Mark Hobbert, Zoe Hughes and The Law Debenture Pension Trust Corporation P.L.C. The Member Nominated Trustee Directors are also members or pensioners of the Plans, active 1 (2022: 2), deferred 0 (2022: 0), retired 2 (2022: 1). If they or their spouse or dependants are members or pensioners of the Plans, then their pension rights are on terms normally granted to members.

Fees payable to Trustee directors are paid by the Company and recharged to the Scheme, and are disclosed in note 7, Administrative expenses. At the year-end there were no amounts owed to the Employer in respect of recharges for these services (2022: nil).

Investments
The Scheme holds investments in the IBM Global Strategy Fund (“GSF”) via two sub-funds, the Global Bond Fund ("GBF") and the Diversified Multi Asset Growth Fund ("DMAG"), which are multi-manager offerings available to the IBM pension plans worldwide. The GSF is an Irish regulated umbrella Unit Trust managed by Northern Trust Fund Services (Ireland) Limited. Representatives of the individual pension plans invested in the GSF form part of the Fund's Investment Advisory Committee ("IAC") which reviews and evaluates performance and operating costs. The IAC has no formal legal powers, with Northern Trust Fund Services (Ireland) Limited having ultimate responsibility for all investment strategy. As at 31 December 2023, the Scheme’s investment in the GBF was valued at £83.1m (2022: £82.1m), representing a 6.5% (2022:6.2%) share of the fund. The Scheme's investment in the DMAG fund was valued at £45.6m (2022: £52.3m), representing a 4.4% (2022: 4.4%) share of the fund.

IBM Pensions Trust
The Trustee has delegated overall responsibility for the day-to-day administration and management of the Scheme to IBM Pensions Trust (“PT”). Legal & General Assurance Society Limited were appointed as administrator of the DC sections of the Scheme from 6 January 2021 and XPS Pensions Group were appointed as administrator of the DB sections of the Scheme from 1 June 2021.
The Trustee has agreed with IBM United Kingdom Limited (“IBM”) that IBM will provide a number of its employees to carry out work on behalf of PT. Such employees are employed by IBM for the purpose of secondment to PT. To the extent that their duties and employment relate to PT, the salaries and related costs are recharged to the IBM Pension Plan, and no charge is made to the Scheme. There are no staff costs aside from these fees associated with this Scheme. Trustee Directors fees and expenses can be seen in note 7.

At the year-end there were no amounts due from the Scheme to the IBM Pension Plan (2022: nil) (note 17). At the year-end there was £0.3m owing to IBM in relation to administrative expenses accrued for the year (2022: £0.1m) (note 18).

Except as disclosed in the financial statements, there have been no other related party transactions which are required to be disclosed.

23. Subsequent events

There are no subsequent events to disclose.

Statement about contributions

Opinion

In our opinion, the contributions required by the schedules of contributions for the scheme year ended 31 December 2023 as reported in IBM I.T. Solutions Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the scheme actuary on 22 August 2019 and 20 March 2023.

We have examined IBM I.T. Solutions Pension Scheme's summary of contributions for the scheme year ended 31 December 2023 which is set out on the following page.

Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme under the schedules of contributions, and the timing of those payments.

Responsibilities for the statement about contributions

Responsibilities of the trustee in respect of contributions

As explained more fully in the statement of trustee's responsibilities, the scheme's trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by employers in accordance with relevant requirements.

Auditors' responsibilities in respect of the statement about contributions

It is our responsibility to provide a statement about contributions and to report our opinion to you.

Use of this report

This report, including the opinion, has been prepared for and only for the trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
Date: 25 July 2024

Trustees Summary of Contributions

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the Employer and Employee contributions payable to the Scheme under the Schedules of Contributions dated 22 August 2019 and 20 March 2023. The Scheme auditors report on contributions required by the Schedules of Contributions in their auditors' statement about contributions.

During the year ended 31 December 2023 the contributions payable to the Scheme are set out below. For the purposes of this summary, employee contributions deducted through the salary sacrifice programme are shown as employer contributions.

	Employer £000	Employee £000	**Total £000**
Contributions required by the Schedules of Contributions and as reported by the Scheme Auditors:			
Normal contributions	-	1.2	**1.2**
Smart* contributions	67.9	-	**67.9**
	67.9	1.2	**69.1**
Contributions not required by the Schedules of Contributions:			
Augmentations	25.6	-	**25.6**
Additional Smart* Contributions	17.6	-	**17.6**
Additional Voluntary Contributions	1.9	-	**1.9**
	45.1	-	**45.1**
Total (as per Fund Account)	113.0	1.2	**114.2**

This Summary of Contributions was approved by the Board of Directors of the Trustee Company and signed on its behalf by:

e-Signed by Robert Tickell
on 2024-07-25 15:48:35 GMT

Robert Tickell
Chair
Date: 25 July 2024

Actuarial certificate about the adequacy of the contributions payable towards the Scheme

Name of scheme: **IBM I.T. Solutions Pension Scheme**

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 December 2021 to continue to be met during the period for which the Schedule is in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 20 March 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

G C McLean
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited

20 March 2023

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Statement of Investment Principles

IBM I.T. Solutions Pension Scheme

November 2023

Contents

1. Introduction

1.1 IBM United Kingdom Pensions Trust Limited (the "Trustee"), as the Trustee of the IBM I.T. Solutions Pension Scheme (the "Scheme"), has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Scheme's investments. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard.

1.2 The Trustee has consulted IBM United Kingdom Holdings Limited (the "Company") as the Sponsor of the Scheme on the principles set out in this Statement and will consult the Company on any changes to it having taken prior written advice from an authorised investment consultant. The Trustee seeks to maintain a good working relationship with the Company and will discuss any proposed changes to this Statement with the Company. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.3 This Statement includes both the Defined Benefit ("DB") and the Additional Voluntary Contribution and Additional Smart Contribution ("AVC and ASC") investments of the Scheme and these are considered separately, as appropriate.

1.4 The Scheme is open to new members and remains open to future accrual.

1.5 The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Scheme's Investment Policy Implementation Document ("IPID"). This statement and the IPID are published on a public website (https://www.smartpensionsuk.co.uk/#/page/governance-documentation).

1.6 The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. The Trustee will review it at least once every three years, and without delay if there are relevant, material changes to the Scheme and/or the Company which the Trustee judges to have a bearing on the stated investment policy. The IPID will be reviewed as required and updated to reflect any amendments to the investment arrangements, and any changes will be agreed by the Trustee. Any such reviews will be based on written expert investment advice and will be in consultation with the Company.

2. Investment Management

Scheme Governance

2.1 The Trustee has appointed a professional consultant (the "Investment Consultant") to provide relevant investment advice to the Trustee. The Investment Consultant has confirmed in writing to the Trustee that it has the appropriate knowledge and experience to give the advice required by the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2.2 The Trustee also takes advice as appropriate from the Scheme Actuary and other professional advisers.

2.3 The Trustee is responsible for the investment of the Scheme's assets and retains control over the decisions on investment strategy. However, in order to ensure that investment decisions are taken by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

2.4 The Trustee has appointed a DB Investment Committee, a Defined Contribution ("DC") Investment Committee (which considers AVCs and ASCs as part of its remit), and a separate Governance Committee.

2.5 The DB and DC Investment Committees are responsible for determining and implementing investment policy.

2.6 Sub-committees may be appointed to deal with specialist issues where required, one of which being the Environmental Social and Governance ("ESG") Sub-committee who make recommendations to the Investment Committee on ESG related policies, processes and actions as outlined in sections 3 and 4.

2.7 The full responsibilities of the Investment Committees, Governance Committee and ESG Sub-committee are outlined in the Constitution and Powers document and Terms of Reference.

2.8 The Pensions Trust organisation undertakes a staff role in support of the Trustee and all committees.

2.9 The Trustee has delegated day-to-day management of the Scheme's investments to a number of investment managers. In some cases, this is via Trustee directed investments in pooled investment vehicles and insurance policies and in other cases via separate accounts in which the investment manager invests directly on behalf of the Scheme.

2.10 The AVC and ASC assets are invested in a range of funds/strategies managed by Legal & General Investment Management Limited ("Legal & General") and HSBC Global Asset Management ("HSBC") which are made available on the Legal & General Assurance Society Limited ("LGAS") investment platform.

2.11 Details of the appointments are contained in the Investment Management Agreements between the investment managers and the Trustee, or within the governing documentation of the pooled vehicles.

2.12 A custodian is appointed by the Trustee to provide safekeeping of the Scheme's assets not invested in pooled funds or insurance policies, and performs the associated administrative duties. The details of this appointment are contained in the contract between the Trustee and the custodian.

Realisation of Investments

2.13 In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

2.14 The Trustee's policy for the Scheme's DB investment strategy is that there should be sufficient secure investments in liquid or readily-realisable assets to meet short term cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Scheme's overall investment policy.

2.15 The Trustee has a cashflow policy process to ensure there are sufficient funds available to meet benefit payments and other expenses.

2.16 Members' AVC and ASC investments are traded and priced on a daily basis.

3. Environmental, Social and Corporate Governance

3.1 The Trustee believes that environmental, social, and governance ("ESG") factors, including climate change, can impact the performance of the Scheme's investments, both DB as well as AVC and ASC, over the medium to long-term. The Trustee has delegated responsibility for the selection, retention, and realisation of investments to its 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 Principles for Responsible Investment (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.

3.2 The Trustee expects its investment managers to be signatories of the PRI (where applicable) and implement these principles. The Trustee requires its investment managers to report on their commitment and how these principles have been implemented.

3.3 The Trustee takes decisions on ESG and climate-related risks in relation to the Scheme's investment arrangements having considered the recommendations of its ESG Sub-Committee.

3.4 The Trustee supports the goals of the Paris Agreement, and believes that long term sustainability issues, in particular climate risk, present risks and opportunities which increasingly require explicit consideration. Climate-related risks and opportunities are assessed using a balanced and proportionate approach. The ultimate responsibility of the Trustee is to pay members their benefits and the Trustee is trying to do this in a sustainable way. The Trustee is aware of IBM's net zero target and the Trustee aspires to set its own net zero target as the quality of data improves. In general, the Trustee believes the Plan's investments should be net zero emissions by 2050 or earlier, where applicable. The Trustee has set an interim target to reduce carbon intensity within reportable assets and monitors the Plan's investments against this target on an annual basis.

3.5 The Trustee engages with investment managers to take steps to reduce carbon exposure within the Plan's assets. The Trustee also engages with managers on climate-related risks and exposure to these risks within the Plan'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).

3.6 The Trustee does not take into account non-financial matters in the selection retention and realisation of investments.

3.7 As noted above, the Trustee does not have an active policy of taking non-financial matters into account in its investment decision making. However, the Trustee has considered and assessed member views (regarding both financial and non-financial factors) in relation to the range of lifecycles/lifestyles and self-select ('Freestyle') funds offered to members (for AVCs and ASCs).

3.8 The Trustee has made available a number of sustainable and ethical funds as detailed in the IPID.

3.9 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, with the first report due by 31 July 2023.

3.10 The Trustee is committed to reviewing this policy on an ongoing basis.

4. Voting and Engagement Disclosures

Rights Attaching to Investments (Stewardship)

4.1 The Trustee considers stewardship to be a key approach to implementing its investment beliefs and believes that well governed companies perform better over the longer term. The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Scheme's DB and AVC/ASC investments to the investment managers. Investment managers are encouraged to exercise these rights. The Trustee believes investment managers' voting activity in relation to ESG and Climate Change can make a significant contribution to reducing carbon exposure within the Scheme.

4.2 The Trustee supports the aims of the UK Stewardship Code, and its investment managers are invited to operate in accordance with the guidelines laid out in the Stewardship Code which covers matters of both voting and engagement. The investment managers are encouraged to report their adherence to The Stewardship Code using the "comply" or "explain" principle where appropriate.

4.3 The Trustee has an appointed Stewardship Manager to ensure that the Trustee's expectations for the Scheme's investment managers to be compliant with the UK Stewardship Code and the PRI are met where appropriate.

4.4 The Trustee believes in a stewardship and engagement approach rather than exclusions. Management of exposure to companies meeting the exclusion criteria of the UN Global Compact is managed at the discretion of the investment managers. The Trustee will carry out analysis on the investment managers' policies on an annual basis as part of the annual Stewardship report.

4.5 The Trustee requires its investment managers to report on corporate governance, and particularly on their voting and engagement records. Furthermore, 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 and the most significant votes, as determined by the Trustee, are disclosed on an annual basis in the Engagement Policy Implementation Statement. The Trustee defines a 'significant vote' to be one which relates to one of the Trustee's beliefs and stewardship priorities which are:

- Climate Change:
- Diversity, equity and inclusion:
- Energy Efficiency

The Trustee ensures the investment managers are aware of the Trustee's stewardship priorities and will regularly review the investment managers' voting and engagement activities in line with these priorities. Significant shareholder action other than voting should also be reported.

4.6 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 to ensure that the policies outlined in sections 3 and 4 are being met.

5. Investment Manager Arrangements

Aligning Investment Manager Appointments with the Trustee's Investment Strategy

5.1 Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics for the asset class or specific investment strategy they are selected to manage.

5.2 Where appropriate, the Trustee will seek investment advice in decisions regarding manager appointments. Such advice may consider factors such as the manager's idea generation, portfolio construction, implementation and business management, in relation to the Trustee's proposed investment.

5.3 As stated in Section 3, the Trustee has a policy of appointing investment managers who are committed to the Principles for Responsible Investment. The Trustee will consider the investment manager's implementation of ESG and climate-related considerations and, where relevant, will also consider the investment manager's policy on voting and engagement in decisions concerning manager appointments.

5.4 In respect of segregated appointments, the Trustee specifies the investment objectives and criteria in an investment manager agreement for the investment manager to be in line with the Trustee's specific investment requirements.

5.5 Where the Trustee invests in pooled investment vehicles, it accepts that it does not have the ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

5.6 The Trustee will review an appointment if the investment objective for a manager's pooled fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

5.7 Investment managers are aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, it will look to review the appointment.

Evaluating Investment Manager Performance

5.8 The Trustee receives reporting on asset class and investment manager performance on a quarterly basis and this includes performance information over 3 months, 1 year, 3 years and 5 years. Performance is measured on both an absolute return basis and a relative return basis against a suitable index used as the benchmark (where appropriate) or against an alternative performance target. Both asset class and investment manager performance is reported net of fees and transaction costs[1].

5.9 The Trustee's focus is on long term performance but, as noted above, the Trustee may review a manager's appointment at any time for a variety of reasons including for example:

- sustained periods of underperformance;
- changes in the organisation or key personnel (including the portfolio manager);
- a change in the underlying objectives of the investment manager;
- a significant change to the Investment Consultant's rating of the investment manager.

5.10 The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. In this way, the managers are incentivised to maximise investment returns in line with the investment objectives. For the Liability Hedging mandate, a fixed fee is payable. For the Currency Hedging mandate, where required, a fee is payable calculated as a percentage of the hedge.

5.11 In some cases, active managers are incentivised using a performance target. Where a performance related fee is payable, a hurdle rate structure is in place to mitigate the possibility of the Trustee paying additional fees during periods of long-term underperformance.

5.12 The Trustee reviews the investment manager fees for the AVC and ASC arrangements on an annual basis. This review includes peer group comparison where fees are compared against those paid by other schemes based on each underlying fund's region, asset class, fund management style and the size of assets under management.

Portfolio Turnover Costs

5.13 The Trustee does not currently actively monitor portfolio turnover costs for the main DB assets. As noted above, investment manager performance is evaluated net of fees and transaction costs, and where possible, performance objectives for investment managers are set on a net basis. In this way, managers are incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

5.14 The Trustee reviews the transaction costs of the AVC and ASC assets on both a quarterly and annual basis.

5.15 The Trustee will continue to monitor industry developments concerning the reporting of portfolio turnover costs and in particular the standardisation and benchmarking of cost reporting.

[1] Costs incurred as a result of buying and / or selling assets.

Manager Turnover

5.16 The Trustee is a long-term investor and does not seek to change the investment arrangements on a frequent basis. For open-ended funds there is no set duration for the manager appointments. The Trustee will therefore retain an investment manager unless:

- For the DB assets, there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- For the AVC and ASC assets, the mandate is no longer considered to be optimal nor have a place in the default investment strategy or general fund range;
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

5.17 For closed-ended funds, the Scheme is invested in a manager's fund for the lifetime of the fund. At the time of appointment, the investment managers provided an indication of the expected investment duration of their funds and have the discretion to extend the lifetime of the fund in line with the fund's governing documentation.

6. Strategic Asset Allocation

DB Investments

Objectives and Policy

6.1 The Trustee has set the following long-term investment objectives in relation to the Scheme's DB investments:

- 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.

6.2 The Trustee has agreed a target, as set out in their Climate Change-Related Disclosures Report, with the aim of reducing the level of carbon intensity within the Scheme by 20% over the next 3 years from 31 December 2022. It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) data is reportable[2].

6.3 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations in relation to the Scheme's DB investments. Reflecting these considerations, a high-level strategic asset allocation has been set by the Trustee, having consulted the Company. This is detailed in the IPID along with the rebalancing policy and full details of the investment manager structure.

Investment Strategy

6.4 When reviewing the Scheme's investment strategy, the Trustee takes into account the long-term investment and funding objectives and as a result aims to balance the level of investment risk and required expected return within the investment strategy by investing in a diverse portfolio of "growth" assets, such as equities and other return seeking assets, and "matching" assets aiming to minimise the impact of changes in interest rates and inflation on the Scheme's funding level.

6.5 The Trustee has set the following target allocations to growth and matching assets:

Asset Class	Current Strategic Target Allocation (%)
UK property	16.3
Diversified Multi-Asset Growth Fund	
Secured Finance	
Alternative credit	
Global bonds	83.7

[2] This includes scope 1 and 2 weighted average carbon intensity emissions for the following mandates: Global Bonds, Long-term UK Core Credit, Diversified Multi-Asset Growth and Alternative Credit.

Long-term UK core credit	
Liability matching assets	
Cash	
Total	**100.0**

6.6 The underlying allocations to the individual asset classes may vary over time.

6.7 The Trustee has implemented a liability hedging policy to hedge a significant amount of the interest rate and inflation risks inherent in the Scheme's liabilities.

6.8 The Trustee has also implemented a currency hedging policy to mitigate the increased risk associated with investing in overseas assets.

Risk Management

6.9 The Trustee recognises a number of risks involved in the investment of the DB assets and that the choice and allocation of investments can help to mitigate these risks:

<table>
<tr><th colspan="2">Type of Risk</th><th>Description</th><th>How is the risk monitored and managed?</th></tr>
<tr><td colspan="2">Solvency and mismatching risk</td><td>The risk that the assets of the Scheme do not fulfil the current and future obligations of the Scheme to its members. This is the combination of all other risks described below.</td><td>Managed and monitored in the ways described below for the specific risks.</td></tr>
<tr><td rowspan="4">Market risks</td><td>Interest rate and inflation risks</td><td>The risk arising from differences in the cash-flow profile of the gilts and other bonds held by the Scheme from that of the Scheme's projected benefit cash-flows due to members.</td><td rowspan="4">Managed through the chosen investment strategy controlling the exposures to specific market risk sources and through monitoring of the actual growth of the assets relative to liabilities.</td></tr>
<tr><td>Currency risk</td><td>The risk that changes in exchange rates affect the values of overseas assets compared to the Scheme's sterling liabilities.</td></tr>
<tr><td>Credit risk</td><td>The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.</td></tr>
<tr><td>Equity, property and other risks</td><td>Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.</td></tr>
</table>

Type of Risk		Description	How is the risk monitored and managed?
Demographic risks		The risk arising from uncertainty in the actual future benefits to be paid to members, for example related to member longevity.	Managed through triennial valuations to set Sponsor contributions and through rebalancing of the liability hedge.
Operational risks	Custodial risk	The risk that the custodian holding assets directly for the Scheme fails to settle trades on time, fails to provide secure safekeeping of the assets under custody or otherwise fails to discharge its obligations to the Scheme.	Managed by monitoring the custodian's activities and its creditworthiness.
	Counterparty risk	A form of credit risk in that the counterparty to a transaction (such as a derivative) could fail to meet its obligations to the Scheme.	Managed through collateral management, diversifying counterparty exposures, monitoring counterparty creditworthiness and the use of robust contracts.
	Terms of entry and valuation risk	The risk that derivative contracts are not purchased at a competitive price and that contracts are not correctly valued on an ongoing basis.	The management of this risk is delegated to the investment managers. The custodian provides independent valuations.
	Legal risk	The risk that the legal terms of contracts are not properly reviewed.	Managed by taking appropriate advice when putting in place new, or in reviewing existing, contracts.
	Day-to-day operational risks, including collateral risk	The risk that the Scheme fails to meet its contractual obligations to counterparties, such as in the provision of collateral for derivative contracts.	Day-to-day management of these risks is delegated to the investment managers or custodian. The Trustee requires managers to monitor collateral sufficiency and specifies controls within the managers' legal agreements.
Investment manager risk		The risk that the appointed investment managers underperform their objectives, fail to carry out operational tasks, fail to ensure safe-keeping of assets (in pooled funds) or breach agreed guidelines.	Managed through diversification across investment managers and by the ongoing monitoring of the performance of the investment managers.

Type of Risk	Description	How is the risk monitored and managed?
Liquidity risk	The risk that the Scheme cannot meet short term cashflow requirements or incurs excessive costs doing so. This includes liquidity requirements of the Scheme's currency and liability hedging programmes.	Managed by undertaking periodic reviews of the Scheme's liquidity requirements to ensure sufficient cash is held to limit adverse impact on investment policy.
Political and regulatory risk	The risk that the impact of political instability or intervention on financial markets causes the value of the Scheme's assets to fluctuate.	Managed through the chosen investment strategy.
Sponsor risk	The risk that the insolvency of the Sponsor impacts its ability to continue to support the Scheme and make good any current or future deficit.	Covenant reviews are undertaken at least triennially to assess the interaction between the Scheme and the Sponsor's business, the Sponsor's creditworthiness and its capacity to meet any current and potential future obligations.
Climate risk	A systemic risk that may materially affect the financial performance of investments.	The Trustee produces an annual Climate Change-related Disclosures Report in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The Trustee requests the Scheme's investment managers to provide portfolio carbon risk metrics consistent with the framework and the metrics agreed by the Trustee. As part of the triennial investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.

Additional Contributions (AVC and ASC)

Overall Aims and Objectives

6.10 The Trustee's principal mission is to help members who make AVC and ASC investments maximise their retirement outcomes with an appropriate level of investment risk, by providing an investment framework which represents value for members, considers climate related risks and opportunities where feasible, 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.

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

- Ensure that the AVC and ASC operational structure is suitable and cost effective.
- Provide members with adequate tools and timely information to enable them to make informed contribution, investment and retirement decisions.

Investment Objectives

6.12 The Trustee has the following investment objectives related to the AVC and ASC investments:

- To offer suitable default investment strategies that are appropriate for the profile of defaulting members based on their expected risk tolerances and retirement objectives and embed climate change risks and opportunities considerations in their design.
- To offer a range of self-select investment options which are appropriate for the profile of most members and offer options for sustainable investment.

Investment Policies

6.13 The Trustee recognises that the default investment strategy will not meet the needs of all members (who will have different personal preferences and retirement objectives) and as such, alternative investment options are available for members to choose from. This includes the Freestyle fund range. The Trustee's policy on investment return is to provide members with the ability to obtain a level of investment return commensurate with that achieved by the investment funds they select from the range of available offerings.

6.14 The fund range and default investment strategy are reviewed on at least a triennial basis, the last review having taken place in 2022.

6.15 Members are currently offered a range of four Lifecycle investment strategies and 28 Freestyle funds (of which four funds are closed to new member selections). The fund range is comprehensive and offers exposure to a wide range of asset classes which offer different levels of risk and return, the balance between which can be selected by the member. These include but are not limited to: developed market equities, emerging market equities, real estate, listed infrastructure, annuity target funds, money market investments, gilts and index-linked gilts. Within the fund range two multi-asset funds, the Growth and Growth Plus Funds, are available to members and provide exposure to a diversified range of asset classes (including commodities). The Trustee also makes available two ethical equity funds, a Shariah equity fund, and a range of sustainable funds as detailed in the IPID.

6.16 The Trustee notes that members' investment needs change as they progress towards retirement age, hence offering Lifecycle investment strategies which switch a member's pension savings into funds with a lower risk profile, as the member approaches their target retirement age. These Lifecycle strategies are consistent with how members can access their pension savings at retirement. The four current Lifecycle strategies are:

- 'Lifecycle to Lump Sum 2020' strategy. This is the Scheme's default investment strategy and is aimed at members targeting a lump sum cash withdrawal at retirement.

- 'Lifecycle Balanced 2020' strategy. This strategy aims to give members a 'balanced' investment strategy that incorporates a mixed annuity and drawdown target (in addition to the 25% cash target).

- 'Lifecycle to Annuity 2020' strategy. This strategy is aimed at members planning to take 25% of their savings as tax-free cash on retirement, using the remainder to buy an annuity.

- 'Lifecycle to Drawdown 2020' strategy. This strategy is aimed at members who intend to take 25% of their savings as tax-free cash on retirement, leaving the remainder invested for growth while they draw an income during retirement.

More details regarding these Lifecycle investment strategies can be found in the IPID.

6.17 The Trustee is conscious of the impact of management fees on the ultimate value of a member's pension fund. The Trustee believes that both actively and passively managed funds can add value for members and therefore has opted for a Fund Range centred around passive management, but with the ability to use active or smart beta products where it is deemed appropriate and cost effective to do so.

6.18 In determining which investment options to make available, the Trustee with advice from its Investment Consultant, has considered the investment risk associated with money purchase investments. This risk can be defined as the uncertainty over the ultimate amount of savings available on retirement. A number of factors contribute to this uncertainty, some of which (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment options made available to members. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed:

<table>
<tr><th>Type of Risk</th><th>Risk</th><th>Description</th><th>How is the risk monitored and managed?</th></tr>
<tr><td rowspan="4">Market risks</td><td>Inflation risk</td><td>The risk that the real returns (i.e. return above inflation) of the funds do not keep pace with inflation.</td><td rowspan="4">Members are able to set their own investment allocations, in line with their risk tolerances.

The Lifecycle investment strategies include an allocation to inflation-linked assets.

Non-sterling exposure from developed markets within many of the investment funds is largely hedged back to sterling to reduce the impact of currency movements.

For the multi-asset funds and lifecycle strategies available, the Trustee periodically reviews the suitability of these options taking into consideration the risks listed.

The Trustee considers these risks and the appropriate level of diversification when setting the default investment strategy.</td></tr>
<tr><td>Currency risk</td><td>The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.</td></tr>
<tr><td>Credit risk</td><td>The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.</td></tr>
<tr><td>Equity, property and other risks</td><td>Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.</td></tr>
<tr><td colspan="2">Investment manager risk</td><td>The risk that the appointed investment managers underperform its objectives, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.</td><td>The Trustee regularly reviews the appropriateness of the level of the security of assets. The Trustee undertakes ongoing monitoring of the performance of the investment managers.</td></tr>
<tr><td colspan="2">Liquidity risk</td><td>The risk that the Scheme's AVC and ASC assets cannot be realised at short notice in line with member demand.</td><td>The Scheme's AVC and ASC assets are invested in daily dealt and daily priced pooled funds.</td></tr>
</table>

Type of Risk	Description	How is the risk monitored and managed?
Pension Conversion risk	The risk that the value of a member's account does not enable the member to meet their objectives post-retirement.	The Trustee makes available a range of Lifecycle strategies for members. Lifecycle investment strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age. Members can select a Lifecycle investment strategy in accordance with their personal preferences and retirement objectives. The default investment strategy is a Lifecycle strategy. As part of the triennial default strategy review, the Trustee reviews the appropriateness of the default retirement destination based on the membership profile and experience.

Type of Risk	Description	How is the risk monitored and managed?
Climate risk	A systemic risk that may materially affect the financial performance of investments.	The Trustee produces an annual Climate Change-related Disclosures Report in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The Trustee requests the Scheme's investment managers to provide portfolio carbon risk metrics consistent with the regulations and the metrics agreed by the Trustee. Climate scenario analysis is completed on a triennial basis in conjunction with the investment strategy review. As part of the triennial default investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.

6.19 The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee considers to be financially material considerations. The Trustee believes that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.

Members' Best Interests

6.20 The Trustee will carry out regular assessments (at least triennially or following any significant change in membership) not only of the performance of the default investment strategy, but also of its design to ensure that it continues to remain appropriate for the membership profile. This is in addition to more regular performance monitoring, which is expected to take place quarterly. The Trustee strives to ensure the strategy evolves in line with the Scheme's membership characteristics in order to ensure that assets are invested in the best interests of the members.

e-Signed by Paul Butler
on 2023-11-02 09:26:14 GMT

SIGNED FOR THE TRUSTEE by P Butler, Pensions Trust Manager & Company Secretary

DATED 2023-11-02 09:26:14 GMT

November 2023

This document sets out the detailed day-to-day implementation of the investment policy of The IBM I.T. Solutions Pension Scheme ("the Scheme") as determined by the Scheme's Trustee and delegated to the Defined Benefit ("DB") and Defined Contribution ("DC") Investment Committees ("the ICs"). It should be read in conjunction with the Scheme's Statement of Investment Principles ("SIP"), which outlines the broader framework of the principles governing decisions about investment of the Scheme's assets.

Schedules

Schedule A	Current DB Investment Strategy
Schedule B	Day-to-Day Management of DB Assets
Schedule C	Additional Contributions (AVCs and ASCs)

This document is amended as necessary by the Trustee, to reflect any changes to the Scheme's investment arrangements.

November 2023

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on 2023-11-02 09:26:00 GMT

SIGNED FOR THE TRUSTEE by P Butler, Pensions Trust Manager & Company Secretary

DATED 2023-11-02 09:26:00 GMT

Schedule A

Current DB Investment Strategy

Asset Allocation Policy

The Trustee has set the asset allocation below as the target appropriate to meet the Scheme's objectives and control the investment risks identified in the SIP.

The Scheme's target investment strategy is kept under review periodically, with a full review expected alongside each triennial actuarial valuation.

Asset Class	Current Strategic Target Allocation (%)
Growth Assets	**16.3**
UK property	6.0
Diversified Multi-Asset Growth Fund	4.5
Secured Finance	3.8
Alternative credit	2.0
Matching Assets	**83.7**
Long-term UK core Credit	23.0
Global bonds	7.0
Liability matching assets	51.2
Cash	2.5
Total	**100.0**

The Scheme's actual asset allocation may differ from the target allocation primarily due to the impact of market movements and / or the time taken to implement changes or build up (or wind down) allocations to specific asset classes, for example UK property. The Trustee is comfortable with some level of divergence from the target allocation and will review such divergence from time to time to ensure that the asset allocation remains suitable for the Scheme, whilst still allowing the investment managers sufficient flexibility to seek out-performance against their benchmarks.

Rebalancing Policy

The IC will typically seek to rebalance back towards the target allocation following the rebalancing process detailed below. Where the IC decides to deviate from this policy, for example where exceptional market conditions prevail, the reasons for such deviation will be documented.

Allocation	Rebalancing Range around Target Allocation
Growth / Matching asset split	+/- 2%
Individual asset class (target allocation is greater than 50%)	+/-3%
Individual asset class (target allocation is between 10% and 50%)	+/- 2%
Individual asset class (target allocation is less than 10%)	+/- 1%

The Trustee also seeks to maintain a collateral buffer of between 3-5% for the liability matching assets which may override the rebalancing parameters.

Cashflow Management Policy

The Trustee has a cashflow management policy process, which is reviewed regularly, if action is required to source cash from the Scheme's assets to meet cashflow needs.

Currency Hedging Policy

Overseas currency exposure across all investments is assessed periodically and the Investment Committee aims to limit the overall unhedged currency exposure to a maximum of 10% of the Scheme's total assets. At present a currency overlay is not required to maintain that unhedged objective as the unhedged asset allocation is under 10%. The Trustee has agreed to maintain this approach and reassess currency exposure in advance of implementing any strategic asset allocation changes.

Liability Hedging Policy

The Trustee has agreed to target a 95% interest rate and inflation liability hedge ratio on a gilts +0.5% p.a. basis. In order to achieve this, the Trustee allows the liability hedging ("LDI") manager to use leverage to achieve the desired level of hedging in a cost-effective manner. The day-to-day monitoring of counterparty risk is delegated to the LDI manager but is subject to the limits on counterparty exposure and creditworthiness agreed between the Trustee and the LDI manager.

Schedule B

Day-to-Day Management of Assets

Details of the Scheme's current holdings, including the managers, vehicles, investment approach and benchmarks are set out in the table below.

Asset Class	Manager	Vehicle	Investment Approach	Benchmark/Index
UK Property	CBRE	Segregated	Active	MSCI/AREF UK QPFI All Balanced Funds
Reinsurance (Current holdings*)	Nephila	Pooled	Active	3mth (USD) LIBOR +3%
	Securis	Pooled	Active	
Alternative Credit	CQS	Pooled	Active	3mth (UK) LIBOR +2.5%
Diversified Multi-Asset Growth Fund	Mercer Global Investment Europe Limited	Pooled	Active	SONIA +3%
Secured Finance	24AM	Pooled	Active	SONIA +2%
Global bonds	Northern Trust	Pooled	Active	Barclays Global Aggregate Customised (20% Treasuries/40% Corporates/40% Securitised)
Long-term UK core credit	PIMCO	Segregated	Active	Bloomberg Barclays Sterling Aggregate 10+ Non-Gilt 50% / Non-Gilt (Excl. BBB) 50%
	Western	Segregated	Active	
	Goldman Sachs Asset Management	Segregated	Active	
LDI	Cardano	Segregated	Passive	Liability benchmark
Cash	Northern Trust	Segregated	Passive	SONIA
Currency overlay	Russell	Segregated	Passive	Currency overlay benchmark

* *Current holdings are derived from historic investments in Reinsurance which have resulted in trailing investments due to side pockets from previous insured catastrophes.*

The Trustee has considered and is comfortable with the guidelines and restrictions of each of the mandates in which the Scheme invests in.

Unless expressly agreed in writing by the Trustee, the investment managers of segregated assets are not permitted to borrow money (or to act as guarantors in respect of the obligations of another person) where the borrowing is liable to be repaid (or liability under a guarantee is liable to be satisfied) out of the assets of the Scheme; this does not preclude borrowing made only for the purpose of providing liquidity for the Scheme and on a temporary basis. Nor does it preclude investment in leveraged pooled funds, providing the Trustee is comfortable with the maximum leverage allowed under the strategy. Some short-term borrowing for settlement is also allowed but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

Custodian

The Trustee has appointed Northern Trust as custodian of the Scheme's segregated assets. For the Scheme's pooled fund investments, the Trustee has no direct ownership of the underlying assets within the pooled funds. The policies, proposal forms, prospectuses and related principles of operation set out the terms on which the assets are managed. The safekeeping of the assets within the pooled funds is performed on behalf of the representative investment managers by custodian banks specifically appointed to undertake this function and whose appointment is reviewed at regular intervals by the managers.

Performance Measurement

The Trustee uses the services of an independent performance measurement company (currently the Scheme's custodian) to assess the managers' performance relative to the benchmark returns. The Trustee reviews this on a regular basis along with consideration versus outperformance targets.

Schedule C

Additional Contributions (AVCs and ASCs)

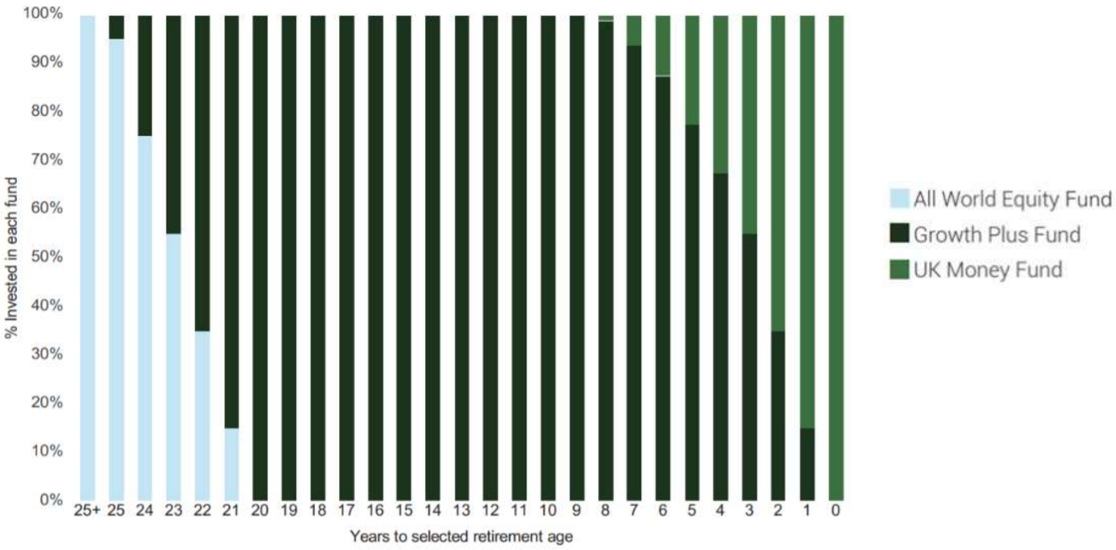
The Scheme's AVC and ASC arrangements are managed by Legal & General Investment Management Limited ("Legal & General") and HSBC Global Asset Management ("HSBC") and provided by Legal & General Assurance Society Limited ("LGAS") under a bundled[1] arrangement.

There are currently four Lifecycle investment strategies in place for members to choose from; the Lifecycle Balanced 2020, Lifecycle to Annuity 2020, Lifecycle to Drawdown 2020, or Lifecycle to Lump Sum 2020 (default investment strategy). There are also two legacy Lifecycle investment strategies. Each member's circumstances are unique and as such, how they will take their retirement benefits will differ depending on those circumstances. The legacy investment strategies are no longer open to new members. However, members close to retirement may remain invested in these strategies and can opt to increase their allocations.

There is also a range of 28 self-select Freestyle funds for members to choose from (of which four funds are closed to new member elections).

Lifecycle to Lump Sum 2020 (Default Investment Strategy)

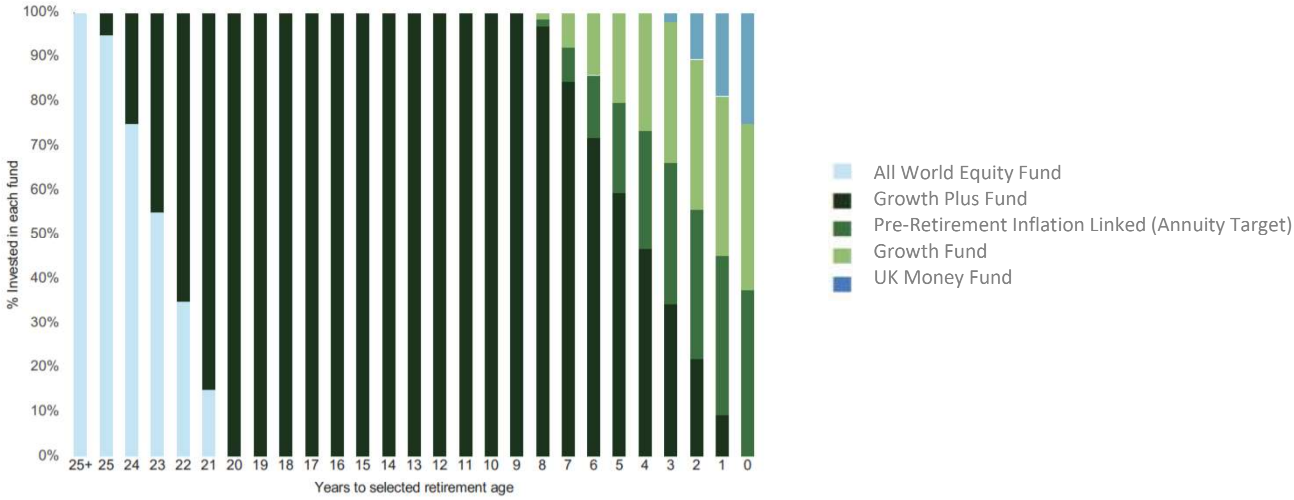
The Lifecycle to Lump Sum 2020 strategy is the default investment strategy and is designed for members who will take their benefits via cash at retirement. There is a 100% allocation to the All World Equity Index Fund until 25 years to retirement. Then between 25-20 years from retirement, funds are progressively switched to the Growth Plus Fund. At 8 years to retirement, the UK Money Fund starts to be introduced targeting a final 100% allocation to the UK Money Fund at retirement. Actual switches are undertaken on a quarterly basis.



[1] A 'bundled' arrangement denotes the combination of the administration and investment of the Plan's assets under one provider – for the Plan, the provider is LGAS.

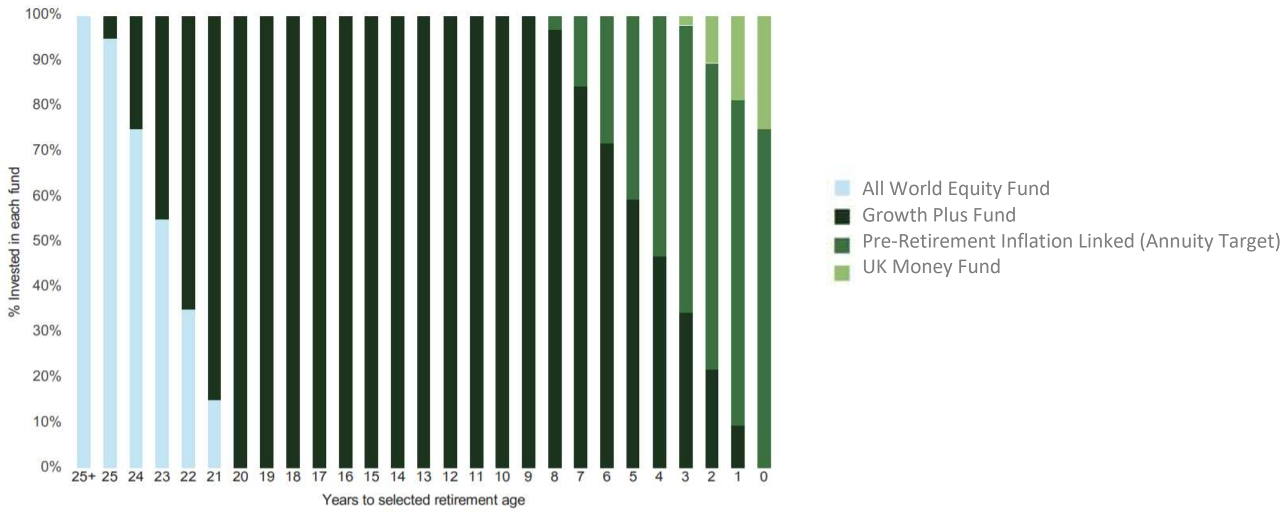
Lifecycle Balanced 2020

The Lifecycle Balanced 2020 strategy is designed to give members a 'balanced' investment strategy that incorporates a mixed annuity and drawdown target (in addition to the 25% cash target). There is a 100% allocation to the All World Equity Index Fund until 25 years to retirement. Then between 25-20 years from retirement, funds are progressively switched to the Growth Plus Fund. At 8 years to retirement, the Pre-Retirement Inflation Linked (Annuity Target) Fund and the Growth Funds are introduced. At 3 years to retirement the UK Money Fund is introduced with the final allocation being 37.5% to both the Pre-Retirement Inflation Linked (Annuity Target) Fund and Growth Fund and 25% to the UK Money Fund. Actual switches are undertaken on a quarterly basis.



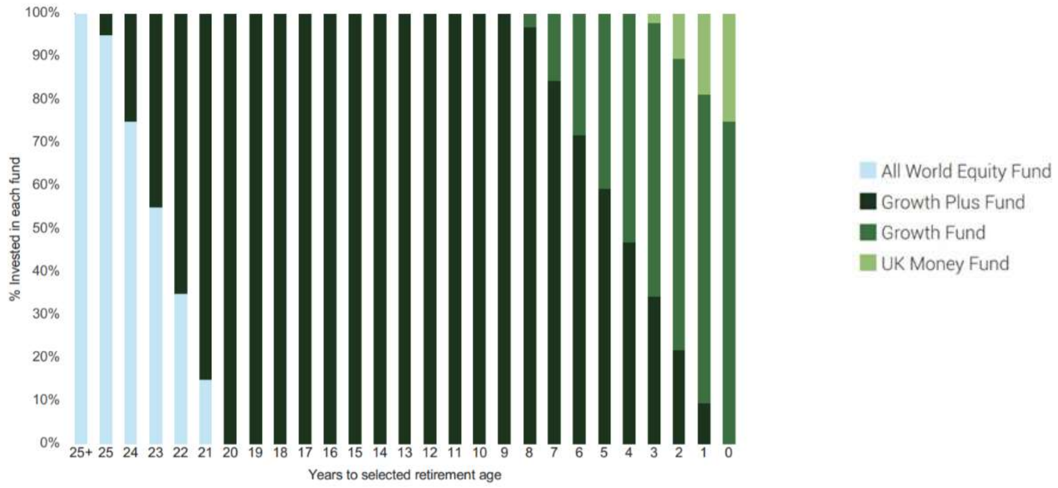
Lifecycle to Annuity 2020

The Lifecycle to Annuity 2020 strategy is designed for members who intend to take 25% of their benefits as tax-free cash and use the remainder to purchase an annuity at retirement. There is a 100% allocation to the All World Equity Index Fund until 25 years to retirement. Then between 25-20 years from retirement funds are progressively switched to the Growth Plus Fund. The Pre-Retirement Inflation Linked (Annuity Target) Fund and UK Money Fund are introduced at 8 and 3 years to retirement respectively. At retirement, there is a 75% and 25% allocation to the Pre-Retirement Inflation Linked (Annuity Target) Fund and UK Money Fund respectively. Actual switches are undertaken on a quarterly basis.



Lifecycle to Drawdown 2020

The Lifecycle to Drawdown 2020 strategy targets an allocation which aims to provide a suitable retirement position for members wishing to transfer into a flexi-access income drawdown product at retirement. There is a 100% allocation to the All World Equity Index Fund until 25 years to retirement. Then between 25-20 years from retirement funds are progressively switched to the Growth Plus Fund. At 8 and 3 years from retirement the Growth Fund and Money Fund start to be introduced, targeting final allocations of 75% and 25% respectively. Actual switches are undertaken on a quarterly basis.



Freestyle Fund Range

Some of the individual funds listed under the Freestyle Fund Range are used as building blocks for the Lifecycle investment strategies. Descriptions of the Freestyle Funds are shown below.

Manager	Fund	Description	Benchmark
LGIM	UK Equity Index	This fund invests in the shares of UK companies and aims to achieve a return that is consistent with the return of the FTSE All-Share Index.	FTSE All-Share Index
LGIM	World (ex-UK) Developed Equity Index	This fund invests in the shares of overseas companies (Europe, Japan, Far East, US and Canadian markets) according to market capitalisation weightings. It aims to achieve a return in line with the FTSE All-World Developed ex-UK index. In addition, there is a currency hedge of 50% of the fund to reduce the volatility associated with foreign exchange movements.	FTSE Developed World (ex UK) Index (50% GBP hedged)
LGIM	All World Equity	This fund invests in shares of companies across the globe (including emerging markets). The Fund aims to provide a return in line with the FTSE AW All World Index. 90% of the currency exposure to certain markets is hedged to Sterling reducing the impact of currency movements.	FTSE All-World (90% GBP hedged)

Manager	Fund	Description	Benchmark
LGIM	World Emerging Markets Equity Index	This fund aims to capture the returns of the world's emerging markets. It tracks the FTSE AW All-Emerging Markets Index. Currency exposure in the fund is not hedged.	FTSE Emerging Index
LGIM	Ethical Global Equity Index	This fund aims to capture the returns of the FTSE4Good Global Index and is aimed at investors who wish to take account of ethical, environmental or social principles. 90% of the Developed Markets currency exposure is hedged to Sterling reducing the impact of currency movements.	FTSE4Good Global Equity (90% GBP hedged)
LGIM	Ethical UK Equity Index	This fund aims to capture the returns of the FTSE4Good UK Index and is aimed at investors who wish to take account of ethical, environmental or social principles.	FTSE4Good UK Equity Index
LGIM	Future World Fund	This fund invests in a diversified range of global equities and targets better risk-adjusted returns than a traditional index strategy, through factor based investing. It also incorporates a climate 'tilt' to address the investment risks associated with climate change, and seeks to raise the standards of companies that are critical to the transition to a low-carbon economy. The fund aims to replicate the performance of the index and will ensure the fund has similar characteristics as the index whilst not necessarily holding all the constituents of the index. 90% of the Developed Markets currency exposure is hedged to Sterling reducing the impact of currency movements.	FTSE ALL-World ex CW Climate Balanced Factor Index
LGIM	Sustainable Global Equity Index Fund	This fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. The index aims to provide exposure to developed and emerging equity markets while reflecting significant Environmental, Social and Governance ("ESG") issues.	Solactive L&G ESG Global Markets Index
LGIM	Sustainable Developed (ex UK) Equity Index Fund	This fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. The index aims to provide market capitalisation weighted exposure to developed world equity markets (excluding the UK) while reflecting an awareness about significant ESG issues through exposure to four underlying alternatively weighted indices.	Solactive L&G ESG Developed ex UK Index
LGIM	Sustainable UK Equity Index Fund	This fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. The index aims to provide exposure to the UK equity market while reflecting significant ESG issues.	Solactive L&G ESG UK Index
LGIM	Sustainable Emerging Markets Equity Index Fund	This fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. The index aims to provide exposure to the emerging equity markets while reflecting significant ESG issues.	Solactive L&G ESG Emerging Markets Index

Manager	Fund	Description	Benchmark
LGIM	Global Equity Fixed Weights (60:40) Index*	This fund aims to achieve the returns consistent with a 60% allocation to the FTSE All Share Index (UK) and 40% allocation to FTSE overseas regional Indexes. Specifically, the 40% overseas allocation is divided - 14% in FTSE Developed Europe (ex-UK), 14% in FTSE World North America, 7% in FTSE Japan and 5% in FTSE World Asia Pacific (ex-Japan). Currency exposure in the fund is not hedged.	Composite of 60/40 distribution between UK and overseas
LGIM	Global Equity (70:30) Index*	This fund aims to achieve the returns consistent with a 70% allocation to the FTSE All Share Index (UK) and 30% allocation to the FTSE AW All-World (ex-UK) Index. Currency exposure in the fund is not hedged.	Composite of 70/30 distribution between UK and overseas
LGIM	Infrastructure Equity	This fund aims to provide diversified exposure to global listed infrastructure markets and to produce a return broadly comparable to the MFG Core Infrastructure Index - GBP Hedged. All of the developed market currency exposure is hedged.	MFG Core Infrastructure (100% GBP hedged)
LGIM	Global Real Estate Equity	The investment objective of the fund is to track the performance of the FTSE EPRA/NAREIT Developed Real Estate Index – GBP Hedged (less withholding tax where applicable) to within +/ 1.0% p.a. for two years out of three. All of the developed market currency exposure is hedged.	FTSE EPRA/NAREIT Developed Real Estate Index (100% GBP hedged)
HSBC	Shariah Fund	The Fund aims to achieve long-term capital appreciation by tracking a well-diversified equity index portfolio that meets Islamic investment principles, whilst minimizing associated trading costs and tracking error risk. It is a core Sharia-compliant investment strategy which aims to use a fully-replicated passive equity investment approach to track the Dow Jones Islamic Market Titans 100 Net Total Return Index.	Dow Jones Islamic Market Titans 100 Net Total Return Index
LGIM	Growth	This fund tracks a composite index consisting of global equities, global real estate securities, infrastructure equity, emerging market debt, commodities, corporate and index-linked government bonds. The Growth Fund allocation is as follows: - 25% in global equities (tracking the Solactive L&G ESG Global Markets Index) with 90% of the developed currency exposure being hedged to Sterling; - 30% in corporate bonds (tracking the Solactive L&G ESG GBP Investment Grade Corporate TR Index); - 15% in index-linked gilts; - 7.5% in emerging market debt (half of this hedged to Sterling);	Weighted composite Growth Fund benchmark (Approx. 15% unhedged currency exposure - hedge levels in line with underlying building blocks)

Manager	Fund	Description	Benchmark
		- 7.5% in global real estate securities (developed currency exposure hedged to Sterling); - 7.5% in infrastructure-related investments (developed currency exposure hedged to Sterling); and - 7.5% in commodities. The Trustee keeps the asset allocation of this fund under review.	
LGIM	Growth Plus / Growth Plus (formerly Consensus)*	This fund tracks a composite index consisting of global equities, global real estate securities, infrastructure equity, emerging market debt, commodities, corporate and government bonds. The Growth Plus/Growth Plus (formerly Consensus)* Fund allocation is as follows: - 65% in global equities (tracking the Solactive L&G ESG Global Markets Index) with 90% of the developed currency exposure hedged to Sterling. - 5% in corporate bonds (tracking the Solactive L&G ESG GBP Investment Grade Corporate TR Index) - 7.5% in emerging market debt (half of this also Sterling- hedged). - 5% in infrastructure-related investments (developed currency exposure hedged to Sterling); - 10% in global real estate securities (developed currency exposure hedged to Sterling; and - 7.5% in commodities. The Trustee keeps the asset allocation of this fund under review.	Weighted composite Growth Plus Fund benchmark (Approx. 22% unhedged currency exposure - hedge levels in line with underlying building blocks)
LGIM	Over 15 Year Gilts Index	This fund aims to capture the returns of the UK gilt market. It tracks the FTSE-A Government (Over 15 year) Index and invests in long-term gilts.	FTSE Actuaries UK Conventional Gilts Over 15 Years Index
LGIM	All Stocks Index Linked Gilts	This fund aims to capture the return of the UK index-linked gilt market. It tracks the FTSE A Government Index-Linked (All Stocks) Index and invests in both short and long-term index-linked gilts.	FTSE Index Linked
LGIM	Investment Grade Corporate Bond – All Stocks Index	This fund aims to capture the return of the iBoxx Sterling Non-Gilts Index and invests primarily in long-dated sterling-denominated investment grade corporate bonds.	Markit iBoxx £ Non-Gilts Index (All Stocks)
LGIM	Sustainable GBP Corporate Bond Index Fund	This fund maintains a diversified exposure to the GBP corporate bond markets and produce a return in line with the performance of the Solactive L&G ESG GBP Investment Grade Corporate TR Index. The index aims	Solactive L&G ESG GBP Investment Grade Corporate TR Index

Manager	Fund	Description	Benchmark
		to provide exposure to GBP corporate bond markets while reflecting significant ESG considerations.	
LGIM	Emerging Markets Debt	This fund provides exposure to the yields offered by Emerging Market Debt. The Fund is split equally between securities denominated in local currencies and securities denominated in USD with both elements tracking the JP Morgan Emerging Market Bond indices. Exposure to securities dominated in USD is hedged to Sterling.	JPM EM Global Div. 50% Local / 50% USD hedged
LGIM	Pre-Retirement (Annuity Target)	This fund aims to invest in assets that reflect the investments underlying a typical traditional non-inflation linked pension annuity. This fund is following an annuity price aware strategy and given that objective, the benchmark evolves over time as annuity price drives change. For reporting purposes benchmark comparison will be the target strategy which the Legal & General Strategic Investment & Risk Management (SIRM) team set and which the Legal & General Index Funds team manage against.	Composite of gilts and corporate bond funds
LGIM	Pre-Retirement Inflation Linked (Annuity Target)	The fund aims to provide diversified exposure to sterling assets that reflect the broad characteristics of investments underlying the pricing of a typical inflation-linked annuity product.	A composite of gilts and corporate bonds
LGIM	Annuity Protection Index*	This fund aims to reflect the way that annuities are priced which reduces the impact on your pension if your retirement is at a time of high inflation. It invests 70% in the Over 5 Year Index-Linked Gilts Index Fund and 30% in the Over 15 Year Gilts Index Fund.	Composite of 70% Index Linked Gilts > 5 yrs / 30% Gilts > 15 yrs
LGIM	UK Money	This fund is actively managed and predominantly invests in a portfolio of high quality short term money market instruments.	Sterling Overnight Index Average (SONIA)

* These Freestyle Funds are closed to new member elections. Members already invested in these funds may remain invested.

With Profits Policies (closed to future contributions)

Aviva Life & Pensions UK Limited (“Aviva”)	These funds are invested in the Companies' life funds, which may in turn be invested in a broad range of asset classes. Investment returns depend on the underlying investment performance, company specific and actuarial considerations. These policies are closed to new contributions.


IBM I.T. Solutions Pension Scheme
('the Scheme')
Engagement Policy Implementation Statement for the Year Ended 31 December 2023
July 2024

IBM I.T. Solutions Pension Scheme

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?

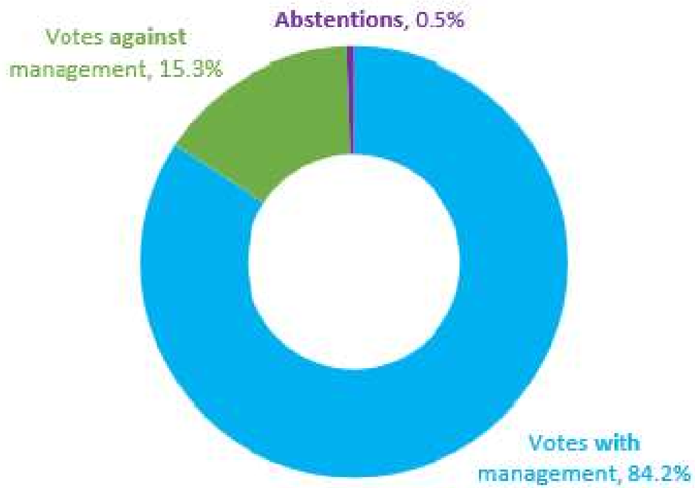
During the Scheme Year, voting and engagement summary reports from the Scheme's investment managers were provided to the Trustee and responsibility to consider these has been delegated to the ESG Sub-Committee. The Trustee does not use the direct services of a proxy voter.

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.