

Annual Implementation Statement – for Scheme year ending 31 December 2024

IBM I.T. Solutions Pension Scheme

1. Introduction

This document is the Annual Implementation Statement (“the statement”) prepared by the Trustee of the IBM I.T. Solutions Pension Scheme (“the Scheme”). The statement has been prepared under the regulatory requirements now in force (principally comprising The Pension Protection Fund (Pensionable Service) and Occupational Pension Plans (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (as amended) and the guidance published by the Pensions Regulator.

The Scheme is a DB scheme with DC Additional Voluntary Contributions (“AVCS”). Both are covered within the report. The purpose of this statement is to:

- Set out the extent to which, in the opinion of the Trustee, the Scheme’s Statement of Investment Principles (“SIP”), required under section 35 of the Pensions Act 1995, has been followed during the year
- Detail any reviews of the SIP the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review
- Describe the voting behaviour by, or on behalf of, the Trustee over the year
- Set out the extent to which, in the opinion of the Trustee, the engagement policy within the SIP has been followed during the year.

A copy of this statement has been made available on the following website:

<https://www.smartpensionsuk.co.uk/#/page/governance-documentation>

2. 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 Employer, 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.

In addition to the investment objectives as outlined above, the Trustee has agreed a climate-related target for the Scheme, as set out in the 2023 Climate Change-related Disclosures Report. A copy of this report can be found here <https://smartpensionsuk.co.uk/governance-documentation>

3. Review of, and changes to the SIP

The SIP in place during the Scheme year was formally adopted by the Trustee in November 2023. A further review of the Scheme’s SIP was conducted by the Trustee in 2025, taking formal advice from its Investment Adviser (WTW). The changes made in the SIP will be reflected in next year’s Implementation Statement. There were no updates made to the SIP in 2024.

4. Adherence to the SIP

Overall, the Trustee believes the policies and principles outlined in the SIP dated November 2023 (the SIP in place during the Scheme year) have been adhered to during the Scheme year from January 2024 to December 2024.

The rest of this section and the remaining parts of this statement set out details of how this has been achieved for the Scheme.

Investment Mandates

Securing compliance with the legal requirements about choosing investments

Policy: As required by legislation, the Trustee consults a suitably qualified person when making investment selections by obtaining written advice from its Investment Adviser. The policy is detailed in Section 2 (Scheme Governance) of the SIP.

How has this policy been met over the Scheme year?

During the Scheme year, the Trustee undertook a strategy review which aimed to ensure there is sufficient income generation to meet cashflow requirements of the Scheme and ensure there was sufficient return to make sure the Scheme was resilient to risk.

These key themes were discussed during the May 2024 Investment Committee meeting. There were no changes to the strategy in the reporting year as a result of this review.

Realisation of Investments

Policy: The Trustee's policy is that there should be sufficient liquidity within the Scheme's 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. The policy is detailed in Section 2 (Realisation of Investments) of the SIP.

How has this policy been met over the Scheme year?

Over the Scheme year, the Scheme held a diversified portfolio consisting mostly of readily realisable assets. This included maintaining sufficient liquid assets to meet both short-term and longer-term cashflow requirements. In addition, during the year the Trustee conducted a review of the collateral and the liquidity framework for the Scheme. No concerns were flagged as part of the review.

Environmental, Social and Governance ("ESG")

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

Policy: The Scheme's SIP outlines the Trustee's beliefs on ESG factors (including climate change). The Trustee does not take into account non-financial matters in the selection, retention and realisation of investments.

Further details are included in Section 3 of the SIP.

How has this policy been met over the Scheme year?

During the Scheme year, the Trustee produced the Climate Change-related Disclosures Report for the Scheme year end 31 December 2023. The report is publicly available at <https://www.smartpensionsuk.co.uk/#/page/governance-documentation>.

The Trustee has delegated responsibility for the selection, retention, and realisation of investments to 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 against criteria which include ESG considerations. ESG and the level of integration will differ across asset classes and by investment manager.

During the Scheme year, the Trustee conducted a review of its investment beliefs which included beliefs relating to sustainability. The Trustee also reviewed its stewardship priorities during the Scheme year. The Trustee concluded that the current stewardship priorities remain appropriate and as such the key stewardship priorities will continue to be Climate Change, Energy Efficiency, and Diversity, Equity & Inclusion.

A Stewardship and ESG Ratings review was carried out in November 2024, updating the Trustee on whether the underlying fund managers were signatories of the Principles for the Responsible Investment and the 2020 UK Stewardship Code. The review also included alignment with the Trustee Stewardship priorities, Climate Target / Net Zero Asset Managers initiative signatory status, monitoring of percentage of women employed in leadership roles and exposure to UN Global Compact violators. The review concluded that:

- All managers have a stewardship or engagement policy which is publicly available and are signatories of the FRC stewardship code and signatories of PRI
- Half of the managers are signatory to the Net Zero Asset Managers initiative and have a publicly available net-zero target
- All managers believe climate change risks and DE&I to be important and form part of their investment process. This aligns with the Trustee's view/ definition of significant vote
- Majority of managers now report Scope 3 emissions.

The Scheme's Investment Adviser reports any change in managers' ESG ratings to the Trustee on an ongoing basis and makes recommendations to the Trustee, as appropriate.

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

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.

The Trustee supports the aims of the Stewardship Code, and its investment managers are expected to operate in accordance with the guidelines laid out therein. The investment managers are also encouraged to report their adherence to the Stewardship Code using the "comply or explain" principle, where appropriate. It is also the Trustee's policy to obtain reporting on voting and engagement and to periodically review the reports to ensure the policies are being met.

Further details are set out in Section 5 (Rights Attaching to Investments (Stewardship)) of the SIP.

How has this policy been met over the Scheme year?

All the Scheme's investment managers within the DB section (excluding historic residual investments), are signatories to the current UK Stewardship Code.

Given the composition of the DB investment portfolio, all of the funds held fall out of the scope of the requirement to report voting data.

Monitoring the Investment Managers

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

Policy: The Trustee's policy is set out in Section 5 (Aligning Investment Manager Appointments with the Trustee's Investment Strategy) of the SIP.

How has this policy been met over the Scheme year?

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

The Trustee has specified criteria in the investment manager agreements for the managers to meet the Scheme's specific investment requirements and to have regard to the Trustee's policies set out in the SIP.

The Trustee has communicated carbon emissions targets set out within the Climate Change-related Disclosures report with the Scheme's investment managers and engaged on the approaches to ensure alignment towards the determined targets.

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

Policy: The Trustee's policy is set out in Section 5 (Evaluating Investment Manager Performance) of the SIP.

How has this policy been met over the Scheme year?

Over the year to 31 December 2024, quarterly performance reviews were held with most of the Scheme's investment managers.

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

Monitoring portfolio turnover costs

Policy: The Trustee's policy is set out in Section 5 (Portfolio Turnover Costs) of the SIP.

How has this policy been met over the Scheme year?

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

The duration of the arrangements with asset managers

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

How has this policy been met over the Scheme year?

Over the Scheme year, the Trustee undertook a review of the scheme and found no issues with any of the current managers held. The Trustee's policy is not to alter investment arrangements on a frequent basis, in line with the above.

Strategic Asset Allocation

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

DB section

Policy: The Trustee's policy on the kinds of investments to be held and the balance between different kinds of investments can be found under Objectives and Policy (Section 6.1, 6.2 and 6.3) in the SIP.

How has this policy been met over the Scheme year?

The Trustee regards the high-level distribution and balance of the assets to be appropriate for the Scheme's objectives and liability profile.

Over the year, the Trustee also undertook a review of their investment beliefs in order to develop a set of focused investment beliefs to guide strategy discussions and decision-making. In 2024, the Trustee completed a survey to formulate these beliefs, which were reviewed and discussed.

AVC Section

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

- Overall Aims and Objectives (SIP Section 6.10 – 6.11)
- Investment Objectives (SIP Section 6.12)
- Investment Policies (SIP Section 6.13 – 6.19)

How has this policy been met over the Scheme year?

AVC Section

As part of the quarterly Investment Committee meetings, the Trustee reviews the performance of the LGIM and HSBC funds within the Scheme's investment range, including the funds that form part of the Lifecycle and Lifestyle arrangements. This includes fund performance against benchmarks over both short and longer-term periods. The Trustee was satisfied that the majority of the funds over the Scheme year have performed in line with their underlying aims and objectives. On an annual basis the Trustee reviews the legacy AVC investments with Aviva as part of the annual Value for Member assessment.

Where performance is not in line with expectations, the Trustee will continue to monitor funds closely and take action if this is felt appropriate. However, changes to existing funds or new fund additions are generally made as part of a more holistic assessment within the broader context of the Scheme's aims and not just based on historic performance. WTW's investment manager research and their assessment and view on the managers' ability to achieve the performance objective of the funds are also factored in alongside wider strategy considerations. The Trustee will continue to monitor the funds' performance at the quarterly Investment Committee meetings and as part of the next triennial investment strategy review.

Strategic Asset Allocation

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

DB section

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

- Risk Management (SIP Section 6.9).

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

How has this policy been met over the Scheme year?

DB Section

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

During the Scheme year, the Trustee reviewed the investment strategy in full, which included a detailed quantitative assessment of the investment risks associated with the Scheme's assets.

The Trustee has an LDI Implementation Policy which sets out the operational and governance processes established and implemented by the Trustee, and responsibilities of each of the stakeholders involved in the management of the Scheme's LDI portfolio. This Policy was reviewed during the year.

The Trustee maintains a register of key risks, including investment risks, which is reviewed annually by the Governance Committee or more frequently if new risks are identified. 'Top' risks are also reviewed quarterly, whilst all investment risks are additionally reviewed by the Investment Committee. The register of key risks rates the impact and likelihood of the risks and identifies mitigating factors and additional actions taken.

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

AVC Section

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

- Investment Policies (SIP Section 6.18)

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

How has this policy been met over the Scheme year?

AVC Section

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

The Trustee received administration reports quarterly from the AVC administrator, LGAS, which were reviewed by the Investment Committee to ensure that core financial transactions were processed within agreed service levels and regulatory timelines.

The Trustee maintains a register of key risks, including investment risks, which is reviewed annually by the Governance Committee or more frequently if new risks are identified, whilst all investment risks are additionally reviewed by the Investment Committee. The register of key risks rates the impact and likelihood of the risks and identifies mitigating factors and additional actions taken.

5. Voting and Engagement

Voting Activity during the Scheme year

There is no voting activity as the Scheme holds no equities.