

**IBM Pension Plan**  
**Annual Report and Financial Statements**  
**Year Ended 31 December 2023**

Pension Scheme Registry Number: 10000175

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<b>Corporate Trustee</b>	IBM United Kingdom Pensions Trust Limited Building 5000 Ground Floor, Lakeside, North Harbour, Western Road, Portsmouth, Hampshire, PO6 3AU	
<b>Trustee directors</b>	<p><b>Non-member appointed:</b>  Mark Hobbart  Frederick Klutey  Naomi Hill <sup>(a)</sup>  Zoe Hughes  Christopher McBrayne <sup>(a)</sup> (resigned 31 May 2024)  The Law Debenture Pension Trust Corporation P.L.C. <sup>(c)</sup></p> <p><b>Member nominated:</b>  Robert Tickell (Chair) <sup>(b)</sup>  Ian Shore <sup>(a)</sup>  Robert Clark <sup>(b)</sup></p> <p>(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</p>	
<b>Company secretary</b>	Claire Smith Paul Butler	(appointed 10 June 2024) (resigned 10 June 2024)
<b>Administrator</b>	Legal & General Assurance Society Limited ("LGAS") (DC Sections) XPS Pensions Group ("XPS") (DB sections) IBM Pensions Trust for retained responsibilities	
<b>Actuary</b>	Graham McLean FIA, Towers Watson Limited t/a Willis Towers Watson	
<b>Independent auditors</b>	PricewaterhouseCoopers LLP	
<b>Legal advisers</b>	CMS Cameron Mckenna Nabarro Olswang LLP Sacker & Partners LLP	
<b>Investment advisers</b>	Towers Watson Limited t/a Willis Towers Watson (appointed 3 April 2024) Mercer Limited	
<b>Investment custodians</b>	The Northern Trust Company	
<b>Property valuer</b>	Knight Frank LLP	
<b>Employer covenant</b>	Cardano Advisory Limited	
<b>Bankers</b>	The Northern Trust Company Barclays Bank Plc	
<b>Sponsoring employer</b>	IBM United Kingdom Holdings Limited	

<b>Participating employers</b>	IBM United Kingdom Limited IBM United Kingdom Financial Services Limited
<b>Annuity Insurance Provider</b>	Rothesay Life Plc
<b>Investment managers</b>	
<b>Defined benefit sections</b>	
<b>Growth assets</b>	
<i>Property</i>	CBRE Global Investors Limited
<i>Private equity</i>	Advent International Corporation – until October 2023. Apax Partners Guernsey Limited – until September 2023. Arcis Capital Management Inc. – until September 2023. Ardian Private Equity – until October 2023. Bain Capital LLC - until January 2024. BC Partners – until October 2023. Berkshire Partners LLC – until October 2023. Cinven Capital Management – until October 2023. Freeman Spogli and Co – until October 2023. HarbourVest Partners LLC Hellman & Friedman LLC – until October 2023. Kohlberg Kravis Roberts & Co – until September 2023. LGT Capital Partners Ltd – until September 2023. Olympus Partners – until December 2023. Pantheon Ventures (UK) Ltd – until October 2023. Permira Advisers LLP – until September 2023. Strategic Partners Fund Solutions – until October 2023. Warburg Pincus LLC Welsh Carson Anderson & Stowe – until September 2023. Windjammer Capital Investors LLC – until October 2023.
<i>Alternative Reinsurance</i>	Nephila Capital Limited Securis Investment Partners LLP
<b>Matching assets</b>	
<i>Global credit</i>	PIMCO Europe Limited Wellington Management International Limited
<i>Global bond</i>	Northern Trust Fund Services (Ireland) Limited
<i>Core credit</i>	PIMCO Europe Limited Western Asset Management Company Limited Goldman Sachs Asset Management International
<i>Liability matching</i>	BlackRock Advisors (UK) Limited
<i>Cash</i>	Northern Trust Global Funds plc
<i>Currency overlays</i>	Russell Implementation Services Limited



**Investment managers** (continued)

**Defined contribution sections**

<i>Managed funds</i>	Legal & General Assurance (Pensions Management) Limited HSBC Global Asset Management
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<i>With profits funds</i>	Aviva Life & Pensions UK Limited
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The Trustee of IBM Pension Plan (the “Plan”) presents its annual report and financial statements for the year ended 31 December 2023.

### **PLAN CONSTITUTION**

The Plan is an occupational pension plan set up under trust to provide retirement benefits for certain groups of employees of IBM United Kingdom Limited and IBM United Kingdom Financial Services Limited (together referred to as “IBM” or the “Company”).

The Plan is currently governed by the Trust Deed and Rules dated 24 April 1997 (as amended) comprising:

- i) The 1997 Definitive Trust Deed setting out the general provisions governing the Plan as a whole;
- ii) A Deed comprising the 1997 Defined Benefit Section Rules setting out the Rules for the C, E, N, and DSL Plans and other defined benefit (“DB”) sections;
- iii) A Deed establishing the 1997 Money Purchase Section Rules (“M Plan”) setting out the Rules for the defined contribution (“DC”) sections.

The Plan has separate DB and DC sections. The DB sections comprise the following structure:

- i) ‘N Plan’ - closed to new joiners with effect from 5 July 1983;
- ii) ‘C Plan’ - closed to new joiners with effect from 5 April 1997;
- iii) ‘E Plan’ – closed to new joiners with effect from 5 July 1983;
- iv) ‘DSL Plan’ – in practice closed from its inception, being the product of a scheme merger under which a cohort of members transferred into the Plan;
- v) All the DB sections of the Plan were closed to future accrual with effect from 6 April 2011.

The DC sections comprise the following structure:

- i) ‘M Plan’;
- ii) ‘Enhanced M Plan’ - established with effect from 6 July 2006 to which members of the DB section of the Plan had a one-off option to transfer into at that time;
- iii) ‘Hybrid M Plan’ – established with effect from 6 April 2011 to provide a DC option to those members which had been excluded from the DB section of the Plan because of the closure of the DB section to future accrual.
- iv) All the DC sections of the Plan were closed to new entrants from 6 April 2011.

## **CHANGES TO THE PLAN**

There were no deed changes during 2023. On 1 July 2024, a Deed of Amendment was approved providing for discretionary increases to pre-6 April 1997 pensions in April 2025. An Interim Deed of Amendment was approved on 1 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.

## **PLAN 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 Plan. 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 Plan. MNDs shall 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 Plan to IBM Pensions Trust ("PT"). From 6 January 2021, Legal & General Assurance Society Limited ("LGAS") were appointed as administrator of the DC sections of the Plan and from 1 June 2021, XPS Pensions Group ("XPS") were appointed administrator of the DB sections of the Plan, together referred to as the Third-Party Administrators ("TPAs").

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

### **Plan management activities**

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 objective is to provide secretarial, investment and certain administrative services to the Trustee of the Plan. Ultimate responsibility for the delegated functions remains with the Trustee. All Trustee committee meetings are minuted, with decisions being passed by simple majority voting.

**PLAN MANAGEMENT** (continued)

**Plan management activities** (continued)

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

The **Governance Committee** is responsible for monitoring Plan 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 Plan members is delegated to the **Benefits Allocation Committee**. The Benefits Allocation Committee met on six occasions during the year.

The **Disputes Resolution Committee** meets as required to review complaints made by Plan 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 Plan. 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 Plan's assets, complied with the UK Stewardship Code and how well the managers integrated ESG factors into their investment process.

**PLAN MANAGEMENT** (continued)

**Plan 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 <sup>2</sup> of 4	3 of 4	-	0 of 1
Ian Shore	4 of 4	4 <sup>2</sup> of 4	2 of 2	6 of 6	1 of 1
Robert Clark	4 of 4	3 <sup>2</sup> of 3	4 of 4	6 of 6	-
Zoe Hughes	3 of 4	2 <sup>2</sup> of 2	-	5 of 6	-
Christopher McBrayne	2 of 4	3 of 4	-	-	-
The Law Debenture Pension Trust Corporation P.L.C. <sup>1</sup>	4 of 4	4 of 4	4 of 4	6 of 6	-

<sup>1</sup> Represented by Andrew Harrison (TMM, ICM) and Anna Eagles (GCM, BAC).

<sup>2</sup> Not required to attend, attended as 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 Plan together with associated control mechanisms and mitigation/recovery plans is maintained and reviewed quarterly and is approved annually by the Governance Committee.

**PLAN 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 tPR'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 Trustee's 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. Further details on Effectiveness activities can be seen on pages 93 to 95 of this Annual Report and Financial Statements.

## **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 Plan and the equalisation of guaranteed minimum pensions between men and women, in the context of the rules of the Plan 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:

	<b>DB Sections</b>	<b>DC Sections</b>	<b>Total</b>
<b>Active members brought forward</b>	-	2,663	2,663
In year adjustment	-	(2)	(2)
At the start of the year	-	2,661	2,661
Members leaving (retiring & transfers out)	-	(0)	(0)
Members deferring	-	(273)	(273)
Deaths	-	(1)	(1)
At the end of the year	-	2,387	2,387
<b>Pensioners brought forward</b>	15,471	-	15,471
In year adjustment	23	-	23
At the start of the year	15,494	-	15,494
Deferred members retiring	300	-	300
Deaths	(327)	-	(327)
Pensioners ceasing of supplement pension	(1)	-	(1)
New spouse and dependant pensions	203	-	203
Cessation of dependant pensions	(124)	-	(124)
At the end of the year	15,545	-	15,545
<b>Deferred members brought forward</b>	3,330	13,024	16,354
In year adjustment	(15)	-	(15)
At the start of the year	3,315	13,024	16,339
Active members moving to deferred	-	273	273
Deferred members retiring	(300)	(67)	(367)
Deferred members leaving / transferring out	(11)	(690)	(701)
Deaths	(10)	(16)	(26)
At the end of the year	2,994	12,524	15,518
<b>Total at the end of the year</b>	<b>18,539</b>	<b>14,911</b>	<b>33,450</b>

Included within the above are:

- 405 (2022: 487) of the deferred DB members are also active members of the DC section
- 454 (2022: 500) of the deferred DB members are also deferred members of the DC section
- Of the 15,545 pensioners, 3,005 are spouses and dependants (2022: 2,914 of 15,471)
- 123 (2022: 109 of the "cessation of dependant pensions" are due to dependant / spouse deaths
- 63 (2022: 76) of the active DC members (Enhanced or Hybrid members of the IBM Pension Plan DC Section) are also deferred members of the IBM I.T. Solutions Pension Scheme
- 521 (2022: 550) of the deferred DC members (Enhanced or Hybrid members of the IBM Pension Plan DC section) are also deferred members of the IBM I.T. Solutions Pension Scheme
- 8,385 (2022: 8,531) of the pensioners are covered by an annuity insurance policy held with Rothesay Life Plc.



### Pension increases

Pensions in payment are increased annually in accordance with the Plan rules or statutory requirements. Other than as noted below, no discretionary increases were awarded in 2023 (2022: nil). The increases applied at April 2023 were as set out below:

Section and service period:	Basis of increase	% increase 2023 / 2022
<i>C, N &amp; E Plan:</i>		
Pre 1997 non GMP *	50% of the 12 months RPI to prior January, capped at 5.0%	2.5 / 2.5
Post April 1997 and pre-April 2005	12 months CPI to prior September, capped at 5%	5.0 / 3.1
Post April 2005	12 months CPI to prior September, capped at 2.5%	2.5 / 2.5
Post 88 GMP	12 months CPI to prior September, capped at 3%	3.0 / 3.0
<i>C Plan – ICI Element</i>	12 months RPI to prior September, capped at 5%	5.0 / 4.9
<i>DSL</i>		
Pre August 2005	12 months RPI to prior December, capped at 5%	5.0 / 5.0
Post August 2005	12 months RPI to prior December, capped at 2.5%	2.5 / 2.5

*\* Increases to Pre 1997 non GMP service were previously discretionary. The Trustee agreed with the Company that this pension element will increase by 50% of the 12 months RPI to January, RPI capped at 5.0%, through to 2024. After 2024, under the current agreement, the increases revert to be discretionary. RPI = Retail price index. CPI = Consumer price index.*

### 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 Plan have the statutory right to transfer their DB benefits separately from their DC 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 are 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 Plan was carried out as at 31 December 2021. The table below sets out the Plan's liabilities/technical provisions and the market value of the Plan's assets for the current and prior Actuarial Valuations:

<b>Actuarial valuation as at 31 December:</b>	<b>2021 £m</b>	<b>2018 £m</b>
Value of technical provisions	<b>7,577</b>	7,024
Market value of assets (excluding AVCs)	<b>8,267</b>	7,671
Past service surplus	<b>690</b>	647
Funding level (assets as a percentage of technical provisions)	<b>109%</b>	109%

The value of technical provisions is based on pensionable service to the valuation date and assumptions about various factors that will influence the Plan 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 Plan 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 Plan at the valuation date.

<b>Statutory estimate of solvency as at 31 December:</b>	<b>2021 £m</b>	<b>2018 £m</b>
Estimated cost of buying insurance policies to cover liabilities	<b>8,035</b>	7,674
Market value of assets (excluding AVCs)	<b>8,267</b>	7,671
Solvency surplus / (deficit)	<b>232</b>	(3)
Solvency level (assets as a percentage of liabilities)	<b>103%</b>	100%

**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 Plan relative to its statutory funding objective since the last actuarial valuation and any subsequent actuarial reports.

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

<b>Actuarial report as at 31 December:</b>	<b>2022 £m</b>
Value of technical provisions	5,288
Market value of assets (excluding AVCs)	5,891
Past service surplus	603
Funding level (assets as a percentage of technical provisions)	111%

**Next actuarial valuation**

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

**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:

- **Long-term Discount rates** are set at 0.80% per annum margin over the Willis Towers Watson gilt yield curve for non-insured liabilities and 0.26% per annum margin over the Willis Towers Watson gilt yield curve for insured liabilities.
- **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 Plan’s rules.
- **Salary increases**, including any remuneration that a member consents to, being a non-pensionable supplement under the Plan 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 for males” with a scaling factor of 86% for male active members and male dependants; “S3 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 1.25% per annum for both males and females and initial addition of 0.25% and weighting of 10% to each of 2020/21.

## **CONTRIBUTIONS**

The contributions payable to the Plan under the Schedules of Contributions in force are detailed in note 4 to the financial statements. A new Schedule of Contributions was signed in March 2023, following the approval of the 31 December 2021 actuarial valuation. A new Schedule of Contributions was certified on 1 July 2024 and runs until 1 July 2029. It included a provision that for the period from 6 July 2024 to 5 July 2025 (inclusive) no contributions shall be paid by the Employers in respect of the rates referenced in Rules 1(3) and 1(4) of Schedule C to the Money Purchase Rules.

## **CONTINUATION OF THE PLAN**

The Company has the right to discontinue its contributions at any time and to terminate the Plan 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 Plan members receive their benefits in full should the Plan be wound up at some future date will depend on the sufficiency at that time of the Plan's net assets to provide for the accrued benefits. If the Plan goes into wind up a debt will fall due from the Participating Employers of the full buy out cost of benefits for all members of the Plan. The extent to which such debt can be paid will depend on the Participating Employers' assets at that time and the terms of any 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 plans, when there is a "qualifying insolvency event" in relation to the employer, and where there are insufficient assets in the pension plan 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.

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 plan they have paid into fails.

## **INVESTMENT MANAGEMENT**

The Trustee is responsible for setting the investment strategy and monitoring the performance of the DB sections of the Plan and is responsible for ensuring that there is a suitable range of investment options, including a default arrangement, for members of the DC sections of the Plan and for members seeking to make Additional Voluntary Contributions.

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") 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](http://www.smartpensionsuk.co.uk/#/page/governance-documentation). A hardcopy is available upon request by using the contact details [www.smartpensionsuk.co.uk/#/page/contact-us](http://www.smartpensionsuk.co.uk/#/page/contact-us).

Within the SIP, the Trustee has set out the following long-term investment objectives in relation to the DB Sections:

- The acquisition of suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with any new contributions from the Company, the cost of current benefits that the Plan provides.
- To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter-term basis.

The Trustee's principal mission within the DC Section, is to help members to maximise their retirement outcomes with an appropriate level of investment risk, by providing an appropriate investment framework which represents value for members, considering 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.

The Trustee also seeks 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 Plan's investments, both DB and DC (including the DC default investment strategies), 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.

## INVESTMENT MANAGEMENT (continued)

### 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 Plan is required to have in place effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities, and to produce a report.

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

The Plan's report for the year ended 31 December 2023 can be found at

[www.smartpensionsuk.co.uk/#/page/governance-documentation](http://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 Plan.
- **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 to identify, assess and mitigate climate change risk.
- Climate change risk can have an impact on the long-term funding objectives of the DB portfolio and outcomes for DC members.
- 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.

**INVESTMENT MANAGEMENT** (continued)

**Climate Change Governance and Reporting**

- 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 Plan'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 Plan's investment 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.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's DB and DC 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 disclosed on an annual basis in the 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.

**INVESTMENT MANAGEMENT** (continued)

The Trustee has delegated management of the investments to professional investment managers which are listed on pages 3 and 4. These managers, which are regulated by the Financial Conduct Authority in the United Kingdom (or the Trustee is satisfied that they have the appropriate skills and experience if outside of 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 Plan 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 Plan's investments, other than:

- Pooled investment vehicles where the manager makes its own arrangements for custody of the underlying investments.
- Direct property where the title deeds are held by the Plan's property legal advisers. During 2023 the Plan's remaining direct property portfolio was sold, and no direct property holdings remained as at 31 December 2023.
- Policy documents for the Rothesay Life Plc bulk annuity insurance policy, AVCs and other investments (which are in the form of insurance policies) are held by the Trustee.

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 Plan's investment managers for the year ended 31 December 2023, is set out on pages 134 to 163, and forms part of the Trustee's Report.



## INVESTMENT STRATEGY

### Defined benefit sections - Investment strategy

The Trustee's investment strategy is set out below:

- 97.5% invested in **Matching assets**, which are investments that move broadly in line with the long-term liabilities of the Plan. These are referred to as Liability Driven Investments ("LDI") and include UK, overseas government, and corporate bonds, that help mitigate the impact of interest rate and inflation rate movements on the long-term liabilities. The Plan also uses derivatives, such as interest rate and inflation swaps, to hedge changes in the Plan's liabilities.
- 2.5% invested in **Growth assets**, which are return seeking investments primarily comprising property, reinsurance and private equity investments. During 2023 property was sold and private equity was reduced to two funds. There is a small residual exposure to reinsurance where the remaining funds are gradually being released.
- The Plan's unhedged currency exposure is now just under 0.5%. 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 40% to 100% on 31 December 2023.
- Following significant de-risking during 2020, this strategy includes a bulk annuity insurance policy with Rothesay Life Plc that was purchased in December 2020 for £3,253.3m.

The investment strategy is broadly diversified and is now invested primarily in domestic and overseas bonds, index linked gilts, domestic property, private equity and the annuity insurance policy. In addition, the Trustee uses derivatives to hedge a proportion of its currency risk (an asset price risk) and interest rate and inflation rate risks (which are liability risks), which the Trustee regards as unrewarded "funding" risks.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Plan'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 Plan's DB investments at 31 December 2023, together with the Plan's actual asset allocations is shown below:

Asset class	2023 Actual	2023 Policy	2022 Actual
<b>Growth assets</b>	<b>1.9%</b>	<b>2.5%</b>	<b>12.9%</b>
Private equity and property	1.7%	2.3%	12.3%
Alternative investments	0.2%	0.2%	0.6%
<b>Matching assets</b>	<b>98.1%</b>	<b>97.5%</b>	<b>87.1%</b>
Global bonds	5.6%	5.7%	5.8%
Global credit	6.0%	5.7%	6.2%
Long-term core credit	30.3%	30.5%	23.9%
Liability matching assets	54.6%	54.1%	49.1%
Other	1.6%	1.5%	2.1%

**INVESTMENT STRATEGY (continued)**

**Defined benefit sections - Investment strategy (continued)**

The figures in the table above exclude the Rothesay Life Plc bulk annuity insurance policy exposure.

The 2023 policy differs from the policy set out in the SIP primarily due to the time taken to receive funds from the unwind or sale of illiquid growth investments. This means the actual allocation to growth assets is 1.4% higher and matching assets correspondingly lower than the respective strategic targets of 0.5% and 99.5% defined in the SIP. As proceeds are received, they will be invested in line with the Trustee's Investment Strategy detailed in the SIP.

The Trustee is continuing to review its long-term strategy on an ongoing basis.

**Defined contribution sections - Investment strategy**

The Trustee provides four "Lifecycle 2020 strategies", which target different retirement options, together with a number of self-select investment options.

During the year, the Lifecycle Balanced 2020 strategy was offered as the main default arrangement for DC members. The Lifecycle Balanced 2020 incorporates a mixed annuity and drawdown target in addition to a 25% allocation to the Money Fund.

In addition, members were offered three alternative Lifecycle investment strategies which respectively targeted annuity, cash, and drawdown retirement objectives.

These were:

- Lifecycle to Annuity 2020 strategy
- Lifecycle to Lump Sum 2020 strategy
- Lifecycle to Drawdown 2020 strategy

In 2023, changes were made to the four 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.

In addition, several legacy lifecycle/lifestyle strategies were closed in 2023 and members' pension savings were transferred to the equivalent Lifecycle 2020 strategies.

The Plan offers a range of Freestyle self-select investment funds for members who wish to take a more active role in the investment of their DC pension 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.

## **INVESTMENT STRATEGY (continued)**

### **Defined contribution sections - Investment strategy (continued)**

These assets, which are managed by Legal & General Investment Management Limited and HSBC Global Asset Management, and are provided by Legal & General Assurance Society Limited ("LGAS"), were valued at £2,647.3m (2022: £2,447.0m), including £53.7m (2022: £57.4m) related to the DB additional voluntary contributions and additional smart contributions, as at 31 December 2023.

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

## **INVESTMENT PERFORMANCE**

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

- **DB – Growth assets** (defined above) consist primarily of property and private equity investments. Property was sold down during the year and a benchmark related incentive arrangement to maximise proceeds had been agreed with the Manager. Private equity involves fixed long-term commitments, and a secondary sale was agreed by the Trustee to reduce exposure down to two funds.
- **DB - 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 Plan's liabilities, or vice versa) is of less relevance.
- **DC sections assets** are assessed by reference to performance against benchmarks. Members can access performance information from Legal & General's website.

### **Defined benefit sections - Investment performance**

The Plan return was 3.0% (2022: -25.3%) net of fees in 2023 which was 0.2% below the Plan's benchmark return with both growth and matching assets performing as expected.

Details of the Plan's annualised performance over one year, three years, and five years to 31 December 2023 are summarised in the table below. These are then compared to the Plan's policy benchmark, which is a composite of the benchmark returns for the Plan's underlying investment securities.

<b>Annualised return over:</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
<b>Plan return excluding AVC/ASCs (net of fees) *</b>	<b>3.0%</b>	<b>-8.1%</b>	<b>-1.2%</b>
<i>Policy benchmark return</i>	<i>3.2%</i>	<i>-8.1%</i>	<i>-1.2%</i>

**INVESTMENT PERFORMANCE** (continued)

**Defined benefit sections - Investment performance** (continued)

\*The Rothesay Life Plc bulk annuity insurance policy which was purchased in December 2020 is excluded from these returns as the asset value, in effect, matches the liability position.

The net return on the Plan's investments for the year ended 31 December 2023 is set out below. The Pooled Investment Vehicle investments have been allocated in line with their underlying asset class (note 12 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 asset performance.

<b>Asset class</b>	<b>2023 Value £m</b>	<b>Return</b>
<b>Total net investments of the Plan *</b>	<b>3,674.9</b>	<b>3.0%</b>
<b>Growth assets</b>	<b>67.9</b>	<b>-21.5%</b>
Private equity and property	61.3	-22.5%
Alternative investments	6.6	-2.1%
<b>Matching assets</b>	<b>3,547.9</b>	<b>4.9%</b>
Global bonds	202.6	3.3%
Global credit	217.3	8.4%
Long-term core credit	1,096.6	10.3%
Liability matching assets**	1,971.8	2.1%
Other	59.6	1.4%
<b>AVC/ASC investments ***</b>	<b>59.1</b>	<b>**</b>

\* The 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 Plan's performance. Therefore the totals cannot be reconciled to the financial statements, which are prepared on a bid price valuation basis for defined benefit assets. 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.

\*\* The liability matching assets excludes the Rothesay Life Plc bulk insurance annuity policy which was purchased in December 2020 and was valued at £2,190m on 31 December 2023. The performance return is also excluded; its value will fluctuate in line with the value of the liabilities payable under the policy.

\*\*\* The additional voluntary contributions and additional smart contributions made by members of the DB sections of the Plan are invested in the same suite of investment options available to members of the DC sections of the Plan. Accordingly, information about the investment options and investment performance is included within the *DC sections investment performance* analysis on pages 24.

**INVESTMENT PERFORMANCE** (continued)

**Defined contribution sections - Investment performance**

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

Annualised return	2023		3 Years	
	Fund	B'mark	Fund	B'mark
<b>Equities</b>				
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%	-	-
<b>Fixed Income</b>				
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%	-	-
<b>Multi Asset Strategies</b>				
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 Plan and are daily midday mid-prices.

\*Funds started in Q4 2022 so limited performance returns data available.

The Trustee has negotiated competitive annual management charges with LGAS in respect of all the funds available to members for their DC investments. The charges range from 0.04% (£0.40 per £1,000 invested) to 0.35% (£3.50 per £1,000) depending on asset class and complexity of implementation. These costs are inclusive of additional fund operating costs such as custodian costs.

**INVESTMENT PERFORMANCE** (continued)

**Defined contribution sections - Investment performance** (continued)

Previously, members were also able to invest additional voluntary contributions 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. AVCs are now invested in the funds managed by LGAS.

Further information is included in note 16 to the financial statements.

**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 pooled fund for pooled investment vehicles. For the DC section funds, 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 22 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 plan during the plan year and of the amount and disposition at the end of the plan year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the plan 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 plan will continue as a going concern.

The trustee is also responsible for making available certain other information about the plan 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 plan 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](http://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 plan by or on behalf of employers and the active members of the plan 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 plan and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the plan 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 plan.

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 Plan 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 5 to 27 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 15:43:46 GMT

**Robert Tickell**  
Chair

Date: 25 July 2024



## Report on the audit of the financial statements

### Opinion

In our opinion, IBM Pension Plan's financial statements:

- show a true and fair view of the financial transactions of the plan 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 plan 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to, or in respect of, the plan.

We have provided no non-audit services to the plan in the period under audit.

### 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 plan'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 plan's ability to continue as a going concern.

**Independent Auditors' Report to the Trustee of IBM Pension Plan**

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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 plan'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 plan, 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.

**Independent Auditors' Report to the Trustee of IBM Pension Plan**

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Based on our understanding of the plan and its environment, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the plan 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](http://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**

Chartered Accountants and Statutory Auditors

Manchester

Date: 25 July 2024

Year ended 31 December	Note	2023			2022		
		DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
<b>Contributions and other income</b>							
Employee contributions	4	-	0.7	0.7	-	0.7	0.7
Employer contributions	4	1.8	47.8	49.6	1.9	48.7	50.6
Transfers in		0.0	0.4	0.4	-	3.2	3.2
		1.8	48.9	50.7	1.9	52.6	54.5
<b>Benefits and other payments</b>							
Benefits paid or payable	5	(328.1)	(33.5)	(361.6)	(318.3)	(31.9)	(350.2)
Transfers out	6	(15.5)	(104.1)	(119.6)	(37.2)	(112.1)	(149.3)
Administrative expenses	7	(5.1)	-	(5.1)	(5.4)	-	(5.4)
		(348.7)	(137.6)	(486.3)	(360.9)	(144.0)	(504.9)
<b>Net withdrawals from dealings with members</b>		(346.9)	(88.7)	(435.6)	(359.0)	(91.4)	(450.4)
<b>Net returns on investments</b>							
Investment income	8	262.5	-	262.5	258.5	-	258.5
Change in market value of investments	9	(1.9)	297.9	296.0	(2,207.0)	(335.4)	(2,542.4)
Investment management expenses	10	(7.5)	-	(7.5)	(6.6)	-	(6.6)
Taxation	11	0.0	-	0.0	0.0	-	0.0
		253.1	297.9	551.0	(1,955.1)	(335.4)	(2,290.5)
<b>Net increase / (decrease) in the fund</b>		(93.8)	209.2	115.4	(2,314.1)	(426.8)	(2,740.9)
Net assets at 1 January		5,954.2	2,390.0	8,344.2	8,266.3	2,818.8	11,085.1
Transfers between sections	25	5.1	(5.1)	-	2.0	(2.0)	-
<b>Net assets at 31 December</b>		5,865.5	2,594.1	8,459.6	5,954.2	2,390.0	8,344.2

## Statement of Net Assets Available for Benefits

At 31 December	Note	2023			2022		
		DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
<b>Investment assets</b>							
Bonds		3,044.9	-	3,044.9	2,756.2	-	2,756.2
Pooled investment vehicles	12	232.9	2,142.4	2,375.3	567.6	1,978.1	2,545.7
Property	13	-	-	-	117.9	-	117.9
Derivatives	14	82.4	-	82.4	146.7	-	146.7
Insurance policies	15	2,190.0	-	2,190.0	2,210.0	-	2,210.0
AVC / ASC investments	16	59.1	451.7	510.8	63.3	411.9	475.2
Cash	17	182.4	-	182.4	71.6	-	71.6
Other investment balances	17	27.7	-	27.7	24.2	-	24.2
		5,819.4	2,594.1	8,413.5	5,957.5	2,390.0	8,347.5
<b>Investment liabilities</b>							
Derivatives	14	(13.0)	-	(13.0)	(82.0)	-	(82.0)
Other investment balances	17	(10.4)	-	(10.4)	(0.7)	-	(0.7)
		(23.4)	-	(23.4)	(82.7)	-	(82.7)
<b>Total net investments</b>		<b>5,796.0</b>	<b>2,594.1</b>	<b>8,390.1</b>	<b>5,874.8</b>	<b>2,390.0</b>	<b>8,264.8</b>
Current assets	23	80.0	-	80.0	93.4	-	93.4
Current liabilities	24	(10.5)	-	(10.5)	(14.0)	-	(14.0)
<b>Net current assets</b>		<b>69.5</b>	<b>-</b>	<b>69.5</b>	<b>79.4</b>	<b>-</b>	<b>79.4</b>
<b>Total net assets available for benefits</b>		<b>5,865.5</b>	<b>2,594.1</b>	<b>8,459.6</b>	<b>5,954.2</b>	<b>2,390.0</b>	<b>8,344.2</b>

The financial statements summarise the transactions and net assets of the Plan. Liabilities to pay pensions and other benefits which are expected to become payable after the end of the Plan year are not dealt with in the financial statements. The actuarial position of the DB sections of the Plan, which does take account of such liabilities, is dealt within the Report on actuarial liabilities on pages 13 and 14 of the Annual Report and these financial statements should be read in conjunction with them.

These financial statements on pages 31 to 63 were approved by the Board of Directors of the Trustee Company and were signed on its behalf by:

e-Signed by Robert Tickell  
on 2024-07-25 15:42:48 GMT

**Robert Tickell**  
Chair

Date: 25 July 2024

The notes on pages 33 to 63 form part of these financial statements.

**1. General information**

The IBM Pension Plan (the “Plan”) is an occupational pension scheme established in the United Kingdom as a trust under English law. The Plan was established to provide retirement benefits to certain groups of employees within IBM United Kingdom Limited and IBM United Kingdom Financial Services Limited. The address of the Plan’s registered office is Building 5000 Ground Floor, Lakeside, North Harbour, Western Road, Portsmouth, Hampshire PO6 3AU.

The Plan has defined benefit (“DB”) sections which were closed to future accrual with effect from 6 April 2011, and defined contribution (“DC”) sections which were closed to new entrants with effect from 6 April 2011 but remains open to future contributions from existing members of the DC sections and those DB members who elected to join the DC section following the closure of the DB sections to future accrual.

The Plan 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, income and capital gains earned by the Plan 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 Pension Plan 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 Plan’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**

In the defined contributions sections, normal employer 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 payroll.

In the defined benefit sections, normal contributions to cover the cost of ill-health and death-in-service pension benefits for active members of the DC sections are accounted for in accordance with the agreement under which they are paid, or when received if earlier.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid. 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 in 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 Plan 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 those members benefits receivable from the Plan, 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 Plan.

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.

**Administrative expenses**

Administrative expenses are accounted for on an accruals basis.

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

**Investment income and expenditure**

- Income from equities and 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.
- Rental income is accounted for as earned under the terms of the lease.
- Receipts or payments under swap contracts, representing the difference between the swapped cash flows at the fixed revaluation dates, 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 taxation.
- Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees charged directly to the Plan 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.
- Income received in respect of the Insurance (annuity) policy is shown in investment income and is accounted for on an accruals basis.
- 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 unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units change in market value also includes such income.

**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.



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

**Valuation of investments (continued)**

- 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 Plan under a currency overlay programme are expressed in sterling at the rates of exchange ruling at year end.
- Unlisted equities, comprising private equity investment, are valued at the Plan's share of the audited net assets at the Plan year end. Any investments that are unaudited at the Plan year end are valued at a price advised by the investment manager.
- Freehold and leasehold property is stated at open market value at the year end, as estimated annually (using the Royal Institution of Chartered Surveyors Valuation Standards) by the Trustee on the basis of professional advice from Knight Frank LLP, Chartered Surveyors. No depreciation is provided on freehold buildings or long leasehold properties.
- Cash includes short term bonds and notes with maturity under one year. These are valued "clean", excluding interest accruing from the previous interest payment date to the valuation date.
- Annuity (insurance) policies are valued by the Plan Actuary at the amount of the related obligation, determined using the most recent Plan funding valuation assumptions updated for market conditions at the reporting date.

**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.

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

**Critical accounting judgements and estimation uncertainty (continued)**

For the Plan, 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 Plan 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 19.

**4. Contributions**

	2023			2022		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
<b>Employee contributions:</b>						
Additional voluntary contributions	-	0.7	0.7	-	0.7	0.7
<b>Employer contributions:</b>						
Normal contributions <sup>1</sup>	-	24.2	24.2	-	25.6	25.6
Augmentations	-	0.8	0.8	-	-	-
Smart* contributions <sup>1</sup>	-	10.9	10.9	-	11.4	11.4
Additional Smart* contributions	-	11.9	11.9	-	11.7	11.7
Other – administrative expenses	1.8	-	1.8	1.8	-	1.8
PPF Levy	0.0	-	0.0	0.1	-	0.1
	1.8	47.8	49.6	1.9	48.7	50.6
<b>Total</b>	<b>1.8</b>	<b>48.5</b>	<b>50.3</b>	<b>1.9</b>	<b>49.4</b>	<b>51.3</b>

<sup>1</sup> includes £4.5m (2022: £4.0m) in respect of additional 1% or 2% matched contributions paid by the Employer and Employees respectively.

**Employee contributions**

Employee contributions to the DB section of the Plan ceased following the closure of the Plan to future accrual in April 2011.

Employee contributions to the DC section of the Plan are 3% of pensionable earnings for the M Plan, Hybrid M Plan (ex DB), and Enhanced M Plan (ex DB) sections. In addition, members of the DC section, excluding Enhanced M Plan members, including those members which elected to join the DC section in April 2011 following the closure of the DB section to future accrual, have the option to elect to pay an additional 1% or 2%, with the employer matching the contribution elected by the employee.

Members have the option of paying their contributions by means of a salary sacrifice arrangement known as "Smart\* Pensions". Such contributions are recorded as Employers' contributions in the above note.

**4. Contributions (continued)**

**Employer contributions**

Employer contributions to the DB section of the Plan are paid in accordance with the Schedule of Contributions agreed between the Trustee and the Employers.

The Schedule of Contributions in force at the start of the year was signed on 22 August 2019. This Schedule set out that Employer contributions will only be required in specific circumstances, subject to confirmation by the Plan Actuary. As such, no deficit contributions were due under the Schedule in force during the year.

The rates of employer contributions for the DC section of the Plan are set out in the following table:

M Plan	8% of pensionable earnings
Hybrid M Plan (ex DB)	8% of pensionable earnings
Enhanced M Plan (ex DB)	% of pensionable earnings payable in respect of former members of the DB pensions schemes as shown in the table below:

Member's age:	Former members within these DB pension schemes			
	IBM I.T. Solutions	N	C	DSL
18-34	8%	8%	8%	8%
35-39	10%	11%	11%	10%
40-44	12%	14%	14%	12%
45-49	15%	17%	17%	15%
50-54	18%	20%	20%	18%
55-59	18%	20%	20%	18%
60 and over	8%	20%	20%	18%
63 and over	8%	20%	8%	18%
65 and over	8%	8%	8%	8%

The employer is also required to pay £450,000 per quarter in respect of DC administrative expenses.

The Schedule also sets out that if the total annual Pension Protection Fund (PPF) levy exceeds £200k in any year, the excess is payable by the employer unless the Trustee agrees otherwise. 2023: £32.4k, (2022: £79.3k).

A further Schedule of Contributions was signed on 20 March 2023, covering the period 20 March 2023 to 20 March 2028. There were no revisions made in relation to the circumstances when Employer contributions would be required (including in respect of DC administrative costs and payment of PPF levy, nor any changes to Employee contribution rates).

A further Schedule of Contributions was signed on 01 July 2024.

**5. Benefits paid or payable**

	<b>2023</b>			<b>2022</b>		
	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>
Pensions/allowance to dependants	<b>313.0</b>	-	<b>313.0</b>	300.1	-	300.1
Lump sums on retirement	<b>13.1</b>	<b>23.1</b>	<b>36.2</b>	16.0	21.1	37.1
Annuities purchased	-	<b>4.4</b>	<b>4.4</b>	-	2.7	2.7
Lump sum death benefits <sup>2</sup>	<b>1.0</b>	<b>3.1</b>	<b>4.1</b>	0.3	1.7	2.0
Other benefits <sup>3</sup>	-	<b>2.2</b>	<b>2.2</b>	-	2.3	2.3
Taxation arising on benefits paid or payable	<b>1.0</b>	<b>0.7</b>	<b>1.7</b>	1.9	4.1	6.0
	<b>328.1</b>	<b>33.5</b>	<b>361.6</b>	318.3	31.9	350.2

<sup>2</sup> lump sum death benefits and <sup>3</sup> divorce payments, which are now classified as 'other benefits,' were previously included within note 6, transfers out. 2022 figures have been reclassified accordingly.

Annuities purchased are in the name of the member, not the Trustee.

"Taxation arising on benefits paid or payable" is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Plan in exchange for the Plan settling their tax liability on account.

**6. Transfers out**

	<b>2023</b>			<b>2022</b>		
	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>
Individual transfers out	<b>15.5</b>	<b>104.1</b>	<b>119.6</b>	37.2	112.1	149.3

**7. Administrative expenses**

Administrative expenses for both the DB and DC sections of the Plan are accounted for in the DB section of the Plan.

	2023			2022		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
Actuarial fees	0.4	-	0.4	0.2	-	0.2
Administration & processing fees	2.0	-	2.0	2.1	-	2.1
Legal fees	0.6	-	0.6	0.6	-	0.6
Other professional fees	0.5	-	0.5	1.0	-	1.0
Other overheads	0.4	-	0.4	0.3	-	0.3
Staff costs	1.2	-	1.2	1.2	-	1.2
	5.1	-	5.1	5.4	-	5.4

Included within other professional fees is £110,200 (2022: £90,500) in respect of audit fees.

Included in staff costs are fees of £19,200 (2022: £19,200) paid to the Member Nominated Directors, fees of £33,600 (2022: £33,600) paid to the Chair of the Trustee, and fees of £75,600 (2022: £74,550) paid to The Law Debenture Pension Trust Corporation P.L.C. in respect of their services as a Trustee Director of the Plan.

All expenses listed above are paid initially by the Company and then recharged to the Plan.

The Trustee has delegated overall responsibility for the day-to-day administration, investment services and management of the Plan to IBM Pensions Trust ("PT"). LGAS were appointed as administrator of the DC sections of the Plan from January 2021 and XPS were appointed as administrator of the DB sections of the Plan from 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 Plan. Staff costs totalling £1.2m (2022: £1.2m), including Trustee Directors fees and expenses, have been recharged to the Plan.

As set out in the Schedules of Contributions signed on 22 August 2019 and 20 March 2023, if the total annual Pension Protection Fund (PPF) levy exceeds £200k in any year, the excess is payable by the Company unless the Trustee agrees otherwise. 2023 PPF levy costs of £232.4k (2022: £279.3k) were therefore pro-rated between the Plan, £200k (2022: £200k) and the Company, £32.4k (2022: £79.3k) (note 4). The total cost is reflected in other professional fees.

**8. Investment income**

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

	<b>2023</b>			<b>2022</b>		
	<b>DB</b>	<b>DC</b>	<b>Total</b>	<b>DB</b>	<b>DC</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Bonds	<b>83.7</b>	-	<b>83.7</b>	78.8	-	78.8
Pooled investment vehicles	<b>0.7</b>	-	<b>0.7</b>	3.4	-	3.4
Net rents from property	<b>3.6</b>	-	<b>3.6</b>	8.9	-	8.9
Derivatives – net	<b>(2.1)</b>	-	<b>(2.1)</b>	(6.1)	-	(6.1)
Annuity Income	<b>169.5</b>	-	<b>169.5</b>	171.9	-	171.9
Interest income	<b>7.4</b>	-	<b>7.4</b>	1.9	-	1.9
Other investment expense	<b>(0.3)</b>	-	<b>(0.3)</b>	(0.3)	-	(0.3)
	<b>262.5</b>	-	<b>262.5</b>	258.5	-	258.5

Other investment expense is in respect of marketing and improvement costs related to the freehold and long leasehold properties.

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
<b>Defined benefit sections</b>					
Bonds	2,756.2	1,009.7	(800.9)	79.9	3,044.9
Pooled investment vehicles	567.6	8.1	(274.1)	(68.7)	232.9
Property	117.9	0.6	(109.9)	(8.6)	-
Derivatives – net	64.7	132.5	(145.6)	17.8	69.4
Insurance policies	2,210.0	8.0	-	(28.0)	2,190.0
AVC/ASCs	63.3	7.0	(17.6)	6.4	59.1
Sub-total	5,779.7	1,165.9	(1,348.1)	(1.2)	5,596.3
Cash	71.6	-	-	(0.7)	182.4
Other investment balances - net	23.5	-	-	-	17.3
Defined benefit total	5,874.8			(1.9)	5,796.0
<b>Defined contribution sections</b>					
Pooled investment vehicles	1,978.1				2,142.4
AVC/ASCs	411.9				451.7
Defined contribution total	2,390.0	667.4	(761.2)	297.9	2,594.1

The above purchases and sales include in-specie transfers generated by investment manager changes. The above purchase and sales figures for bonds include UK Gilt Total Return Swap transactions, updating of the liability cash-flows and an adjustment to the Plan's liability hedging target. The reduction of pooled investment vehicle exposure reflects de-risking that primarily involved the sale of private equity assets with the proceeds being added to segregated bonds. The DB AVC purchases and sales above include fund switches totalling £7.0m (2022: £4.2m).

The DC purchases and sales above include fund switches totalling £618.5m (2022: £199.6m) including bulk switches of £167.2m in Q1 2023 and £19.2m in Q4 2023 following the closure of several legacy lifecycle/lifestyle strategies, with members' pension savings being transferred to the equivalent Lifecycle 2020 strategies.

Also included in the above purchase and sales figures are direct transaction costs of £0.1m (2022: £0.1m). Indirect costs are also borne by the Plan 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 separately identifiable.

All DC section investments noted above are allocated to members.

**9. Reconciliation of net investments (continued)**

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

	<b>Fees</b>	<b>Commission</b>	<b>Taxes</b>	<b>2023 Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Pooled Investment Vehicles	0.1	-	-	0.1
Total 2023	0.1	-	-	0.1
Total 2022	0.1	-	-	0.1

**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 Plan. In addition, the Plan has a number of investments in pooled investment vehicles, in which the management fees are reflected in the unit value.

**11. Taxation**

The Plan is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

**12. Pooled investment vehicles**

	<b>2023</b>			<b>2022</b>		
	<b>DB</b>	<b>DC</b>	<b>Total</b>	<b>DB</b>	<b>DC</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Equities	-	358.1	358.1	-	336.4	336.4
Bonds	201.6	129.2	330.8	214.6	106.6	321.2
Private equities	25.7	-	25.7	330.8	-	330.8
Reinsurance	5.6	-	5.6	22.2	-	22.2
Multi Asset	-	1,538.4	1,538.4	-	1,423.4	1,423.4
Cash	-	116.7	116.7	-	111.7	111.7
	<b>232.9</b>	<b>2,142.4</b>	<b>2,375.3</b>	<b>567.6</b>	<b>1,978.1</b>	<b>2,545.7</b>



**13. Property**

	<b>2023</b>			<b>2022</b>		
	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>
UK freehold property	-	-	-	117.9	-	117.9
UK long leasehold property	-	-	-	-	-	-
	-	-	-	117.9	-	117.9

During 2023, the final seven properties were sold in line with the Plan's investment strategy; giving a year end asset value of zero.

The 2022 properties are stated at Fair Value. Valuations are supervised by G Coward, MRICS of Knight Frank LLP, a member firm of the Royal Institution of Chartered Surveyors ('RICS'), which is independent of the Trustee and of the principal employer. Prior to 2023, valuations were performed as at 31 December each year in accordance with the Royal Institution of Chartered Surveyors' Valuation – Global Standards, incorporating the International Valuations Standards, and the RICS UK National Supplement. The properties have been valued on the basis of "Fair Value" in accordance with the RICS Valuation - Global Standards and VPGA 1 Valuations for Inclusion in financial statements which adopt the definition of Fair Value adopted by the Financial Reporting Standards.

14. Derivatives

The Plan has a direct holding 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 £m	Liabilities £m	Assets £m	Liabilities £m
<b>Defined benefit section</b>				
Futures contracts (exchange traded)	2.3	(1.3)	1.4	(1.5)
Forward foreign exchange contracts (OTC)	3.9	(2.5)	5.4	(7.3)
Swaps (OTC)	76.2	(9.2)	140.0	(73.3)
	<u>82.4</u>	<u>(13.0)</u>	<u>146.8</u>	<u>(82.1)</u>
Net derivatives		<u>69.4</u>		<u>64.7</u>

**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 £m	2023		2022	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fixed income bonds	86.9	2.3	(1.3)	1.4	(1.5)

**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 of the futures contract is the value subject to market movements and is the economic exposure.

	2023 Nominal value £m	2023		2022	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
213 contracts (2022: 178 contracts)	652.4	3.9	(2.5)	5.4	(7.3)

14. Derivatives (continued)

**Swaps (OTC)**

The Plan holds a number of derivative contracts which are held in a segregated portfolio managed by BlackRock with the objective of matching the interest rate and inflation sensitivity of a prescribed portion of the Plan's liabilities. The fair value of these derivatives held with BlackRock at the year-end was £66.1m (2022: £77.9m). There were swap contracts not specifically held to match Plan liabilities with a fair value managed by PIMCO of £5.6m (2022: (£4.5m)) and by Goldman Sachs of (£4.7m) (2022: (£6.7m)).

	2023 Notional value £m	2023 Assets £m	2023 Liabilities £m	2022 Assets £m	2022 Liabilities £m
<b>Foreign interest rate swaps</b>					
(18 contracts < 10 years)	66.9	2.0	(0.3)	1.6	(1.3)
(2 contracts - 10-20 years)	2.1	0.1	-	-	(0.3)
(2 contracts - 20-30 years)	3.4	1.3	-	2.3	-
(2 contract - 30-40 years)	2.9	-	(0.2)	0.2	-
<b>UK interest rate swaps</b>					
(16 contracts < 10 years)	95.2	9.2	(1.6)	11.5	(44.4)
(5 contracts - 10-20 years)	14.2	0.9	(0.6)	1.6	(12.2)
(7 contract - 20-30 years)	5.7	1.1	(0.8)	-	(1.2)
(5 contracts - 30-40 years)	36.1	3.3	(3.6)	1.3	(11.0)
(2 contracts - > 40 years)	4.5	-	(2.1)	-	(2.3)
<b>UK inflation rate swaps</b>					
(7 contracts < 10 years)	338.5	58.3	-	121.5	-
<b>UK total return swaps</b>					
(0 contracts < 10 years)	-	-	-	-	(0.6)
	569.5	76.2	(9.2)	140.0	(73.3)

**Collateral held for over the counter ("OTC") positions**

A net collateral position of £63.2m (2022: £61.6m) is held for net unrealised gains on derivative positions. This collateral comprises government bond securities and cash.

**15. Insurance Policies**

In recent years the Trustee has been working to reduce risk in the Plan. The ultimate aim is to ensure that members receive all the benefits they are entitled to under the Plan. Consequently, the Trustee purchased an insurance policy (in the form of a “buy-in” policy) from Rothesay Life Plc (Rothesay) in respect of the Plan covering around 60% of pensioner liabilities, on 14 December 2020 (8,806 members) for a total consideration of £3,253.3m.

Under the terms of this contract Rothesay will provide the Trustee with sufficient funds each month to meet part of members’ benefits due in accordance with the Plan’s governing documentation. This investment is part of the Plan’s overall investment strategy.

The Trustee has adopted the technical provisions basis for the purpose of valuing the buy-in policy in the Plan’s financial statements.

As at 31 December 2022, the financial assumptions used to value the buy-in for the Plan accounts were set consistently with the Statement of Funding Principles (“SFP”) agreed for the 31 December 2021 valuation, allowing for changes in investment market conditions between 31 December 2021 and 31 December 2022, and with assumptions for mortality and other demographics the same as those set out in the SFP.

A consistent approach was followed for the valuation of the buy-in for the Plan accounts as at 31 December 2023, with the financial assumptions set consistently with the SFP, allowing for changes in investment market conditions between 31 December 2021 and 31 December 2023 and the same assumptions retained for mortality and other demographics.

The value for the buy-in as at 31 December 2023 was calculated using the census data as at 30 June 2023, with allowance being made for the insured pension amounts provided by Rothesay as at 31 December 2023 (which does not include the increases made to pre-1997 excess pension in April 2023, as these are not insured) and for those members who have died since the date of the data extract without a dependant. An approximation adjustment was made in respect of members who had died over the year with a dependant’s pension coming into payment.

**Financial Assumptions:**

**Discount rate**

Movements in normal gilt yields and credit spreads since 31 December 2022 and changes in views on insurer pricing for pensioner buy-ins, which provides a proxy for the market cost of insuring these benefits in the market, were considered when determining an effective yield on the buy-in policy as at 31 December 2023.

**15. Insurance Policies (continued)**

Between 31 December 2022 and 31 December 2023:

- Changes in credit spreads varied depending on the credit rating but reduced by 0.26% pa for A bonds, by 0.22% pa for AA bonds and by 0.09% for AAA bonds.
- Pricing for buy-ins relative to gilt yields decreased by around 0.05% pa.

Based on the above, a discount rate of 0.20% pa above gilts has been used at 31 December 2023, compared to a margin of 0.30% as at 31 December 2022.

**Price Inflation and pension increases**

- Assumed future rates of RPI inflation are updated to reflect gilt-market breakeven rates as at 31 December 2023.
- CPI inflation assumed to be 1% pa lower than RPI inflation up to 2030 and in line with CPI inflation thereafter (unchanged from 2022 assumptions).

**Demographic assumptions**

The mortality and demographic assumptions used are those adopted for the actuarial valuation of the Plan as at 31 December 2021:

- Males and male dependants - standard tables "S3 for males" with a scaling factor of 86%;
- Females and female dependants. "S3 for females" with a scaling factor of 95%.

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 1.25% per annum for both males and females and initial addition of 0.25% and weighting of 10% to each of 2020/21.

The actual rates used in the calculation the buy-in valuation are as follows:

Financial assumptions	31 December 2023	31 December 2022
	% pa	% pa
Discount rate	4.1	4.2
Price inflation (RPI)	3.4	3.5
Price Inflation (CPI)	2.9	3.0
Pension increases:		
- 50% of RPI (maximum 5%)	n/a*	n/a*
- CPI minimum 0% pa, maximum 5% pa	3.0	3.1
- CPI minimum 0% pa, maximum 3% pa	2.8	2.7
- CPI minimum 0% pa, maximum 2.5% pa	2.5	2.4

*\*The insured benefits only allow for pre-1997 pension increases until April 2022.*

15. **Insurance Policies** (continued)

**Sensitivity Analysis**

<b>Change in assumption</b>	<b>Increase in value (£m) 2023 / 2022</b>
Discount rate reduced by 0.1% pa	<b>21 / 21</b>
Assumed future inflation increased by 0.1% pa (with allowance then made for the effect of the maximum and minimum rates of pension increases where appropriate)	<b>7 / 7</b>
Mortality assumptions: long term improvement rate under the CMI model increased by 0.25% pa	<b>15 / 15</b>

The actuary's calculation was based on 8,385 (2022: 8,531) members whose liabilities are covered by the buy-in policy. The value of the buy-in policy is calculated by projecting the benefits expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value.

The value of the annuity policy was £2,190.0m as at 31 December 2023. The policy was valued by the Plan Actuary. (£2,210.0m as at 31 December 2022).

As is common practice with buy-in arrangements, at an agreed time after the policy has gone live, there is a true up exercise to reconcile any data that was incorrectly captured on inception. This true up exercise can result in either payment of additional premium to insure further benefits or a refund if insured benefits are to be reduced. The true up of the data with Rothesay was completed in February 2023 and an additional premium of £4.4m was payable to Rothesay. This premium was paid in March 2023 and was accrued for in the 2022 financial statements. A further premium of £8.0m was paid in June 2023. See also notes 9 and 24.

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

Members can invest in a range of pooled investment vehicles as shown in the table overleaf.

AVC/ASC benefits are provided on a money purchase basis. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The proceeds of these policies can be paid as a lump sum (subject to HMRC rules) or used to purchase additional pension on retirement. All of the funds managed by Legal & General are held in unit linked policies.

The Plan also holds AVCs with Aviva Life & Pensions UK Limited, although these funds are not open for current contributions. Aviva Life & Pensions UK Limited funds are with profit arrangements and Aviva Life & Pensions UK Limited 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 January 2010.

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

The market value of AVCs/ASCs was as follows:

	2023			2022		
	DB £m	DC £m	Total £m	DB £m	DC £m	Total £m
<b>Legal &amp; General</b>						
Global Equity 60:40 Index Fund	7.8	34.6	42.4	9.0	31.9	40.9
Global Equity 70:30 Index Fund	11.2	56.3	67.5	11.7	52.6	64.3
Annuity Protection Index Fund	0.2	1.4	1.6	0.2	1.6	1.8
Money Fund (was Cash Fund)	7.6	32.7	40.3	8.1	31.3	39.4
Growth Plus Fund (former Consensus) *	4.9	13.6	18.5	4.9	12.9	17.8
Ethical UK Equity Index Fund	1.9	6.5	8.4	2.1	6.1	8.2
Over 15 Year Gilts Index Fund	0.4	3.9	4.3	0.4	5.0	5.4
UK Equity Index Fund	2.0	12.5	14.5	1.9	11.6	13.5
World ex UK Developed Equity Index Fund	3.7	23.2	26.9	3.5	19.8	23.3
Pre-retirement (Annuity Target) Fund	0.7	4.4	5.1	1.0	11.5	12.5
All World Equity Index Fund	1.1	16.5	17.6	1.2	14.1	15.3
Ethical Global Equity Index Fund	1.0	9.4	10.4	1.0	7.5	8.5
World Emerging Markets Equity Index Fund	0.5	2.4	2.9	0.5	2.4	2.9
Investment Grade Corporate Bond – All Stocks Index Fund	0.2	0.9	1.1	0.1	1.1	1.2
Emerging Market Debt Fund	0.1	0.3	0.4	0.1	0.2	0.3
All Stocks Index-Linked Gilts Fund	0.1	0.4	0.5	0.1	0.6	0.7
Growth Fund*	2.6	33.5	36.1	3.2	38.7	41.9
Growth Plus Fund*	7.0	183.9	190.9	7.7	158.7	166.4
Infrastructure Equity MFG – GBP Hedged Fund	0.2	1.5	1.7	0.4	1.9	2.3
Global Real Estate Equity – GBP Hedged Fund	0.0	0.8	0.8	0.1	1.1	1.2
Pre-retirement Inflation Linked (Annuity Target) Fund	0.3	11.4	11.7	0.1	0.2	0.3
Future World Fund	0.0	0.7	0.7	0.2	0.6	0.8
HSBC Shariah Fund	0.2	0.4	0.6	0.0	0.0	0.0
	<b>53.7</b>	<b>451.2</b>	<b>504.9</b>	<b>57.5</b>	<b>411.4</b>	<b>468.9</b>
Aviva Life & Pensions UK Limited	5.4	0.5	5.9	5.8	0.5	6.3
	<b>59.1</b>	<b>451.7</b>	<b>510.8</b>	<b>63.3</b>	<b>411.9</b>	<b>475.2</b>

\*Multi asset strategies



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

	<b>2023</b>			<b>2022</b>		
	<b>DB</b>	<b>DC</b>	<b>Total</b>	<b>DB</b>	<b>DC</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Sterling	<b>137.9</b>	-	<b>137.9</b>	43.4	-	43.4
Foreign currencies	<b>44.5</b>	-	<b>44.5</b>	28.2	-	28.2
	<b>182.4</b>	-	<b>182.4</b>	71.6	-	71.6
Accrued investment income	<b>26.4</b>	-	<b>26.4</b>	22.7	-	22.7
Other investment balances (assets)	<b>1.3</b>	-	<b>1.3</b>	1.5	-	1.5
	<b>210.1</b>	-	<b>210.1</b>	95.8	-	95.8
Other investment balances (liabilities)	<b>(10.4)</b>	-	<b>(10.4)</b>	(0.7)	-	(0.7)
	<b>199.7</b>	-	<b>199.7</b>	95.1	-	95.1

**18. Defined contribution assets**

Defined contribution assets are allocated to provide benefits to the individuals on whose behalf the contributions were paid. All members receive an annual statement confirming the contributions paid on their behalf and the value of their defined contribution assets.

**19. 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 AVCs/ASCs 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.

The valuation techniques used for level 3 direct property and level 3 insurance policies are detailed in notes 13 and 15 to the financial statements respectively.

19. 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
<b>Defined benefit section</b>				
<b>Investment assets</b>				
Bonds	-	3,044.9	-	3,044.9
Pooled Investment Vehicles	-	201.6	31.3	232.9
Property	-	-	-	-
Derivatives	2.3	80.1	-	82.4
Insurance Policies	-	-	2,190.0	2,190.0
AVC/ASCs	-	53.7	5.4	59.1
Cash	182.4	-	-	182.4
Other investment balances	27.7	-	-	27.7
	212.4	3,380.3	2,226.7	5,819.4
<b>Investment liabilities</b>				
Derivatives	(1.3)	(11.7)	-	(13.0)
Other investment balances	(10.4)	-	-	(10.4)
	(11.7)	(11.7)	-	(23.4)
<b>Defined contribution section</b>				
<b>Investment assets</b>				
Pooled investment vehicles	-	2,142.4	-	2,142.4
AVC/ASCs	-	451.2	0.5	451.7
	-	2,593.6	0.5	2,594.1
Total net investments	200.7	5,962.2	2,227.2	8,390.1

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

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
<i>Defined benefit section</i>				
Investment assets				
Bonds	-	2,756.2	-	2,756.2
Pooled Investment Vehicles	-	214.6	353.0	567.6
Property	-	-	117.9	117.9
Derivatives	1.3	145.4	-	146.7
Insurance Policies	-	-	2,210.0	2,210.0
AVC/ASCs	-	57.5	5.8	63.3
Cash	71.6	-	-	71.6
Other investment balances	24.2	-	-	24.2
	97.1	3,173.7	2,686.7	5,957.5
Investment liabilities				
Derivatives	(1.4)	(80.6)	-	(82.0)
Other investment balances	(0.7)	-	-	(0.7)
	(2.1)	(80.6)	-	(82.7)
<i>Defined contribution section</i>				
Investment assets				
Pooled investment vehicles	-	1,978.1	-	1,978.1
AVC/ASCs	-	411.4	0.5	411.9
	-	2,389.5	0.5	2,390.0
Total net investments	95.0	5,482.6	2,687.2	8,264.8

**20. Concentration of investments**

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

	2023		2022	
	£m	%	£m	%
Rothsay annuity policy (DB)	<b>2,190.0</b>	<b>25.9</b>	2,210.0	26.5
Legal & General Growth Plus Fund (DC)	<b>1,541.4</b>	<b>18.2</b>	1,328.7	15.9

**21. 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 their 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 Plan 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 risk limits which are set, taking into account, the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and are regularly monitored by the Trustee.

**Defined benefit sections**

**Investment strategy**

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

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

21. Investment risks disclosures (continued)

**Defined benefit sections - Investment strategy (continued)**

The Plan's assets are invested in line with the Trustee's long-term strategy, which comprises:

- 97.5% in investments that move broadly in line with the long-term liabilities of the Plan. These are referred to as Liability Driven Investments ("LDI") and include UK and overseas government and corporate bonds, which help mitigate the impact of interest rate and inflation rate movements on the long-term liabilities. The Plan also uses derivatives, such as interest rate and inflation swaps, to hedge changes in the Plan's liabilities.
- 2.5% in growth assets, which are return seeking investments primarily comprising property and private equity investments. During 2023, property was sold and private equity was reduced to two funds. There is also a small residual exposure to reinsurance where the remaining funds are being gradually released.
- The Plan's unhedged currency exposure is now under 0.5%. 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 40% to 100% on 31 December 2023.
- There is also a separate bulk annuity insurance policy with Rothesay Life Plc.

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

Asset Classes	Credit Risk	Market Risk			2023	2022
		Currency	Interest rate	Other		
					£m	£m
<b>Defined benefit sections</b>						
Bonds	●	●	●	○	3,044.9	2,756.2
Pooled investment vehicles	●	●	●	●	232.9	567.6
Property	●	○	●	●	-	117.9
Derivatives – net	●	●	●	○	69.4	64.7
Insurance policies	●	○	●	●	2,190.0	2,210.0
AVC/ASCs	●	●	●	●	59.1	63.3
Cash	●	●	●	○	182.4	71.6
Other investment balances net	●	●	●	○	17.3	23.5
					<b>5,796.0</b>	<b>5,874.8</b>
<b>Defined contribution sections</b>						
Pooled investment vehicles	●	●	●	●	2,142.4	1,978.1
AVC/ASCs	●	●	●	●	451.7	411.9
					<b>2,594.1</b>	<b>2,390.0</b>

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 overleaf.

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

**Defined benefit sections - Investment strategy (continued)**

**Credit risk**

The Plan is subject to credit risks because the Plan directly invests in bonds, derivatives and has cash balances. The Plan also invests in pooled investment vehicles and is therefore directly exposed to credit risk via the pooled investment vehicles. The Plan 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 that 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.

The Rothesay Life Plc bulk annuity insurance policy also involves credit risk. Insurance companies are subject to strict regulation as well as being supervised by the Prudential Regulation Authority. In addition, in the unlikely event that Rothesay Life Plc was unable to pay agreed benefits, the Financial Services Compensation Scheme will provide full compensation (i.e. 100%). Ahead of the contract being entered into, due diligence checks, including a supplier covenant review, were undertaken by Willis Towers Watson, Sacker & Partners and Lincoln Pensions.

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

	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Authorised unit trusts	201.6	214.6
Open ended investment companies	5.6	22.2
Shares of limited liability partnerships	25.7	330.8
<b>Total</b>	<b>232.9</b>	<b>567.6</b>

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

**Defined benefit sections - Investment strategy (continued)**

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

**Currency risk**

The Plan is subject to currency risk because some of the Plan'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, Yen, and Euro exposure.

**Interest rate risk**

The Plan is subject to interest rate risk because some of the Plan's investments are held in bonds and interest rate swaps, either as segregated investments or through pooled investment vehicles, and cash.

As part of their LDI investment strategy the Trustee has set a benchmark for total interest rate exposure to match 105% of the total interest rate exposure of the total Plan liabilities, which ensures the accrued liabilities and some of the funding surplus are hedged.

Under this approach, if interest rates increase, the value of the LDI investments will fall in value, as will the actuarial liabilities due to the higher discount rate.

The Plan is also subject to interest rate risk with regards to the value of the insurance policies. However, any movement in the value of the asset matches the movement in the value of the associated liability and therefore this risk is not further measured or managed.

**Other price risk**

Other price risk arises principally in relation to the Plan's return seeking portfolio which includes private equity, property, and some residual reinsurance exposure, which is in the process of being released. The Plan 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 Plan's investment portfolio and the operational impact on the Plan. The extent of the impact on the Plan's investment portfolio, including financial performance, will depend on future developments in financial markets and the overall economy, all of which are uncertain and cannot be predicted.

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

**Defined contribution sections**

**Investment strategy**

The Trustee offers members of the Plan four 'Lifecycle 2020' investment strategies designed to generate income and capital growth during the accumulation phase, and gradually move a member's pension savings during the decumulation phase into funds that target the strategy's targeted retirement objective.

The Trustee also provides a range of twenty-eight self-select funds to allow members to develop their own asset allocation and investment strategy.

The investment options available to members use 'white labelled' funds<sup>4</sup>, specifically created for the Trustee, managed by Legal & General Investment Management Limited ("Legal & General") and HSBC Global Asset Management ("HSBC") and are provided by Legal & General Assurance Society Limited ("LGAS") within the following asset classes:

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

A full list of the funds offered to members is shown on page 24.

The Trustee monitors the underlying risks and performance of the funds at its quarterly Investment Committee Meetings.

<sup>4</sup> of which four are closed to new member elections.



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

**Defined contribution sections (continued)**

**Credit risk**

The DC section is subject to direct credit risk in relation to the funds managed by LGAS.

LGAS is regulated by the Financial Conduct Authority and the Prudential Regulation Authority and prior to being appointed, the Trustee received advice on the security of members' benefits. This included confirmation that in the event of LGAS becoming insolvent, members would be able to access the Financial Services Compensation Scheme which is designed to provide protection of up to 100% of members' benefits. The Trustee also reviews the security of members' assets on an annual basis.

The DC section is also subject to indirect credit and market risk arising from underlying investments. Member level risk exposures will be dependent on the funds invested in by members. For pooled investment vehicles the Trustee ensures that it is satisfied with the legal documentation and the fund's investment parameters before adding the fund to the options available to members.

This includes ensuring the indirect credit risks are appropriately managed, as well as understanding the manager's counterpart credit evaluation process.

The Bond and Multi Asset Strategy funds are exposed to underlying credit risk.

A summary of defined contribution pooled investment vehicles by type of arrangement is as follows:

	<b>2023</b>	<b>2022</b>
	<b><u>£m</u></b>	<b><u>£m</u></b>
Unit linked insurance contracts	<b>2,142.4</b>	1,978.1
<b>Total</b>	<b><u>2,142.4</u></b>	<b><u>1,978.1</u></b>

**Market risk**

The DC section is subject to indirect foreign exchange, interest rate and other price risk depending on the underlying investments held within the LGIM managed funds.

**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 Plan's investment portfolio and the operational impact on the Plan.

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

**Defined contribution sections (continued)**

**Other matters (continued)**

The extent of the impact on the Plan's investment portfolio, including financial performance, will depend on future developments in financial markets and the overall economy, all of which are uncertain and cannot be predicted.

**22. Employer-related investments**

The Plan had direct and indirect holdings in International Business Machines Corporation ordinary shares through its segregated mandates and pooled investment vehicles which amounted to 0.08% (2022: 0.04%) of the Plan's net assets at the year-end. There were no other employer-related investments at the year-end (2022: nil).

**23. Current assets**

	<b>2023</b>			<b>2022</b>		
	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>
Cash balances	<b>79.8</b>	-	<b>79.8</b>	93.3	-	93.3
Sundry debtors	<b>0.2</b>	-	<b>0.2</b>	0.1	-	0.1
	<b>80.0</b>	-	<b>80.0</b>	93.4	-	93.4

**24. Current liabilities**

	<b>2023</b>			<b>2022</b>		
	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>	<b>DB £m</b>	<b>DC £m</b>	<b>Total £m</b>
Sundry creditors	<b>10.5</b>	-	<b>10.5</b>	14.0	-	14.0

Prior year DB sundry creditors included an amount of £4.4m owing at year end in relation to the Rothesay annuity insurance policy true-up (see note 15), 2023: nil.

**25. Transfers between sections**

The transfer between sections represents the value of unallocated funds resulting from early leavers and deaths in service.

**26. 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 Plan and the equalisation of guaranteed minimum pensions between men and women; in the context of the rules of the Plan and the value of any liability. As soon as this review is finalised and any liability quantified, members will receive further communication and any impact on financial reporting 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 impact on financial reporting will be considered by the Trustee.

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

The Plan had investment commitments relating to pooled investment vehicles, in the form of uncalled capital for private equity funds, of £1.5m (2022: £46.3m).

**27. Related party transactions**

**Key management personnel of the Plan**

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 Fredrick Klutey, Mark Hobbart, 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 Employer and re-charged to the Plan, 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).

**27. Related party transactions (continued)**

**Other Related Parties**

**Investments**

Within the defined benefit section, the Plan holds an investment in the IBM Global Bond Fund ("GBF"). The GBF is a multi-manager pooled investment offering available to IBM pension plans worldwide. The GBF is an Irish regulated umbrella Unit Trust managed by Northern Trust Fund Services (Ireland) Ltd. Representatives of the individual pension plans invested in the GBF 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. At 31 December 2023, the Plan's investment in the GBF was valued at £201.6m (2022: £214.6m), representing a 15.8% (2022: 16.2%) share of the fund.

**IBM Pensions Trust**

The Trustee has delegated overall responsibility for the day-to-day administration, investment services and management of the Plan to IBM Pensions Trust ("PT"). Legal & General Assurance Society Limited were appointed as administrator of the DC sections of the Plan from January 2021 and XPS Pensions Group were appointed as administrator of the DB sections of the Plan from 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 Plan.

Staff costs totalling £1.2m (2022: £1.2m), including Trustee Directors fees and expenses, have been recharged to the Plan, during the year to 31 December 2023.

At the year end there were no amounts due to the Plan from IBM I.T. Solutions Pension Scheme (2022: nil) (note 23). At the year end there was £1.6m owing to IBM in relation to administrative expenses accrued for the year (2022: £1.8m) (note 24).

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

**28. 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 plan year ended 31 December 2023 as reported in IBM Pension Plan's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the plan actuary on 22 August 2019 and 20 March 2023.

We have examined IBM Pension Plan's summary of contributions for the plan 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 plan 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 plan'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 plan 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**

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 Plan under the Schedules of Contributions dated 22 August 2019 and 20 March 2023. The Plan 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 Plan are set out below. For the purposes of this summary, employee contributions deducted through the salary sacrifice programme are shown as employer contributions.

	DB			DC		
	Employer £m	Employee £m	Total £m	Employer £m	Employee £m	Total £m
<b>Contributions required by the Schedules of Contributions and as reported by the Plan</b>						
<b>Auditors:</b>						
Normal contributions	-	-	-	20.4	-	<b>20.4</b>
Smart* contributions	-	-	-	7.1	-	<b>7.1</b>
Other – Administrative expenses	1.8	-	<b>1.8</b>	-	-	-
PPF Levy	-	-	-	-	-	-
	<b>1.8</b>	-	<b>1.8</b>	<b>27.5</b>	-	<b>27.5</b>
<b>Contributions not required by the Schedules of Contributions:</b>						
Augmentations	-	-	-	0.8	-	<b>0.8</b>
Additional Smart* Contributions	-	-	-	11.9	-	<b>11.9</b>
Additional Voluntary Contributions	-	-	-	-	0.7	<b>0.7</b>
Matching Contributions	-	-	-	7.6	-	<b>7.6</b>
	-	-	-	<b>20.3</b>	<b>0.7</b>	<b>21.0</b>
<b>Total (as per Fund Account)</b>	<b>1.8</b>	-	<b>1.8</b>	<b>47.8</b>	<b>0.7</b>	<b>48.5</b>

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 15:47:51 GMT

**Robert Tickell**  
Chair

Date: 25 July 2024

**Actuary's certification of the Schedule of Contributions**

Name of plan: **IBM Pension Plan**

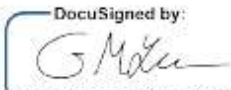
**Adequacy of rates of contributions**

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 Plan's liabilities by the purchase of annuities, if the Plan were wound up.

DocuSigned by:  
  
Signature 16F85EF8C1E49C...

1 July 2024

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

Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ

IBM PENSIONS TRUST

# IBM Pension Plan (The Plan)

Annual Chair's Statement for the year ended 31 December 2023





## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023


This statement has been prepared by the Trustee of the Plan in accordance with regulation 23 of the occupational pension schemes (scheme administration) regulations 1996.

Regulations require the Trustee to prepare a statement showing how they have met certain minimum governance standards in relation to defined contribution ("DC") benefits. As Chair of the Trustee, I have provided details of how the Trustee has embedded these standards for the year ended 31 December 2023.

**This statement covers seven key areas:**

- The investment strategy and performance relating to the Plan's default arrangement(s);
- The processing of core financial transactions;
- Charges and transaction costs within the Plan;
- Value for Members assessment;
- Net Investment Returns;
- Underlying asset breakdown; and
- The Trustee's compliance with the statutory Trustee knowledge and understanding ("TKU") requirements.

This statement will be published on a publicly available website ([IBM Pensions Trust | Governance Documentation \(smartpensionsuk.co.uk\)](#)) and the information concerning cost disclosures will be signposted in the annual benefit statements.



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# 1 Investment Principles

**1.1** The Trustee's principal mission is to help members to maximise their retirement outcomes with an appropriate level of investment risk, by providing an investment framework which represents value for members, considering 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.

**1.2** The Trustee's latest Statement of Investment Principles ("SIP") from November 2023, attached to this Chair's Statement, and accompanying Investment Policy Implementation Document ("IPID") have been prepared in accordance with Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. Specific reference to the investment principles overarching the Defined Contribution Section ("DC Section") of the Plan and further details of the Plan's current default investment arrangement(s), including their aims and objectives, can be found in Sections 6.11 to 6.44 of the SIP and Schedule C of the IPID.

**1.3** The Trustee seeks to:

- Offer default investment strategies that are suitable for the profile of defaulting members based on their expected risk tolerances and retirement objectives and which embed climate change risk and opportunity considerations in their design;
- Offer a range of self-select ('Freestyle') investment options which are appropriate for the profile of most members and offer options for sustainable investment;
- Provide members with adequate tools and timely information to enable them to make informed contribution, investment, and retirement decisions; and
- Ensure that the operational structure of the Plan's DC section is suitable and cost-effective.

**1.4** The Trustee has produced a SIP Implementation Statement for the Plan year to 31 December 2023. The SIP Implementation Statement sets out how the policies within the SIP have been followed during the Plan year along with the voting and engagement activity of the investment managers. A copy of the SIP Implementation Statement can be found at [IBM Pensions Trust | Governance Documentation \(smartpensionsuk.co.uk\)](https://www.ibm-pensions.co.uk/governance)



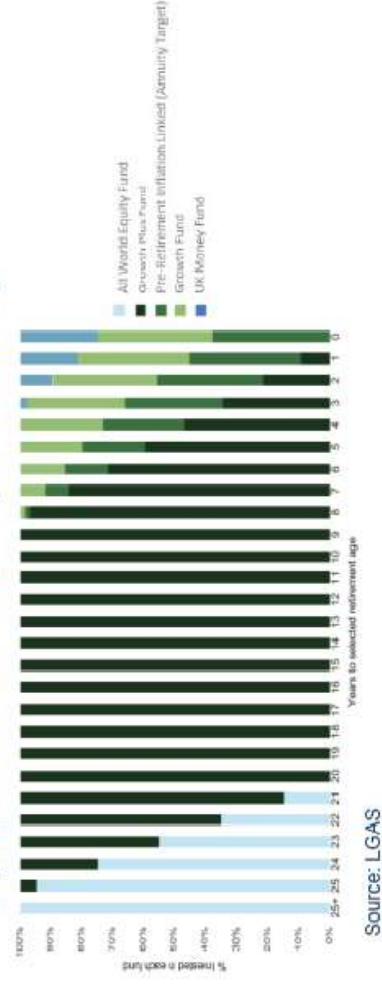


## 2 DC Section Investment Arrangements

**2.1** Legal & General Assurance Society Limited ("LGAS") supply bundled investment and administration services to the Trustee of the Plan. Members' assets are held on Legal & General's investment platform. There are a range of funds available to members on the platform which are mainly managed by Legal & General Investment Management Limited ("LGIM") and one fund managed by HSBC Global Asset Management ("HSBC").

### Main Default Arrangement During the Plan Year – Lifecycle Balanced 2020

**2.2** The Lifecycle Balanced 2020 incorporates a mixed annuity and drawdown target in addition to a 25% allocation to the Money Fund in the expectation that most members will take 25% of their DC savings as tax-free cash on retirement. The chart below shows the default arrangement structure that was in place during the Plan year ending 31 December 2023 (following implementation of the changes explained further on).



**2.3** The Trustee, alongside its investment advisors, Mercer, last reviewed the Plan's DC investment arrangements in 2022 when changes were agreed at the 8 June 2022 Trustee's Investment Committee meeting. The review considered the retirement objective of the default Lifecycle Balanced 2020 strategy, as well as factors such as the impact of rising levels of inflation and the financial consequences of climate change on members' pension savings.

**2.4** The Trustee decided to maintain the Lifecycle Balanced 2020 strategy as the main default arrangement for DC members as part of the review in 2022 but agreed to the following underlying changes, which were implemented on 1 February 2023:

- Replaced some of the underlying components within the Growth and Growth Plus Funds, embedding Environmental, Social and Governance (ESG) focused funds to reduce the exposure of financial risks from climate change and increase protection against losses arising from inflation. (Note that this change is applicable to other Lifecycle strategies as listed in 2.5, the Lifecycle 2012 strategy and the Growth Plus Fund (DSLX); and
- Replaced the Pre-Retirement (Annuity Target) Fund with the Pre-Retirement Inflation-Linked (Annuity Target) Fund to help protect the value of members' pension savings against losses arising from inflation. (Note that this change is also applicable to the Lifecycle to Annuity 2020 and Lifecycle 2012 strategies).



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**Alternative Investment Arrangements**

**2.5** During the Plan year, members were offered three alternative Lifecycle investment strategies which respectively targeted annuity, cash and drawdown retirement objectives. These are:

- Lifecycle to Annuity 2020 strategy;
- Lifecycle to Lump Sum 2020 strategy; and
- Lifecycle to Drawdown 2020 strategy.

**Legacy Default Arrangements**

**2.6** There are currently two legacy default investment strategies that are no longer open to new member selection:

- Lifestyle 2002; and
- Lifecycle 2012.

**2.7** As part of the investment review undertaken in 2022, the Trustee decided to close three of the legacy default arrangements which were in existence at the start of 2023 and which targeted an annuity retirement objective – Lifestyle 1997, Lifecycle to Annuity and Lifestyle 1997 (DSL). Accordingly, these strategies were closed and members' pension savings and their ongoing contributions were mapped to the Lifecycle Balanced 2020 and the Lifecycle Balanced 2020 (DSL) arrangements in January 2023. Members could select alternative fund options for their investments and ongoing contributions to be mapped into.

**2.8** As part of a further review of the legacy lifecycles undertaken in June 2023, the Trustee decided that members invested in Lifecycle to Lump Sum and Lifecycle to Drawdown should be moved to the Lifecycle to Lump Sum 2020 and Lifecycle to Drawdown 2020, respectively. These changes were completed by October 2023.

**2.9** The Lifecycle to Annuity and Lifecycle to Lump Sum were also additional defaults during part of the Plan's year until their closure in January 2023 and in October 2023, respectively (see notes 2.7 and 2.8).

**Additional Default Arrangements**

**2.10** In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee has identified the following investment options as additional 'default arrangements' (as defined by these regulations):

- Growth Plus Fund (DSL);
- Money Fund;
- Lifecycle to Annuity 2020;
- Lifecycle to Lump Sum 2020;
- Lifecycle to Drawdown 2020; and
- Lifecycle Balanced 2020 (DSL).

**2.11** The Lifecycle to Annuity and Lifecycle to Lump Sum were also additional defaults during part of the Plan's year until their closure in January 2023 and in October 2023, respectively (see notes 2.7 and 2.8).

**2.12** The Lifecycle to Balanced 2020 (DSL) was opened following the closure of the Lifestyle 1997 (DSL).

**2.13** These have been identified as 'default arrangements' as members' pension savings have been directed to these funds without members instructing the Trustee where their pension savings are to be invested; this is due to historic fund mapping exercises. The most recent review of the additional default arrangements was completed as part of the 2022 investment review and changes were made to the Lifecycle strategies and Growth Plus (DSL) Fund as outlined in 2.4. Changes were implemented in Q1 2023 and in Q3 2023. Additionally, there was a review of the legacy arrangements undertaken in 2023 as outlined in 2.8.



Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**Self-Select ("Freestyle") Fund Range**

**2.14** The fund range includes a wide range of asset classes which offer different levels of risk and return; for example: 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 as well as a range of sustainable funds at competitive fees.

**2.15** A review of the Plan's Freestyle Fund range was last conducted in 2022 with new funds added in November 2022.

**2.16** The Trustee will continue to keep the investment arrangements under regular review and will amend them as appropriate based on analysis of the likely requirements of Plan members. The next triennial investment strategy review is due by 2025. The Trustee is working with their investment advisor on the initial analysis for this review. Further details will be included in the 2024 Chair's statement.

**Investment Performance**

**2.17** The performance of each of the Plan's funds, including those funds used in the default investment arrangements, are reviewed by the Trustee at each quarterly meeting. This includes fund performance against benchmarks over both shorter and longer-term periods. The Trustee also obtains periodic updates from its investment advisor on factors that have impacted performance, and on developments concerning the Plan's investment providers that may influence future performance, including changes of senior personnel.

**2.18** The Trustee is comfortable with the longer-term performance of the funds and their aims and objectives.

**Security of assets**

**2.19** On an annual basis, the Trustee commissions its legal advisors, Sacker & Partners LLP, to revisit the position on the security of members' assets against loss. The most recent review, which was conducted in November 2023, concluded that the overall position on asset security under the bundled arrangement with LGAS was acceptable relative to the security available in the wider market.





## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**Environmental, Social and Governance**

**2.20** The Trustee believes that environmental, social, and governance (ESG) factors, including climate change, can impact the performance of the Plan's investments 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.

**2.21** 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.

**2.22** The Trustee has an ESG sub-committee to focus on the development of its ESG policies and climate-related disclosures.

**2.23** The Trustee published its third Climate Change-related Disclosures report for the year to 31 December 2023 which provides further details on the progress against the Trustee's climate targets, how climate risks are being monitored and managed along with actions that have been taken by the Trustee. The report is available online at [IBM Pensions Trust | Governance \(smartpensionsuk.co.uk\)](https://www.ibm-pensions.co.uk/governance)



## 3 Core Financial Transactions

**3.1** The Trustee recognises the importance of processing financial transactions promptly and accurately, as failure to do so may have an adverse effect on member outcomes and may result in members disengaging with the Plan.

**3.2** The Trustee therefore operates measures and controls aimed at ensuring that all core financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately. Core financial transactions include:

- Investment of contributions paid to the Plan;
- Transfer of members' assets into and out of the Plan;
- Transfers of members' assets between investment options available in the Plan; and
- Payments from the Plan to or in respect of members/beneficiaries.

### Service Level Agreement

**3.3** A Service Level Agreement ("SLA") is in place between the Trustee and the administrator of the DC Section of the Plan (LGAS) for the administration services that are provided to assist the Trustee in fulfilling its regulatory duties. The services in scope include:

- Financial services (including the provision of timely and accurate processing of core financial transactions);
  - Member administration;
  - Service levels and timelines in respect of the administration service; and
  - The preparation and provision of regulatory reporting requirements.
- 3.4** There is also a separate SLA in place between the Trustee and IBM Pensions Trust, which covers:
- Secretarial and Trustee management services;
  - Financial Services;
  - Operations; and
  - Preparation of the Annual Report and Financial Statements of the Plan.

**3.5** The Trustee reviews its SLAs with LGAS and IBM Pensions Trust on a triennial basis to determine whether the scope of responsibilities and tasks remains appropriate, and whether the targets set meet or exceed regulatory requirements. The Trustee last reviewed its SLAs with LGAS and IBM Pensions Trust at the March 2024 Governance Committee meeting.

**3.6** LGAS join weekly Operations calls with IBM Pensions Trust in order to maintain a continued dialogue around operational performance and matters arising.

**3.7** In addition, the Trustee's Governance Committee met during the Plan year to review the LGAS quarterly governance reports. LGAS were invited to 3 of the 4 meetings in 2023 (though LGAS always submit a governance report before every Governance Committee meeting). The LGAS governance reports provide an update on performance against the SLA and any significant issues that may have arisen in the previous quarter as well as other key operational measures.

### Timeliness of Financial Transactions

**3.8** During the Plan year, the timeliness of financial transactions was reported via the quarterly governance reports provided by LGAS. A summary of the SLA performance is reported to the full Trustee Board each quarter. In addition, monthly service calls are also held between the IBM Pensions Trust and LGAS where SLAs are discussed. The Pensions Trust also has access to real-time SLAs via L&G's My Scheme Intelligence online portal.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**3.9** In 2023 DC contribution payments to LGAS were received and invested within 48 hours. Investment switch requests were also processed within 48 hours. This was achieved consistently throughout the Plan year.

**3.10** The IBM Pensions Trust Finance Manager approved income, expense, and balance sheet accounting reconciliations for the full year by the end of January 2024 ensuring accuracy and integrity of the fund accounts. Account reconciliations reflect transactions incurred throughout the year, and accruals made for entries not yet incurred, but relevant for the 2023 financial year. Typical reconciliations include, but are not limited to, benefit payments, transfer out transactions, payments/accruals for invoices, income from investments, cash accounts and VAT.

### Accuracy of Financial Transactions

**3.11** The LGAS administration team delivered consistent service levels throughout the year. Details of how LGAS have serviced IBM members specifically, through the dedicated Own Trust team and IBM-dedicated specialists has been shared with the Governance Committee.

**3.12** The LGAS administration team survey the interactions they have with members they support and use an independent company to email members from all LGAS clients to gather feedback. Overall, in 2023, the Net Promoter Score (NPS) was at +36 (2022: +30, 2021: +28). NPS is a measure of customer satisfaction.

**3.13** Over the course of the Plan year, improvements in service levels and NPS have been driven by the different factors below:

- a) The operating effectiveness of the controls and quality processes at LGAS are reviewed as part of the annual AAF01/20 report on internal controls. As a wider business, LGAS have also adopted the ISO9001 quality assurance certificate.
- b) Webchat facility and virtual assistant is in place. The member satisfaction scores illustrate the effectiveness of these channels.
- c) Service transformation is ongoing. Positive developments within the year included end to end measurement, online scanning and document management using Generative Artificial Intelligence (AI) to read documents, more online member capability for self-service e.g. enhancement to the online Member Nomination process, telephony platform enhancements, robotics, and future AI ideation.
- d) The operations team also have an ongoing process transformation programme that involves improving the core system and processes. The core objectives being to enhance operational efficiency, colleague and member experience, future business scalability and future transformation efficiencies.

e) The strong focus on Operational Planning has continued to be successful in 2023 with the correct resource being allocated and business planning delivered to ensure the LGAS operations team have the right resource in place to respond to member demand.

f) There has also been significant investment in colleague development with a strong focus on apprenticeships in the Operations area for both new and existing colleagues to enable them to have the right skills for future development and to develop team members into more senior roles.

**3.14** The Governance Committee and LGAS agreed a 95% SLA target for all the processes including several services such as Transfer Payment, Processing of members' contributions, Divorce Quote, Surrender, Investment Management (Switches) and others.

**3.15** The 95% SLA target was met for most of the agreed service levels. IBM Pensions Trust have weekly meetings with LGAS to resolve any issues. Any significant issues are subsequently reported in the quarterly Governance Committee meetings where there are opportunities for the Committee to raise questions and consider further. LGAS confirmed that there have been no material administration issues in relation to processing core financial transactions, as a result of Straight Through Processing (automated processing carried out through electronic transfers with no manual intervention involved).

Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

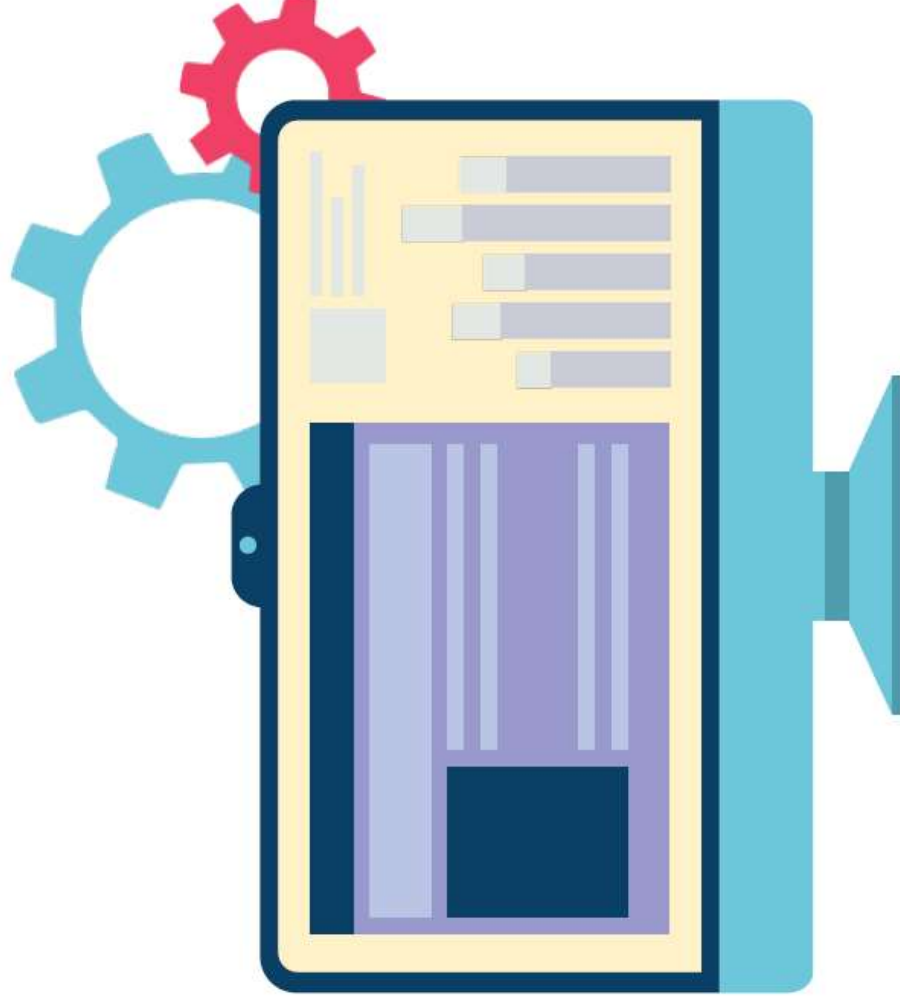
**Business Continuity, GDPR and Cyber Security**

**3.16** The Trustee also maintains a Business Continuity Plan ("BCP") to ensure that asset management and benefit management processes can be successfully restarted if a disaster were to occur that would compromise the running of the Plan's administration. Arrangements are in place for routinely reporting the results of the BCP revalidation and testing exercises to the Governance Committee.

**3.17** The Trustee continues to monitor the requirements around General Data Protection Regulation ("GDPR"), with data minimisation and retention being the key areas to address.

**Summary**

**3.18** Overall, the Trustee is satisfied that all core financial transactions have been processed promptly and accurately during the Plan year. The Trustee is also satisfied that, given the processes and monitoring procedures noted above, it would be able to identify and respond to any material administration issues if they were to arise in the future.





## 4 Charges and Transaction Costs

**4.1** The Trustee has a regulatory requirement to report on the charges and transaction costs for the default and self-select arrangements and their assessment of the extent to which these charges and costs represent good value for members.

**4.2** In assessing overall 'Value for Members', the Trustee believes that charges and costs should be considered alongside expected member outcomes. Charges and costs are an important consideration, but a number of other qualitative and quantitative factors are also considered in a holistic manner when making strategic decisions in relation to investment strategy with good outcomes for members being the ultimate goal for the Plan.

**4.3** All funds attract ongoing fund charges and transaction costs, which are deducted from the funds, and which are further defined on pages 14 and 15.

**4.4** Other than these ongoing fund charges and transaction costs, the employer, IBM United Kingdom Limited, covers the cost of all other expenses related to pension's management and administration services.

### Charges

**4.5** Ongoing fund charges include both the investment management charge ("IMC"), which is applied by LGIM as a percentage of the assets held within each fund to cover the cost of managing the investments, and other ongoing charges such as indirect fees. Taken together, these are known as the "total expense ratio" (or "TER") and are deducted via the unit price of each fund.

### Transaction costs

**4.6** Transaction costs are incurred by investment managers as a result of buying, selling, lending or borrowing investments.

**4.7** These costs are typically categorised as being 'explicit' costs which are directly observable (such as broker commissions, transaction taxes and exchange fees), or 'implicit' costs which arise from the response of the market to trade or the timing of a trade.

**4.8** FCA regulations since January 2018 require that firms managing DC pension schemes must be able to provide, among other things, information about implicit transaction costs calculated according to the 'slippage cost'<sup>1</sup> methodology. These implicit costs are not directly deducted from the fund but are captured in investment returns. They are therefore taken into account when net of fees performance is considered.

**4.9** The Trustee fully supports transparency of costs for members. However, the key consideration for members is the performance produced net of fees; a cheaper fund does not necessarily deliver the best value for members.



<sup>1</sup>Transaction costs are costs incurred by fund managers as a result of buying, selling, lending or borrowing investments, and include both 'explicit' and 'implicit' costs. Implicit transaction costs are calculated using the 'slippage cost' methodology which compares the price of the stocks being traded when a transaction was executed with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be negative (beneficial to members) as well as positive.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**Charges and Costs by Fund**

**4.10** A regulatory charge cap of 0.75% per annum (p.a.) was introduced in 2015 and applies to all default investment arrangements. The main default arrangement, the Lifecycle Balanced 2020 investment strategy, has a TER of between 0.09% p.a. and 0.16% p.a. of assets under management, depending on the stage at which a member's savings are invested within the strategy, and is well within the charge cap.

**4.11** The legacy default arrangements which were in place during the Plan Year also have TERs below the charge cap of 0.75% p.a., as detailed below. Each strategy has a range of TERs depending on the stage at which a member's savings are invested within the strategy:

- a) The Lifecycle 2012 strategy has a TER ranging between 0.07% and 0.15% p.a.; and
- b) The Lifestyle 2002 strategy has a TER ranging between 0.05% and 0.11% p.a.

Three legacy default arrangements were closed during January 2023, namely, the Lifestyle 1997, Lifestyle 1997 (DSL) and Lifecycle to Annuity. Due to the short period which these legacy default arrangements were available during the year, we have quoted the TERs as at 31 December 2022 for illustrative purposes. These ranged from 0.04% to 0.11% p.a., 0.00% to 0.05% p.a. and 0.08% to 0.14% p.a. respectively.

**4.12** The Plan also has additional 'technical defaults' which were in use during the Plan year. The costs and charges for these are set out below and are all below the charge cap of 0.75% p.a.. Each strategy has a range of TERs depending on the stage at which a member's savings are invested within the strategy:

- a) The Growth Plus (DSL) Fund (for a small group of members of the Data Sciences section of the Plan) has a TER of 0.01% p.a.;
- b) The Money Fund has a TER of 0.06% p.a.;
- c) The Lifecycle to Annuity 2020 strategy has a TER ranging between 0.07% and 0.16% p.a.;
- d) The Lifecycle to Lump Sum 2020 strategy has a TER ranging between 0.06% and 0.16% p.a.;
- e) The Lifecycle to Drawdown 2020 strategy has a TER ranging between 0.09% and 0.16% p.a.;
- f) The Lifecycle Balanced 2020 (DSL) strategy has a TER ranging between 0.00% and 0.01% p.a.<sup>1</sup>
- g) The Lifecycle to Lump Sum strategy was closed during the year in October 2023. Due to the shortened period this was available during the year we have quoted the TERs as at 31 December 2022 for illustrative purposes. The Lifecycle to Lump Sum strategy had a TER ranging between 0.09% and 0.14% p.a.

**4.13** All other investment options within the Freestyle range of funds attract TERs that are below the charge cap. The TERs for the individual funds range from 0.04% p.a. to 0.35% p.a. and are detailed in the tables on page 14 and 15.

**4.14** This table on page 14 and 15 provide details of both the IMCs and TERs as of 31 December 2023 for the investment funds available to members during the Plan year and summarises the transaction costs incurred. Transaction costs shown in this table are based on the full slippage cost methodology in compliance with the FCA's Conduct of business sourcebook rule 19.8 and are for the period from 1 January 2023 to 31 December 2023.

**4.15** There are no performance-based fees relating to any of the default arrangements in the Plan.



<sup>1</sup> Investment management charges for certain Data Sciences funds are borne by the Employer.

## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

Asset Class	Fund IMC (% p.a.)	Fund TER ** (% p.a.)	Transaction Costs (% p.a.)	Total of TER & Transaction Costs (% p.a.)
<b>Multi-Asset Funds</b>				
Growth Fund* 1,2	0.14	0.14	0.10	0.25
Growth Plus Fund* 1,2	0.15	0.16	0.10	0.26
Growth Plus Fund (formerly Consensus) *	0.15	0.16	0.10	0.26
<b>Equity Funds</b>				
Global Equity 70:30 Index Fund 3	0.06	0.11	0.00	0.12
Global Equity 60:40 Index Fund 2,3	0.06	0.11	0.01	0.12
All World Equity Index Fund 1,2	0.09	0.09	0.07	0.16
World (ex-UK) Developed Equity Index Fund	0.06	0.07	0.05	0.11
UK Equity Index Fund	0.05	0.13	-0.01	0.11
<b>Cash Funds</b>				
Money Fund 1,2	0.05	0.06	-0.05	0.01
<b>Specialist Funds</b>				
Global Real Estate Equity - GBP Hedged Fund	0.20	0.22	0.12	0.34
Infrastructure Equity MFG - GBP Hedged Fund	0.34	0.34	0.05	0.39
Emerging Market Debt Fund	0.18	0.18	0.04	0.23
World Emerging Markets Equity Index Fund	0.20	0.22	0.12	0.34
<b>Fixed Income Funds</b>				
Over 15 year Gilts Index Fund 2	0.04	0.04	0.00	0.04
Annuity Protection Index Fund 2,3	0.04	0.04	0.03	0.07
Investment Grade Corporate Bond All stocks Index Fund	0.07	0.07	-0.04	0.03
All Stocks Index Linked Gilts Fund	0.04	0.04	0.04	0.08

\* These are blended funds; information on the underlying funds' ratings can be found in the Appendix.

\*\* The TER does not include the Administration fee of 0.03% paid by the Company. The funds' TERs have been calculated using the actual additional expenses occurred in the year up to 31 December 2023 from the Cost Transparency Initiative ("CTI") data provided by LGIM in addition to the funds' IMC.

Source: LGIM. Figures as 31 December 2023, may not sum due to rounding. This information relies upon data provided by third parties.

1 Funds form part of the default Lifecycle Balanced 2020 arrangement.

2 Funds are used within the legacy and / or technical default investment arrangements.

3 Funds are closed to new member elections.

4 Funds form part of the default Lifecycle Balanced 2020 DSL arrangement.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

Asset Class	Fund IMC (% p.a.)	Fund TER ** (% p.a.)	Transaction Costs (% p.a.)	Total of TER & Transaction Costs (% p.a.)
<b>ESG and Ethical Funds</b>				
Future World Fund	0.22	0.23	0.15	0.38
Ethical UK Equity Index Fund	0.15	0.15	0.01	0.17
Ethical Global Equity Index Fund	0.17	0.18	0.05	0.23
Sustainable Developed (ex UK) Equity Index Fund	0.11	0.11	0.03	0.15
Sustainable Global Equity Index Fund	0.12	0.13	0.06	0.19
Sustainable UK Equity Index Fund	0.08	0.08	0.09	0.17
Sustainable Emerging Markets Equity Index Fund	0.23	0.25	0.06	0.31
Sustainable Corporate Bond Fund	0.10	0.09	-0.04	0.05
HSBC Shariah Fund	0.23	0.35	-0.06	0.29
Pre-retirement (Annuity Target) Fund	0.07	0.07	-0.06	0.01
Pre-retirement Inflation linked (Annuity Target) Fund <sup>1,2</sup>	0.07	0.07	0.05	0.12
<b>DSL Funds<sup>4</sup></b>				
All World Equity Index DSL Fund	0.00	0.00	0.07	0.07
Growth Plus DSL Fund	0.00	0.01	0.08	0.09
Growth DSL Fund	0.00	0.00	0.05	0.05
Pre-Retirement Inflation Linked (Annuity Target) DSL Fund	0.00	0.00	0.05	0.05
Money DSL Fund	0.00	0.01	-0.05	-0.04

\*These are blended funds; information on the underlying funds' ratings can be found in the Appendix.

\*\* The TER does not include the Administration fee of 0.03% paid by the Company. The funds' TERs have been calculated using the actual additional expenses occurred in the year up to 31 December 2023 from the Cost Transparency Initiative ("CTI") data provided by LGIM in addition to the funds' IMC.

Source: LGIM. Figures as 31 December 2023, may not sum due to rounding. This information relies upon data provided by third parties.

<sup>1</sup> Funds form part of the default Lifecycle Balanced 2020 arrangement.

<sup>2</sup> Funds are used within the legacy and / or technical default investment arrangements.

<sup>3</sup> Funds are closed to new member elections.

<sup>4</sup> Funds form part of the default Lifecycle Balanced 2020 DSL arrangement.

## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**Additional Contributions**

**4.16** In addition to funds invested with LGIM, as at 31 December 2023, the Plan also held legacy with-profits additional contributions with Aviva Life & Pensions UK Limited ("Aviva"). During the Plan year, member withdrawals of these contributions were administered by XPS Pensions Group, the Trustee's administrator for the DB section of the Plan. The Trustee communicates annually with members regarding these holdings. In 2024, the Trustee's investment advisor, Mercer, conducted a review of these additional contributions held with Aviva and recommended some actions around further communications with members that the Trustee will be taking forward. The Trustee will continue to incorporate the Aviva with-profits fund as part of its annual Value for Members assessment.

**4.17** Charges and costs for the Aviva with-profits funds can be summarised as follows:

Fund	Fund TER (% p.a.)	Transaction Costs (% p.a.)	Total of TER & Transaction costs (% p.a.)
Aviva With-Profits Funds	0.5	0.089	0.589

Source: Aviva. This information relies upon data provided by third parties. Note charges are currently only available to 30 September 2023.

All other AVCs are invested within the main DC arrangements with LGAS.

**The Compounding Effect of Charges and Costs on Members' DC Pensions Savings**

**4.18** The Trustee has prepared an illustration detailing the cumulative effect of charges and costs typically borne by a member of the Plan on their pension savings pot using the charges and transaction cost data provided by LGAS and in accordance with regulatory requirements and statutory guidance. The illustrations can be found on [IBM Pensions Trust | Governance Documentation](https://www.ibm-pensions-trust.co.uk/governance-documentation) ([smartpensionsuk.co.uk](https://www.ibm-pensions-trust.co.uk/governance-documentation)).

**4.19** The latest regulatory requirement and statutory guidance sets out that trustees and managers should present the impact of charges and costs typically paid by a member as a figure in pounds, or pounds and pence.

**4.20** The illustrations have taken into account the following elements:

- 1) Savings pot size;
- 2) Salary increases and inflation;
- 3) Contributions;
- 4) Real terms investment return, gross of charges and costs;
- 5) Adjustment for the effect of charges and costs; and
- 6) Time

**4.21** To illustrate the impact of charges on a typical member's pension savings pot, we have provided examples below:

- For the purposes of the charges and costs illustrations, all active members are assumed to maintain a consistent % of salary contribution per year to their pension (with salary expected to grow in line with inflation) and a member's retirement age is assumed to be 65. This may differ from your normal retirement age or your target retirement age.
- Active members:
 

	Younger (Age 31):	A starting annual contribution of £5,635	A starting fund value of £89,900
Average (Age 52):	A starting annual contribution of £10,700	A starting fund value of £97,050	
- Deferred members:
 

	No ongoing contributions	A starting fund value of £89,900
Average (Age 52):	No ongoing contributions	A starting fund value of £97,050
- The illustrations include all member costs, including the Total Expense Ratio, estimated transaction costs and inflation.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

- The gross projected real growth rate for each fund and the usage in each of the arrangements are as follows:

Fund	Gross Projected Real Growth Rate (% p.a.)	Default Arrangement	Legacy Default Arrangement		Technical Default Arrangement			
		Lifecycle Balanced 2020	Lifestyle 2002	Lifecycle 2012	Lifecycle to Annuity 2020	Lifecycle to Lump Sum 2020	Lifecycle to Drawdown 2020	Lifecycle to Balanced (2020)
All World Equity Index Fund	2.5	✓		✓	✓	✓	✓	✓
Growth Plus Fund	0.5	✓		✓	✓	✓	✓	✓
Growth Fund	0.5	✓		✓			✓	✓
Pre-retirement Inflation linked (Annuity Target) Fund	2.5	✓		✓	✓			✓
Money Fund (lowest charging)	-1.5	✓	✓	✓	✓	✓	✓	✓
Global Equity 60:40 Index Fund	2.5		✓					
Annuity Protection Fund	2.5		✓					
Infrastructure Equity Fund (highest charging)	4.5							
Growth Plus Fund (DSL)	0.5							

The funds' projected real growth rates are based on AS TM1 v5.0 SMP1 guidance as owned by the Financial Reporting Council.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

## 5 Value for Members

**5.1** The Trustee is required to undertake a review of the charges and costs incurred by members to ascertain whether they represent good value for members.

**5.2** The Trustee is committed to ensuring that members receive good value from the Plan. In conjunction with the Trustee's investment advisors, the Trustee has undertaken a formal value for members' assessment ("VFM"); this has been the case since 2015. In March 2024, Mercer conducted the Trustee's most recent VFM assessment evaluating the charges borne by members in relation to the services received during 2023.

**5.3** The overall Value for Member assessment covered the following aspects:

- Investment charges for the default and self-select arrangements (paid for by the member);
- Transaction costs;
- Performance of the investment funds;
- Mercer's ratings for the funds;
- Plan governance;
- Investment design and range;
- Member services; and
- The costs funded by the Company, (rather than the member) of:
  - o Plan administration;
  - o Trustee's advisory costs; and
  - o Member communication.

**5.4** Mercer has concluded that the charges and costs represent good value for members and that the funds offered to members are:

- Highly rated by Mercer;
- Offer a competitive fee rate (relative to peer group analysis and standard fees); and
- Are performing in line with expectations over the longer-term.

**5.5** In addition to this:

- Charges for the default investment arrangements are significantly below the charge cap of 0.75% p.a.;
- There is a wide range of investment options which gives members access to traditional and alternative asset classes with ongoing monitoring and oversight of fund performance; and
- Regular communications are issued to members either directly or via the member site ([www.smartpensionsuk.co.uk](http://www.smartpensionsuk.co.uk)), including a member survey undertaken in November 2023 following which, the findings were discussed in the Investment Committee meeting held in December 2023.

**5.6** In summary, Mercer has considered that the Plan's fund range continues to offer 'good value' for member in terms of price, performance and productivity; this is Mercer's highest rating.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

## 6 Long-term Net Investment Returns

- 6.1** Trustees are required to report on the net investment returns for the Plan's default arrangement(s) and for each fund/strategy which Plan members are, or have been able to, select, and in which members are invested during the Plan year. Net investment returns refer to the returns on funds minus all transaction costs and charges.
- 6.2** The table below includes the long-term net investment return for the Plan's default arrangement(s) which have been calculated in accordance with the statutory guidance.

Strategy	Annualised returns to 31/12/2023 (%)		
Lifecycle Balanced 2020 (Default)			
Age of member	1 Year	Since inception date of 01/12/20	
25	20.2	8.1	
45	14.3	6.9	
55	14.3	6.8	
Lifecycle to Annuity 2020			
Age of member	1 Year	Since inception date of 01/12/20	
25	20.2	8.1	
45	14.3	6.9	
55	14.3	6.8	
Lifecycle Lump Sum 2020			
Age of member	1 Year	Since inception date of 01/12/20	
25	20.2	8.1	
45	14.3	6.9	
55	14.3	6.8	
Lifecycle to Drawdown 2020			
Age of member	1 Year	Since inception date of 01/12/20	
25	20.2	8.1	
45	14.3	6.9	
55	14.3	6.8	
Lifecycle to Balanced 2020 (DSL)			
Age of member	Since inception date of 01/02/2023		
25	14.8		
45	10.4		
55	10.4		

## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

Strategy	Annualised returns to 31/12/2022 (%)			
Lifecycle 2012				
Age of member	1 Year	5 Years	10 Years	
25	20.2	11.6	9.9	
45	14.3	9.2	6.9	
55	8.7	4.1	3.8	
Lifestyle 2002				
Age of member	1 Year	5 Years	10 Years	
25	10.8	8.6	7.4	
45	10.8	8.6	7.4	
55	10.8	8.6	3.4	

Source: LGIM and Mercer. Performance shown net of all charges and transaction costs. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifecycle, with the weightings as at the ages shown. Assumed retirement age is 65.  
For an arrangement where the net returns vary with age – for example a lifestyle arrangement, specific results for savers aged 25, 45, and have been used.  
The 2020 lifecycle arrangements have been in place for less than 5 years and hence the 5 year and 10 year performance are not available.



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**6.3** The table below includes the long-term net investment return for the Plan's Freestyle funds calculated in accordance with the statutory guidance:

Freestyle fund	Inception Date	Annualised net returns to 31/12/2023 (%p.a.)		
		1 year	5 years	10 years
<b>Growth Fund<sup>1,2</sup></b>	04/04/2012	8.7	4.1	-
<b>Growth Plus Fund<sup>1,2</sup></b>	04/04/2012	14.3	9.2	-
Growth Plus Fund (DSL) <sup>3,4</sup>	08/04/1997	14.5	9.4	-
Global Equity 70:30 Index Fund <sup>3</sup>	09/04/1997	10.1	8.5	-
Global Equity 60:40 Index Fund <sup>2,3</sup>	06/12/2002	10.8	8.6	-
<b>All World Equity Index Fund<sup>1,2</sup></b>	04/04/2012	20.2	11.6	-
World (ex-UK) Developed Equity Index Fund	05/10/2011	20.5	13.2	-
UK Equity Index Fund	05/10/2011	7.7	6.7	-
<b>Money Fund<sup>1,2,4</sup></b>	15/07/2009	4.7	1.4	-
Global Real Estate Equity - GBP Hedged Fund	23/03/2015	10.5	3.3	-
Infrastructure Equity MFG - GBP Hedged Fund	19/08/2013	0.5	6.5	-
Emerging Market Debt Fund	17/04/2012	8.0	1.0	-
World Emerging Markets Equity Index Fund	17/04/2012	2.6	4.3	-
Over 15 year Gilts Index Fund	09/04/1997	2.1	-6.4	-
Annuity Protection Index Fund <sup>2,3</sup>	06/12/2002	1.9	-5.2	-
Investment Grade Corporate Bond All stocks Index Fund	17/04/2012	8.8	0.4	-
All Stocks Index Linked Gilts Fund	17/04/2012	2.3	-3.7	-

Source: LGIM, net of fees. Funds in bold are components of the Plan's default investment arrangement. We note that the performance figures shown above reflect the underlying pooled fund used by the Plan and is based on daily midday mid-prices.

<sup>1</sup> Funds form part of the default Lifecycle Balanced 2020 arrangement.

<sup>2</sup> Funds are used within the legacy default investment arrangements.

<sup>3</sup> Funds are closed to new member elections.

<sup>4</sup> This fund is also a 'technical default'.

(-) represents performance data that is not available due to the inception date of the fund.

## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

Freestyle fund	Inception Date	Annualised net returns to 31/12/2023 (%p.a.)		
		1 year	5 years	10 years
Future World Fund	08/01/2021	17.3	-	-
Ethical UK Equity Index Fund	06/12/2002	8.0	6.3	-
Ethical Global Equity Index Fund	17/04/2012	22.3	13.5	-
Sustainable Developed (ex UK) Equity Index Fund	14/11/2022	21.9	-	-
Sustainable Global Equity Index Fund	14/11/2022	20.8	-	-
Sustainable UK Equity Index Fund	14/11/2022	6.1	-	-
Sustainable Emerging Markets Equity Index Fund	14/11/2022	2.0	-	-
Sustainable Corporate Bond Fund	14/11/2022	9.8	-	-
HSBC Shariah Fund	15/11/2022	27.2	-	-
Pre-retirement (Annuity Target) Fund	05/10/2011	8.1	-2.0	-
<b>Pre-retirement Inflation linked (Annuity Target) Fund<sup>1,2</sup></b>	12/01/2017	4.9	-3.5	-

Source: LGIM, net of fees. Funds in bold are components of the Plan's default investment arrangement. We note that the performance figures shown above reflect the underlying pooled fund used by the Plan and is based on daily midday mid-prices.

<sup>1</sup> Funds form part of the default Lifecycle Balanced 2020 arrangement.

<sup>2</sup> Funds are used within the legacy default investment arrangements.

<sup>3</sup> Funds are closed to new member elections.

<sup>4</sup> This fund is also a "technical default".

(-) represents performance data that is not available due to the inception date of the fund.

**6.4** The Plan also has legacy additional contributions invested with Aviva as detailed in 4.15. Investment returns over the year to 31 December 2023 are shown below calculated in accordance with the statutory guidance.

	1 year performance for policies written pre 9 July 2001	1 year performance for policies written post 8 July 2001
Aviva With Profits Fund	9.8	10.3

Source: Aviva, 31 December 2023. Information provided by Aviva does not clarify whether investment returns are net or gross of charges.

## 7 Asset Allocation Disclosure

**7.1** The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 ("the 2023 Regulations") introduced new requirements for trustees of certain occupational pension schemes.

**7.2** For the first scheme year that ends after 1 October 2023, trustees of relevant occupational pension schemes are required to disclose their full asset allocations of investments from their default arrangements.

**7.3** The table on the right includes full asset allocations of investments from the Plan's default arrangements as at 31 December 2023 which have been calculated in accordance with the statutory guidance.

**7.4** Note that figures may not sum due to rounding.

### 7.5 Lifecycle Balanced 2020 (Main Default)

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	4.9	1.7	1.7	22.6
Bonds	0.4	19.5	19.5	62.5
Listed Equities	94.7	78.8	78.8	14.9
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0

### 7.6 Lifecycle to Annuity 2020

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	4.9	1.7	1.7	22.3
Bonds	0.4	19.5	19.5	77.8
Listed Equities	94.7	78.8	78.8	0.0
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

## 7.7 Lifecycle to Drawdown 2020

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	4.9	1.7	1.7	23.0
Bonds	0.4	19.5	19.5	47.3
Listed Equities	94.7	78.8	78.8	29.7
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0

## 7.8 Lifecycle Lump Sum 2020

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	4.9	1.7	1.7	89.0
Bonds	0.4	19.5	19.5	11.0
Listed Equities	94.7	78.8	78.8	0.0
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0



## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

## 7.9 Lifecycle Balanced 2020 (DSL)

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	4.9	1.7	1.7	22.6
Bonds	0.4	19.5	19.5	62.5
Listed Equities	94.7	78.8	78.8	14.9
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0

## 7.10 Lifestyle 2002

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	0.0	0.0	0.0	22.3
Bonds	0.0	0.0	0.0	77.2
Listed Equities	100	100	100	0.0
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0





## Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

## 7.11 Lifecycle 2012

	Percentage allocation – Age 25 (%)	Percentage allocation – Age 45 (%)	Percentage allocation – Age 55 (%)	Percentage allocation – Age 65 (%)
Cash	4.9	1.7	1.0	22.3
Bonds	0.4	19.5	59.4	77.8
Listed Equities	94.7	78.8	39.6	0.0
Private Equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property/Real Estate	0.0	0.0	0.0	0.0
Private Debt/Credit	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0

## 7.12 Growth Plus Fund (DSL) and the Money Fund

	Growth Plus Fund (DSL)	Money Fund
Cash	1.7	89.0
Bonds	19.5	11.0
Listed Equities	78.8	0.0
Private Equity	0.0	0.0
Infrastructure	0.0	0.0
Property/Real Estate	0.0	0.0
Private Debt/Credit	0.0	0.0
Other	0.0	0.0

**7.13** Notes: Normal Retirement Date for the Plan is age 65, members have the option of selecting their own retirement date.

The following describes the types of investments covered by the above asset classes:

**Cash** – Cash and assets that behave similarly to cash e.g. treasury bills. It only includes invested cash and not the cash balance held by the Plan or accounting values such as net current assets.

**Bonds** – Loans made to the bond issuer, usually a government or a company, to be repaid at an agreed later date. The term refers generically to corporate bonds or government bonds (such as gilts).

**Listed Equities** – Shares in companies that are listed on a stock exchange and can be bought and sold on that stock exchange. Owning shares makes shareholders a part owner of the company, and usually entitles them to a share of the profits (if any) payable as dividends.

**Private Equity** – Unlisted equities that are not publicly traded on stock exchanges. Private equity funds can encompass a broad range of investment styles, including: Venture Capital – Small, early stage businesses that may have high growth potential, albeit at significant risk, Growth Equity – Relatively mature companies that are going through a transformational event with potential for growth, Buyout or leveraged buyout funds – Invested in more mature businesses, often taking a controlling interest, Leveraged buyout funds take out loans to raise the funds required to invest.

**Infrastructure** – Physical structures, facilities, systems, or networks that provide or support public services including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals, and prisons

**Property** – Real estate, potentially including offices, retail buildings which are rented out to businesses.

**Private Debt** – Non-bank lending to companies not issued or traded publicly. They are other forms of loan that do not fall within the definition of a 'Bond'.

**Other** – Any assets that do not fall within the above categories.

## 8 Trustee Knowledge and Understanding

**8.1** In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee Directors are required to maintain an appropriate level of knowledge and understanding which, together with the professional advice that is available to them, enables them to properly exercise their functions and duties in relation to the Plan.

**8.2** The Trustee has a Trustee Knowledge and Understanding ("TKU") process in place that ensures that each Trustee Director has a working knowledge of the Plan's governing documentation, documents setting out their policies and the SIP together with an understanding of the laws relating to pensions trusts and investment principles. The Governance Committee oversees the Trustee's approach to meeting the TKU requirements. The current TKU process is set out below.

### Recruitment

**8.3** The Trustee's recruitment process ensures new Trustee Directors will have the necessary skills and basic level of understanding required by having:

- A Trustee Fitness and Propriety process which outlines the eligibility requirements for the appointment of Trustee Directors;

- A Trustee Recruitment process for member nominated Trustee Directors (MNDs) that is achieved via a democratic election process. The Trustee approved on the 7th of December 2023 that in the future, MND appointments will be achieved via a nomination and selection process.
- Education and training sessions that are provided to potential candidates to enable them to understand the roles and responsibilities ahead of their respective nomination;
- A recruitment process for company appointed Trustee Directors which is managed by the Company; and
- A process for appointing a chair of the Trustee Board and the leadership qualities required for that role.

### Induction Process

- 8.4** There is a specific and structured training programme for new Trustee Directors upon being appointed which includes:
- An induction education session with the IBM Pensions Trust Manager (covering the topics set out below);
  - A requirement for all Trustee Directors to undertake and complete The Pensions Regulator's Trustee Toolkit course within six months of taking up office; and
  - Attendance at various sub-committees as an observer to build knowledge and understanding of specific issues.

**8.5** During 2023, there were no changes to the Trustee Directors, however the incumbent MNDs were re-elected through the democratic election process.





Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

**Ongoing Education**

**8.6** For existing Trustee Directors, the ongoing education program is determined as a result of specific requirements that arise during the year, taking into account any knowledge gaps or education priorities identified during the Trustee Directors' self-assessment survey.

**8.7** Trustee training sessions were held over the Plan year covering the following topics to ensure trustees are kept up to date on pensions and trust law and the principles of investment and scheme documents:

- Illiquid assets in DC;
- Mansion House pension reforms;
- Pension elements of the 2023 Autumn Statement; and
- Climate Change-related Disclosures.

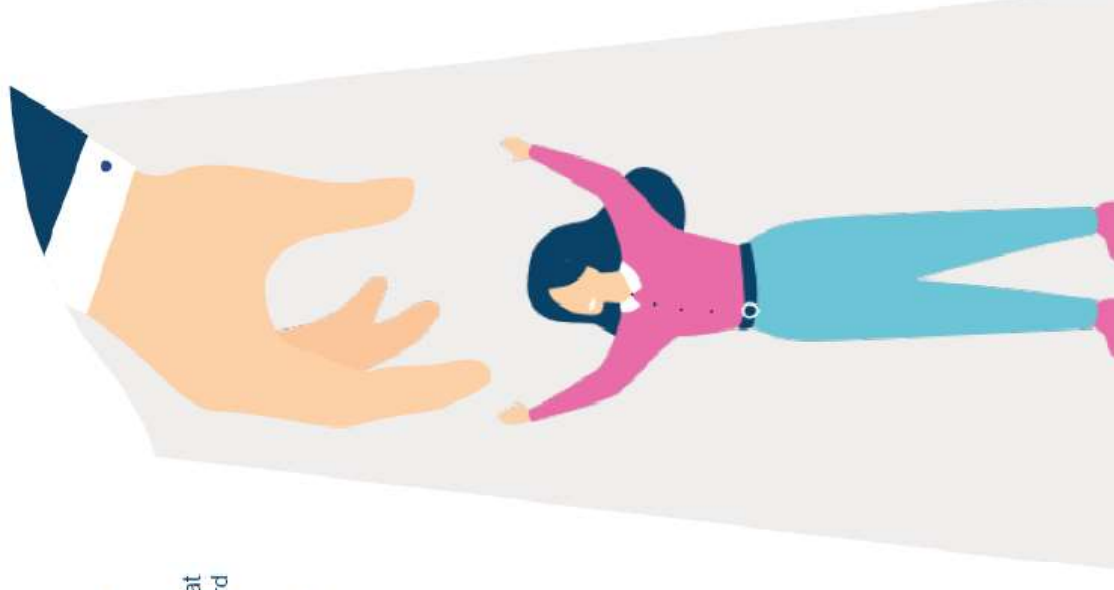
**8.8** A log of Trustee Directors' attendance at education sessions and Committee meetings is maintained.

**8.9** All Plan documents are available to the Trustee Directors via a dedicated Trustee online repository to ensure they maintain a working knowledge of these. The SIP was updated and approved by the Trustee during the Plan Year.

**The Trustee Effectiveness Assessment**

**8.10** There is an annual evaluation of the performance and effectiveness of the board. It is in the form of a questionnaire sent to all Trustee Directors to complete. The most recent evaluation that was conducted in December 2023 revealed that there was overall consensus that the Board and Committees were effective in 2023.

**8.11** The questionnaire included a question on 'improvement suggestions'. The Governance Committee is considering these suggestions and will propose potential actions for 2024. Work will be continued on the Trustee's effectiveness through compliance with TPR's new General Code of Practice, ensuring an "Effective System of Governance".



Chair's Defined Contribution Governance Statement for the Year ended 31 December 2023

### Utilising Advisors

**8.12** The Trustee believes that the best run schemes utilise the combined skill and knowledge of both the Trustee and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors.

**8.13** Additionally, the following measures have applied during the period:

- Professional advisors, where relevant, attend the Trustee's formal meetings; and
- The Trustee receives briefings from their advisors on relevant legislative and regulatory developments and DC topics at each relevant meeting.

**8.14** Trustee meetings typically occur at least four times a year, with additional meetings as needed and minutes are taken and then approved at the next meeting. Advisors are invited to all relevant meetings.

**8.15** Taking into account actions taken individually and as a trustee group, which includes an independent professional trustee organisation, and the professional advice available to it, the Trustee considers that it is able to exercise its function as a Trustee appropriately.

### Summary

**8.16** The Trustee Effectiveness review undertaken in 2023, the combined knowledge and understanding of the Board (with expertise drawn from different professional and investment related backgrounds), the matching of Trustee expertise to the relevant Trustee Committees, together with tailored training and professional advice undertaken in 2023, has enabled the Trustee to properly exercise its functions in the Plan year.

I confirm that the above Chair's Statement has been produced and approved by the Trustee to the best of its knowledge.

Signed for and on behalf of IBM United Kingdom Pensions Trust Limited as Trustee of the IBM Pension Plan  
e-Signed by Robert Tickell

By ..... on 2024-07-25 15:44:28 GMT

Date: 25th July 2024

Chair of Trustee



# Statement of Investment Principles

**IBM Pension Plan**

**November 2023**

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## 1. Introduction

- 1.1 IBM United Kingdom Pensions Trust Limited (the “Trustee”), as the Trustee of the IBM Pension Plan (the “Plan”), 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 Plan’s investments. The Trustee’s investment responsibilities are governed by the Plan’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 Plan 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 Defined Contribution (“DC”) Sections of the Plan and these are considered separately, as appropriate.
- 1.4 The DB Section of the Plan is closed to new members and to future accrual.
- 1.5 The DC Section of the Plan has been closed to new members since 2011 but continues to be open to new additional contributions.
- 1.6 Until 2011, the Plan provided a facility for DB and DC members to pay Additional Voluntary Contributions (“AVCs”) and Additional Smart Contributions (“ASCs”) into the Plan to enhance their benefits at retirement. With the closure of the DB Section to future accrual, DB members can maintain their existing AVC and ASC pension savings within the Plan but are no longer able to make further AVC or ASC contributions. The DC Section continues to be open to new AVC and ASC contributions.
- 1.7 The Plan’s investment arrangements, based on the principles set out in this Statement, are detailed in the Plan’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>).
- 1.8 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 Plan 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

### Plan 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 Plan Actuary and other professional advisers.
- 2.3 The Trustee is responsible for the investment of the Plan’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 DB and DC Investment Committees 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. The ESG Sub-Committee has delegated responsibility from the Investment Committee.
- 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 Plan’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 Plan.
- 2.10 The Plan’s DC investments (including AVCs and ASCs) 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.



**Statement of Investment Principles – November 2023**

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- 2.12 A custodian is appointed by the Trustee to provide safekeeping of the Plan's DB 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 Plan's DB investment strategy is that there should be sufficient secure investments in liquid or readily-realizable assets to meet short term cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy.
- 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' investments in the Plan's DC Section 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 Plan’s investments, both DB and DC (including the DC default investment strategies), 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.
- 3.2 The Trustee expects its investment managers to be signatories of the Principles of Responsible Investment (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 Plan’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 DC lifecycles/lifestyles and self-select ('Freestyle') funds offered to members.
- 3.8 The Trustee has made available a number of sustainable and ethical funds as detailed in the IPID.

## 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 Plan's DB and DC investments to the investment managers. 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 Plan.
- 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 role to ensure that the Trustee's expectations for the Plan'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 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
- 4.6 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. The Implementation Statement is available to members online (<https://www.smartpensionsuk.co.uk/#/page/governance-documentation>) or upon request.
- 4.7 Significant shareholder action other than voting should also be reported.
- 4.8 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 4, 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 management 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<sup>1</sup>.
- 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 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 and Currency Hedging managers, a fee is payable calculated as a percentage of the hedge.
- 5.11 In some cases, active managers are incentivised using a performance related 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 As part of the annual Value for Members ("VfM") assessment, the Trustee reviews the DC investment manager fees. 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 within the DB Section of the Plan. 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 Within the DC section of the Plan, the Trustee reviews the transaction costs of the underlying funds and strategies on a quarterly basis and again as part of the annual Value for Members assessment.
- 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.

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<sup>1</sup> 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 section, there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
  - For the DC section, 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 Plan 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. In order to maintain a strategic allocation to an asset class, the Trustee may choose to stay with a manager in a new vintage of the fund or appoint a different manager.



## 6. Strategic Asset Allocation

### DB Section

#### Objectives and Policy

- 6.1 The Trustee has set the following long-term investment objectives in relation to the DB Section:
- The acquisition of suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with any new contributions from the Company, the cost of current benefits that the Plan provides.
  - To limit the risk of the assets failing to meet the liabilities, both over the long term and on a shorter term basis.
- 6.2 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 Plan's investment portfolio by 20% over the 3 years from 31 December 2021 (where carbon emissions data is available and can be reported). It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) data is reportable<sup>2</sup>.
- 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 DB Section of the Plan. 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 Plan'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 Plan's funding level.
- 6.5 The Trustee has set the following target allocations to growth and matching assets (these strategic allocations exclude the buy-in policy assets – Section 6.9 includes further details of the buy-in policy):

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Asset Class	Current Strategic Target Allocation (%)
Private equity	0.5
UK property	

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<sup>2</sup> This includes scope 1 and 2 weighted average carbon intensity emissions data where available for the following mandates (excluding sovereigns): DB Section – Global Bonds, Global Credit, Long-term UK Core Credit and Property.

Global bonds	
Global credit	
Long-term UK core credit	99.5
Liability matching assets	
Cash	
<b>Total</b>	<b>100.0</b>

- 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 Plan's liabilities.
- 6.8 The Trustee has also implemented a currency hedging policy to mitigate the increased risk associated with investing in overseas assets.
- 6.9 The Trustee entered into a bulk annuity policy with Rothesay Life on the 14 December 2020. The bulk annuity policy was purchased to cover 50% of the DB Section's pensioner liabilities (excluding Data Sciences members).

## Risk Management

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

Type of Risk	Description	How is the risk monitored and managed?
Solvency and mismatching risk	The risk that the assets of the Plan do not fulfil the current and future obligations of the Plan to its members. This is the combination of all other risks described below.	Managed and monitored in the ways described below for the specific risks.
Market risks	Interest rate and inflation risks	The risk arising from differences in the cash-flow profile of the gilts and other bonds held by the Plan from that of the Plan's projected benefit cash-flows due to members.
	Currency risk	The risk that changes in exchange rates affect the values of overseas assets compared to the Plan's sterling liabilities.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.
	Equity, property and other risks	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.

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.  A proportion of the Plan's pensioner liabilities are managed by an insurer (Rothsay Life plc) via a bulk purchase annuity, removing the demographic risks in relation to those liabilities.
Operational risks	Custodial risk	The risk that the custodian holding assets directly for the Plan 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 Plan.  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 Plan.  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 Plan 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 Plan cannot meet short term cashflow requirements or incurs excessive costs doing so. This includes liquidity requirements of the Plan's currency and liability hedging programmes.	Managed by undertaking periodic reviews of the Plan'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 Plan'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 Plan and make good any current or future deficit.	Covenant reviews are undertaken at least triennially to assess the interaction between the Plan 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.	<p>The Trustee produces an annual Climate Change-related Disclosures Report, in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.</p> <p>The Trustee requests the Plan's investment managers to provide portfolio carbon risk metrics consistent with the regulations and the metrics agreed by the Trustee.</p> <p>As part of the triennial investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.</p>
Insurer insolvency risk	A risk that the insurance provider may default on their obligations under the bulk annuity policy.	Before entering into the bulk annuity contract, the Trustee obtained and carefully considered the financial strength of the insurer and believed that the risk was acceptably low. The solvency of the insurer is reviewed on a quarterly basis at Trustee Management meetings.

## DC Section

### Overall Aims and Objectives

- 6.11 The Trustee's principal mission is to help DC Section members to maximise their retirement outcomes with an appropriate level of investment risk, by providing an appropriate 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.
- 6.12 In addition to the principal mission as stated above and the investment objectives below, the Trustee also aims to:
- Ensure that the DC Section's operational structure is suitable and cost effective.
  - To make sure the Plans meet all regulatory requirements as set out by the Pensions Regulator.
  - To ensure effective governance of climate-related risks and opportunities.
  - Provide members with adequate tools and timely information to enable them to make informed contribution, investment and retirement decisions.

### Investment Objectives

- 6.13 The Trustee has the following investment objectives related to the DC Section:
- To offer default investment strategies that are suitable 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.
- 6.14 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 Main Plan's DC investment portfolio by 20% over the next 3 years from 31 December 2021. It should be noted that the target applies where Weighted Average Carbon Intensity (WACI) data is reportable <sup>1</sup>.

### Investment Policies

- 6.15 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.

<sup>1</sup> This includes scope 1 and 2 weighted average carbon intensity emissions data where available for the DC popular arrangements (excluding sovereigns).

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- 6.16 The fund range and default investment strategy are reviewed on at least a triennial basis, the last review having taken place in 2022.
- 6.17 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.
- 6.18 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 Balanced 2020' strategy is the default investment strategy for those DC members who do not make their own investment selection. The 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 defined contribution savings as tax-free cash on retirement, using the remainder to buy an annuity.
  - 'Lifecycle to Lump Sum 2020' strategy. This strategy is aimed at members targeting a lump sum cash withdrawal at retirement.
  - 'Lifecycle to Drawdown 2020' strategy. This strategy is aimed at members who intend to take 25% of their defined contribution 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.

- 6.19 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.
- 6.20 In determining which investment options to make available, the Trustee with advice from its Investment Consultant, has considered the investment risk associated with DC pension investment. 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



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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:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that the real returns (i.e. return above inflation) of the funds do not keep pace with inflation.	Members are able to set their own investment allocations, in line with their risk tolerances.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	The Lifecycle investment strategies include an allocation to inflation-linked assets.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	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.
	Equity, property and other risks	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.	For the multi-asset funds and Lifecycle investment strategies available, the Trustee periodically reviews the suitability of these options taking into considerations the risks listed.  The Trustee considers these risks and the appropriate level of diversification when setting the default investment strategy.
	Investment manager risk	The risk that the appointed investment managers underperform their objectives, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	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.
	Liquidity risk	The risk that the Plan's assets cannot be realised at short notice in line with member demand.	The Plan is invested in daily dealt and daily priced pooled funds.

Type of Risk	Risk	Description	How is the risk monitored and managed?
			<p>The Trustee makes available a range of Lifecycle strategies for DC members.</p> <p>Lifecycle 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.</p> <p>Members can select a Lifecycle strategy in accordance with their personal preferences and retirement objectives.</p> <p>The default investment strategy is a Lifecycle strategy. As part of the triennial default investment strategy review, the Trustee reviews the appropriateness of the default retirement destination based on the membership profile and experience.</p>
	Pension Conversion risk	The risk that the value of a member's account does not enable the member to meet their objectives post retirement.	
			<p>The Trustee produces an annual Climate Change-related Disclosures Report in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.</p> <p>The Trustee requests the Plan's investment managers to provide portfolio carbon risk metrics consistent with the regulations and the metrics agreed by the Trustee.</p> <p>Climate scenario analysis is completed on a triennial basis in conjunction with the investment strategy review.</p> <p>As part of the triennial default investment strategy reviews, the Trustee considers opportunities to improve the ESG integration into the portfolio.</p>
	Climate risk	A systemic risk that may materially affect the financial performance of investments.	

6.21 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 in relation to the DC Section as a whole. 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.

## **DC Section – Default Investment Strategy**

### **Aims and Objectives**

- 6.22 The Trustee recognises that not all members will make investment decisions and as such the Trustee believes that it is appropriate to offer a default investment strategy.
- 6.23 The Trustee has selected the 'Lifecycle Balanced 2020' strategy as the default investment strategy for DC members of the Plan. 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). The Lifecycle Balanced 2020 strategy is also the default strategy for ex - Data Science Limited Members<sup>2</sup>.
- 6.24 These objectives are in addition to the Overall Aims and Objectives and Investment Objectives stated for the general DC Section.

### **Investment Policies**

- 6.25 The default investment strategy is designed after careful analysis of the membership demographic and other characteristics in order to offer a suitable approach that is tailored, insofar as is practical, to the needs of the Plan's members. The Trustee will review the default investment strategy regularly, at least triennially or after significant changes to the Plan's demographic profile.
- 6.26 A range of asset classes are included within the default investment strategy including: developed market equities, emerging market equities, multi-asset funds, pre-retirement funds and money market investments.
- 6.27 The Trustee, with advice from its Investment Consultant, considers the trade-off between risk and expected returns. The default investment strategy balances between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date. The Lifecycle approach reflects that members' investment needs change as they progress towards retirement age by reducing the investment risk.
- 6.28 The Trustee has considered the investment risk associated with DC pension investment. 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 strategies made available to members. The specific risks pertaining to the default investment strategy are identified in the table in 6.20.

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<sup>2</sup> The Data Science Limited Lifecycle Balanced Strategy is invested in the same way as the Lifecycle Balanced 2020 Strategy but the investment management charges (IMCs) are paid by the Company.

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- 6.29 Returns can be generated from different sources, including the illiquidity risk premium in the case of illiquid assets. Illiquid assets are assets of a type which cannot easily or quickly be sold or exchanged for cash and where assets are invested in a collective investment scheme, includes any such assets held by the collective investment scheme. Although the nature of DC investment limits the use of illiquid asset classes, where appropriate, the Trustee looks to incorporate illiquid assets into the investment range, albeit limited to liquid forms to ensure daily pricing for members. The Trustee believes there are diversification benefits from a risk and return perspective investing in illiquid asset classes and consider fund options as part of investment strategy reviews, as well as keeping up to date with the development and availability of illiquid asset classes within the DC landscape.
- 6.30 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 in relation to the default investment strategy. 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**

- 6.31 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 Plan's membership characteristics in order to ensure that assets are invested in the best interests of the members.

**DC Section – Legacy Default Investment Strategies****Aims and Objectives**

- 6.32 The Trustee operates two legacy default investment strategies<sup>3</sup> which are no longer available as new options within the Plan. Members close to retirement were allowed to remain invested in older default investment strategies and may also increase their allocations to said strategies. These strategies target the purchase of an annuity and reduce investment risk as a member's retirement date approaches.
- 6.33 These objectives are in addition to the Overall Aims and Objectives and Investment Objectives stated for the general DC Section.

**Investment Policies**

- 6.34 The legacy default investment strategies are designed after careful analysis of the membership demographic and other characteristics in order to offer a suitable approach that is tailored, insofar as

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<sup>3</sup> These are Lifecycle 2012 and Lifestyle 2002 as set out in the IPID.

is practical, to the needs of the Plan's members. The Trustee will review the legacy default investment strategies regularly, at least triennially or after significant changes to the Plan's demographic profile.

- 6.35 A range of asset classes are included within the legacy default investment strategies including: developed market equities, emerging market equities, gilts, multi-asset funds, annuity target funds and money market investments.
- 6.36 The Trustee, with advice from its Investment Consultant, considers the trade-off between risk and expected returns. These legacy default investment strategies balance between different kinds of investments to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date. The Lifecycle/Lifestyle approach reflects that members' investment needs change as they progress towards retirement age by reducing the investment risk.
- 6.37 The Trustee has considered the investment risk associated with DC pension investment. 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 strategy made available to members. The specific risks pertaining to the legacy default investment strategies are identified in the table in 6.20.
- 6.38 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 in relation to the legacy default investment strategies. 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**

- 6.39 The Trustee will carry out regular assessments (at least triennially or following any significant change in membership) not only of the performance of the legacy default investment strategies, but also of their design to ensure that they remain appropriate for the membership profile. This is in addition to more regular performance monitoring, which is expected to take place quarterly.

## **DC Section – Additional Default Arrangements**

### **Additional Default Arrangements**

- 6.40 In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee has identified the investment options listed in the table below as 'default arrangements' (as defined by these regulations). These have been identified as 'default arrangements' as members' contributions have been automatically directed to these arrangements without members having instructed the Trustee where their contributions are to be invested; this is due to historic fund mapping exercises and is further explained in the table below. The performance of these funds is monitored on a quarterly basis, with a strategic review being carried out at least triennially.

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<b>Fund/Investment Strategy</b>	<b>Reason for identification as a 'default arrangement'</b>	<b>Date</b>
<b>Growth Plus Fund (DSL)</b>	Following closure of the Consensus Fund by Legal & General, the Trustee received advice from the Plan's investment advisors and assets for DSL members were mapped to the Growth Plus Fund.	July 2016
<b>Money Fund</b>	As part of the transition of assets from Utmost Life & Pensions Limited to Legal & General (following the closure of the Equitable Life With Profits Fund). DB AVCs for members aged 55 or over who did not make an active selection were mapped to the Money Fund.	May 2020
<b>Lifecycle to Annuity 2020 Strategy</b>	As part of the implementation of the new investment arrangements in the first quarter of 2021, certain members who were over 8 years from retirement, and who did not make an active selection, were mapped from the Lifecycle to Annuity strategy to the Lifecycle to Annuity 2020 strategy. This included members who had transitioned from Utmost Life & Pensions to the Lifecycle to Annuity Strategy in May 2020, were over 8 years from retirement and did not make an active selection.	March & April 2021
<b>Lifecycle to Lump Sum 2020 Strategy</b>	<p>As part of the implementation of the new investment arrangements in the first quarter of 2021, members over 8 years from retirement who did not make an active investment selection were mapped from the Lifecycle to Lump Sum strategy to the Lifecycle to Lump Sum 2020 strategy. This included members transitioned from Utmost Life &amp; Pensions to the Lifecycle to Lump Sum Strategy in May 2020, who were over 8 years from retirement, and who did not make an active selection.</p> <p>Additionally, all members previously invested in the legacy default Lifecycle Plus 2012 strategy were mapped to the Lifecycle to Lump Sum 2020 strategy unless an alternative active selection had been made.</p>	March & April 2021
<b>Lifecycle to Drawdown 2020 Strategy</b>	As part of the implementation of the new investment arrangements in the first quarter of 2021, members over 8 years from retirement who did not make an active investment selection, were mapped from the Lifecycle to Drawdown strategy to the Lifecycle to Drawdown 2020 strategy.	March & April 2021

## Aims and Objectives

- 6.41 The aims and objectives in respect of these additional 'default arrangements' are summarised in the table below. These objectives are in addition to the Overall Aims and Objectives and Investment Objectives stated for the general DC Section.

Fund	Trustees' aims and objective
<b>Growth Plus Fund (DSL)</b>	The fund's objective is to provide diversified exposure to a range of asset classes.
<b>Money Fund</b>	The fund is designed to provide capital stability by investing in a diversified portfolio of high credit quality short term fixed income and variable rate securities. All holdings in the fund are Sterling denominated.
<b>Lifecycle to Annuity 2020 Strategy</b>	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.
<b>Lifecycle to Lump Sum 2020 Strategy</b>	This strategy is aimed at members targeting a lump sum cash withdrawal at retirement.
<b>Lifecycle to Drawdown 2020</b>	This strategy is aimed at members who intend to take 25% of their defined contribution savings as tax-free cash on retirement, leaving the remainder invested for growth while they draw an income during retirement.

## Investment Policies

- 6.42 The Trustee, with advice from its Investment Consultant, considers the trade-off between risk and expected returns. The additional 'default arrangements' were created due to mapping exercises completed by the Trustee. As part of any mapping exercise, the Trustee considers the appropriateness of the 'default arrangement' to ensure that the expected amount of risk (and commensurately the expected return) is appropriate given the age of the member and their expected retirement date.
- 6.43 The Trustee has considered the investment risk associated with DC pension investment. 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 strategies made available to members. The specific risks pertaining to the additional default arrangements are identified in the table in 6.20.



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- 6.44 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 in relation to the additional default arrangements. 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**

- 6.45 The Trustee will carry out regular assessments (at least triennially or following any significant change in membership) of the additional default arrangements to ensure that they continue 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 Plan's arrangements evolve in line with the Plan'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 09:26:30 GMT

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

DATED 2023-11-02 09:26:30 GMT

This document sets out the detailed day-to-day implementation of the investment policy of The IBM Pension Plan (“the Plan”) as determined by the Plan’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 Plan’s Statement of Investment Principles (“SIP”), which outlines the broader framework of the principles governing decisions about investment of the Plan’s assets.

Schedules

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

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

November 2023

e-Signed by Paul Butler  
on 2023-11-02 09:26:23 GMT

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

2023-11-02 09:26:23 GMT  
DATED

**Schedule A**

**Current DB Investment Strategy**

**Asset Allocation Policy**

The Trustee has set the asset allocation below as the target appropriate to meet the Plan's objectives and control the investment risks identified in the SIP. The allocation below excludes the buy-in policy which was implemented in December 2020 with Rothesay Life plc.

The Plan's target investment strategy is kept under review periodically, with a full review expected alongside each triennial actuarial valuation. The Plan's current strategic target allocation is set out below:

<b>Asset Class</b>	<b>Current Strategic Target Allocation (%)</b>
<b>Growth Assets</b>	<b>0.5</b>
Private equity	0.5
UK property	-
Other	-
<b>Matching Assets</b>	<b>99.5</b>
Global bonds	5.7
Global credit	5.7
Long-term UK core credit	32.5
Liability matching assets	54.1
Cash	1.5
<b>Total</b>	<b>100.0</b>

The Plan'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 private equity and UK property. The Trustee is comfortable with some level of divergence from the current target allocation and will review such divergence from time to time to ensure that the asset allocation remains suitable for the Plan, 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 processes 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. Rebalancing (drift) ranges are not set at a total growth and total matching assets level as Growth assets are in run off mode for the Main Plan. Instead, rebalancing ranges are set at individual asset class levels as per the below:

<b>Allocation</b>	<b>Rebalancing Range around Target Allocation</b>
Individual asset class (target allocation of more than 50%)	+/- 5%
Individual asset class (target allocation of between 10% and 50%)	+/- 4%
Individual asset class (target allocation is less than 10%)	+/- 2%

### **Cashflow Management Policy**

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

### **Currency Hedging Policy**

In order to mitigate the increased risk associated with investing in overseas assets, a currency hedging program is in place. Overseas currency exposure across all investments is assessed periodically and the IC aims to set the currency hedge at a level which limits the overall unhedged currency exposure to a maximum of 10% of the Plan's total assets (excluding buy-in assets). This is achieved through the use of a currency overlay managed by Russell which hedges 35% of overseas exposure that is not hedged at the individual mandate level. The Trustee has agreed to maintain this approach until long-term strategic targets are met.

### **Liability Hedging Policy**

The Trustee has agreed to target a 105% 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 Plan's current holdings, including the managers, vehicles, investment approach and benchmarks are set out in the table below.

<b>Asset Class</b>	<b>Manager</b>	<b>Vehicle</b>	<b>Investment Approach</b>	<b>Benchmark/Index</b>
Private equity	Various	Pooled	Active	Internally benchmarked
UK Property <sup>1</sup>	CBRE	Segregated	Active	MSCI UK Annual Property Index (GBP)
Reinsurance (Current holdings*)	Nephila	Pooled	Active	3mth (USD) LIBOR + 3%
	Securis	Pooled	Active	
Global bonds	Northern Trust	Pooled	Active	Barclays Global Aggregate Customised (20% Treasuries/40% Corporates/40% Securitised)
Global credit	PIMCO	Segregated	Active	Barclays Global Aggregate Corporate Customised (1% issuer cap) GBP hedged
	Wellington	Segregated	Active	
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	BlackRock	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 insured catastrophes.*

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

<sup>1</sup> The Plan's current holdings in UK property are in the process of being fully redeemed and re-invested in line with the Plan's strategic allocation. This is planned to take place in Q4 2023.

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 Plan; this does not preclude borrowing made only for the purpose of providing liquidity for the Plan 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 global custodian of the Plan's segregated assets. For the Plan'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 Plan'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

### DC and Additional Contributions (AVCs and ASCs)

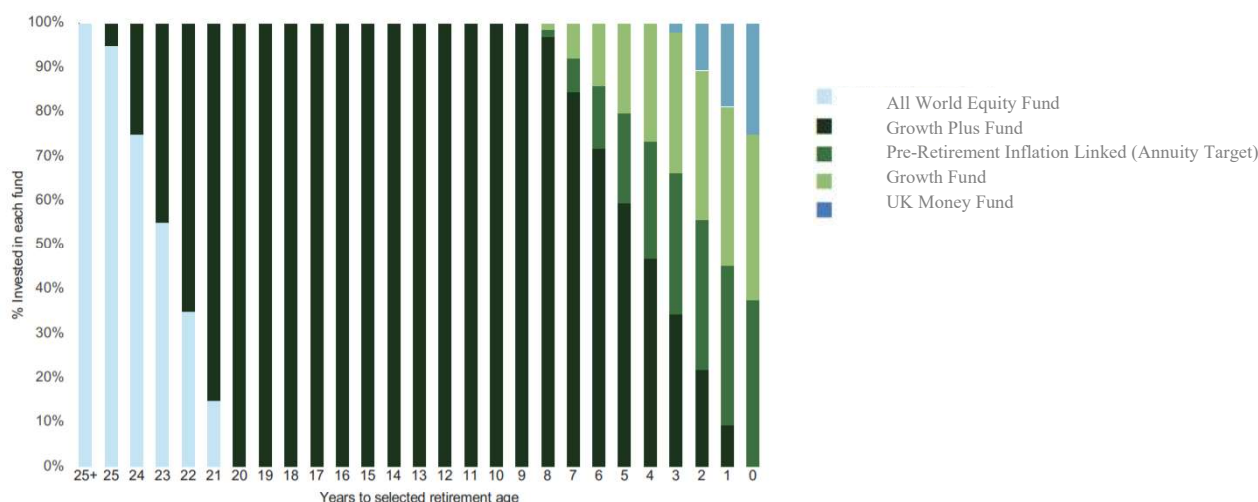
The Plan's DC and AVC/ASC arrangements are managed by Legal & General Investment Management Limited ("Legal & General") and HSBC Global Asset Management ("HSBC"), and provided by Legal & General Assurance Society Limited ("LGAS") under a bundled<sup>2</sup> arrangement.

There are currently four Lifecycle investment strategies in place for members to choose from, the Lifecycle Balanced 2020 (default investment strategy), Lifecycle to Annuity 2020, Lifecycle to Drawdown 2020, or Lifecycle to Lump Sum 2020. There is also a default lifecycle investment strategy for ex – Data Science Limited ("DSL") members, the Lifecycle Balanced 2020 strategy (DSL) along with two legacy Lifecycle / Lifestyle 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 Lifecycle / Lifestyle 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 Balanced 2020 (Default Investment Strategy)

The Lifecycle Balanced 2020 strategy is the default investment strategy and 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 Fund 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.



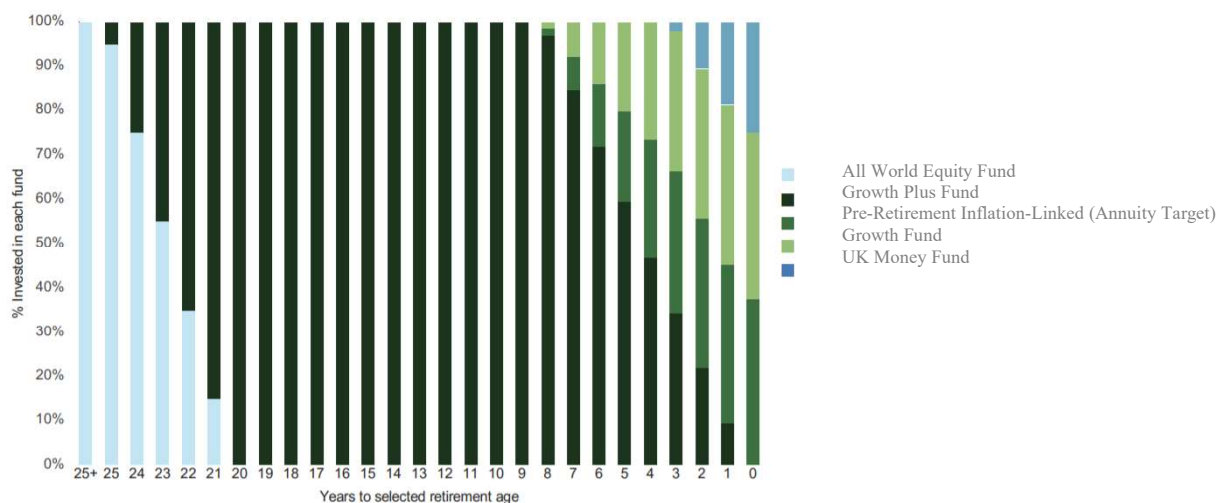
<sup>2</sup> A 'bundled' arrangement denotes the combination of the administration and investment of the Plan's assets under one provider – for the Plan, the provider is LGAS.



## Investment Policy Implementation Document – November 2023

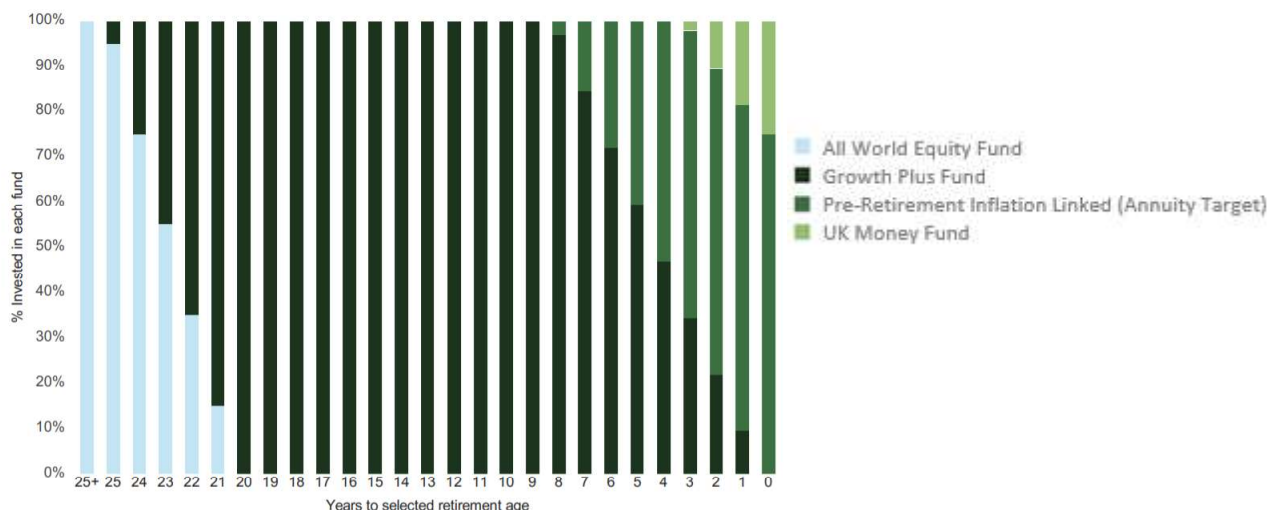
## Lifestyle Lifecycle Balanced 2020 (DSL) Investment Strategy\*

The Lifecycle Balanced 2020 (DSL) 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, at which point funds are progressively switched to the Growth Plus Fund over the next 5 years. At 8 years to retirement, the Pre-Retirement Inflation-Linked (Annuity Target) Fund and the Growth Fund 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 Fund (Annuity Target) and Growth Fund, and 25% to the UK Money Fund. Actual switches are undertaken on a quarterly basis.



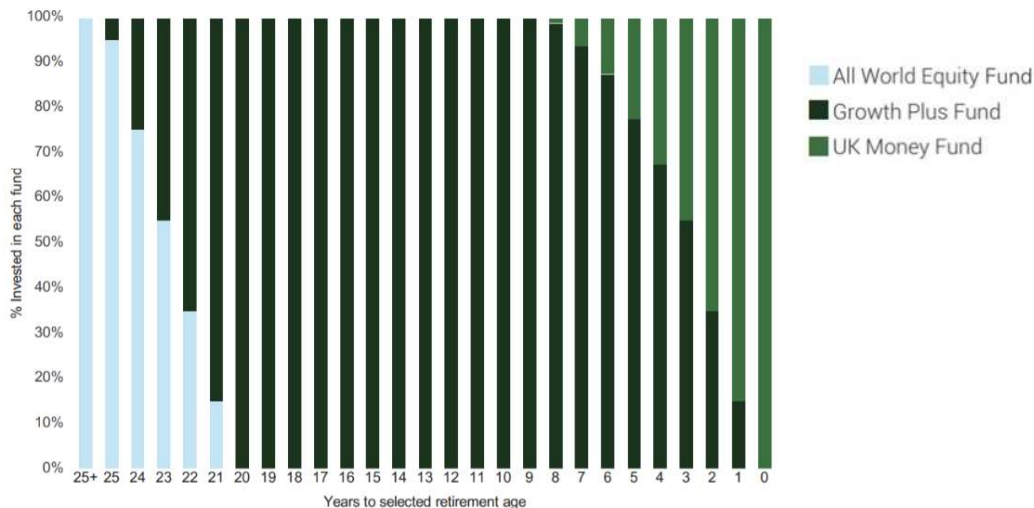
## Lifecycle to Annuity 2020

The Lifecycle to Annuity 2020 strategy is designed for members who intend to take 25% of their DC 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.



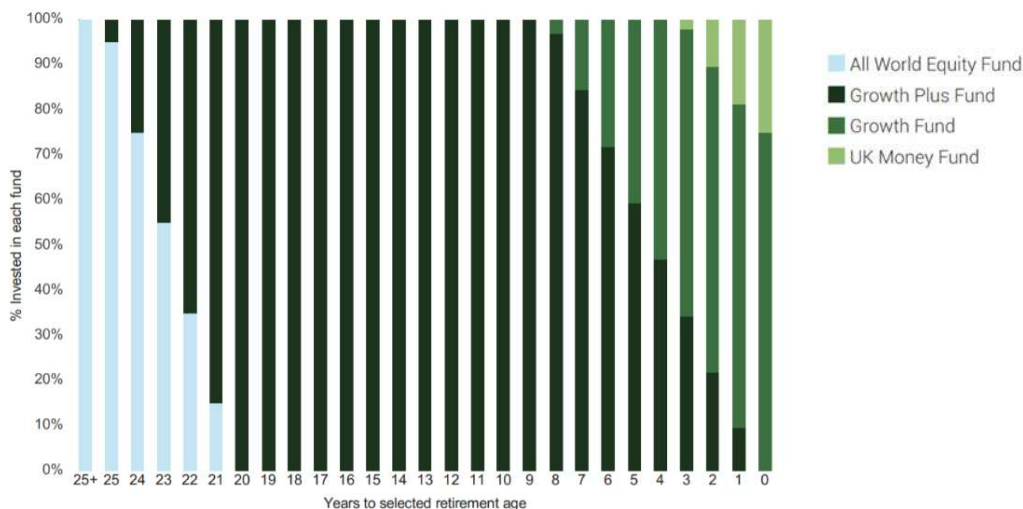
**Lifecycle to Lump Sum 2020**

The Lifecycle to Lump Sum 2020 strategy 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.



**Lifecycle to Drawdown 2020**

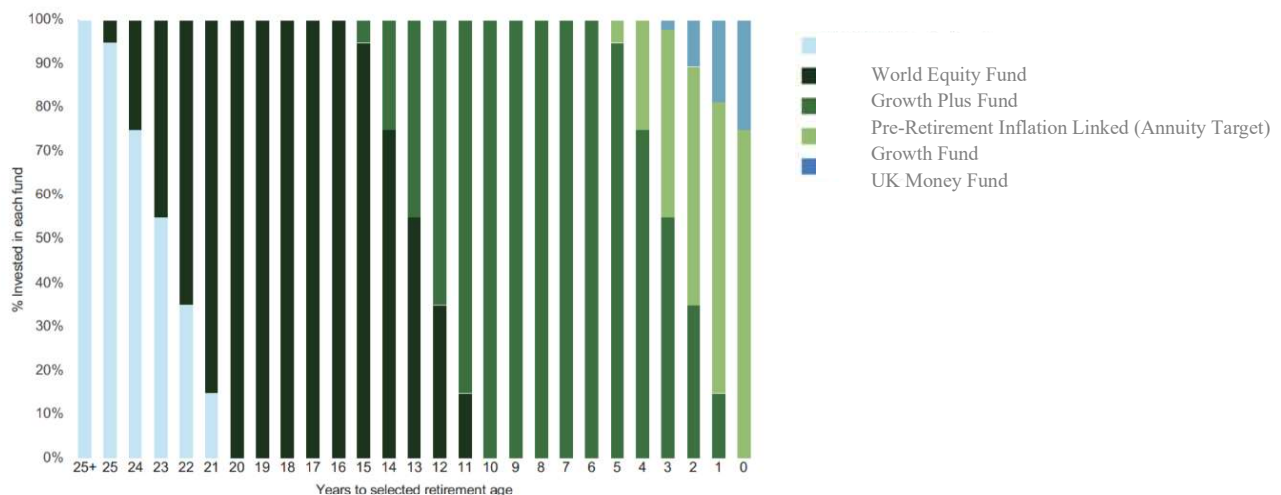
The Lifecycle to Drawdown 2020 strategy targets an allocation which aims to provide a suitable retirement position for members wishing to transfer into a flexi-access income drawdown product at retirement. There is a 100% allocation to the All World Equity Index Fund until 25 years to retirement. Then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



Investment Policy Implementation Document – November 2023

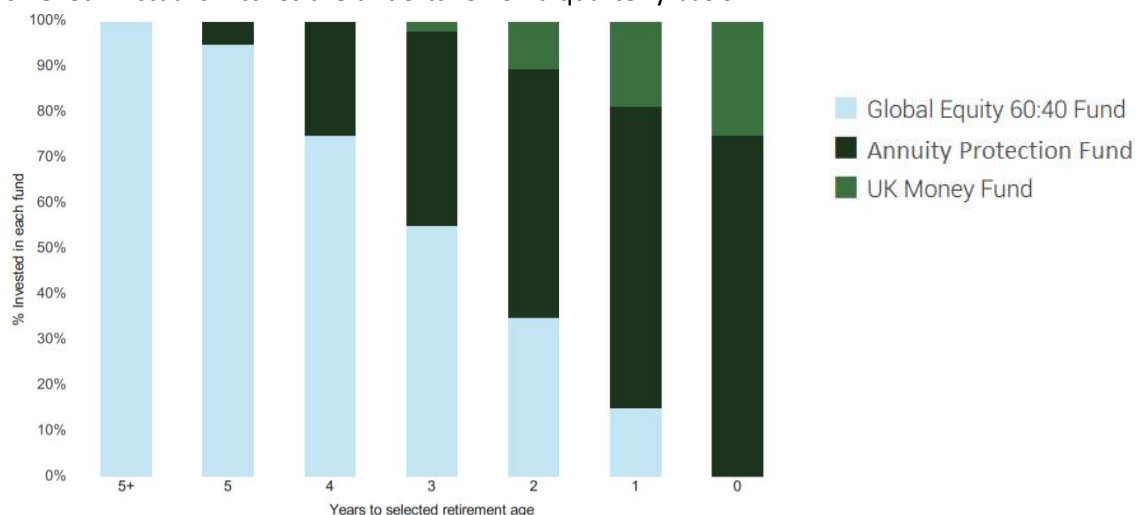
**Lifecycle 2012\***

There is a 100% allocation to the All World Equity Index Fund until 25 years from retirement at which point funds are progressively switched to the Growth Plus Fund over the next 5 years. At 15 years from retirement, the Growth Fund is added and then at 5 and 3 years from retirement, the Pre-Retirement Inflation Linked (Annuity Target) Fund and UK Money Fund are gradually introduced with final allocations of 75% and 25% respectively. Actual switches are undertaken on a quarterly basis.



**Lifestyle 2002\***

There is a 100% allocation to the Global Equity Fixed Weights (60:40) Index Fund until 5 years from retirement at which point the Annuity Protection Fund is introduced. The UK Money Fund is then introduced at 3 years to retirement with exposure progressively increased until final allocations of 75% and 25% respectively are achieved. Actual switches are undertaken on a quarterly basis.



\* Closed to new member elections.

**Freestyle Fund Range**

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

## Investment Policy Implementation Document – November 2023

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 back to Sterling reducing the impact of currency movements.	FTSE All-World (90% GBP hedged)
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, environment or social principles. 90% of the Developed Markets currency exposure is hedged back into 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 back into 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

## Investment Policy Implementation Document – November 2023

Manager	Fund	Description	Benchmark
		90% of the Developed Markets currency exposure is hedged back into sterling reducing the impact of currency movements.	
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.  50% of the Developed Markets currency exposure is hedged back into sterling reducing the impact of currency movements.	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.  Currency exposure in the fund is not hedged.	Solactive L&G ESG Emerging Markets Index
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 minimising associated trading costs and tracking	Dow Jones Islamic Market Titans 100 Net Total Return Index

Manager	Fund	Description	Benchmark
		error risk. It is a core Sharia-compliant investment strategy which aims to use a fully replicated passive equity investment approach to track the benchmark. Currency exposure in the fund is not hedged.	
LGIM	Growth	<p>This fund tracks a composite index consisting of global equities, global real estate securities, infrastructure equity, emerging market debt, commodities, corporate, government bonds and index-linked government bonds.</p> <p>The Growth Fund allocation is as follows:</p> <ul style="list-style-type: none"> <li>- 25% in global equities (tracking the Solactive L&amp;G ESG Global Markets Index) with 90% of the developed currency exposure being hedged to Sterling;</li> <li>- 30% in corporate bonds (tracking the Solactive L&amp;G ESG GBP Investment Grade Corporate TR Index);</li> <li>- 15% in index-linked gilts;</li> <li>- 7.5% in emerging market debt (half of this hedged to Sterling);</li> <li>- 7.5% in global real estate securities (developed currency exposure hedged to Sterling);</li> <li>- 7.5% in infrastructure-related investments (developed currency exposure hedged to Sterling); and</li> <li>- 7.5% in commodities.</li> </ul> <p>The Trustee keeps the asset allocation of this fund under review.</p>	Weighted composite Growth Fund benchmark (Approx. 15% unhedged currency exposure - hedge levels in line with underlying building blocks)
LGIM	Growth Plus / Growth Plus (formerly Consensus)*	<p>This fund tracks a composite index consisting of global equities, global real estate securities, infrastructure equity, emerging market debt, commodities, corporate and government bonds.</p> <p>The Growth Plus/Growth Plus (formerly Consensus)* Fund allocation is as follows:</p> <ul style="list-style-type: none"> <li>- 65% in global equities (tracking the Solactive L&amp;G ESG Global Markets Index) with 90% of the developed currency exposure hedged to Sterling.</li> <li>- 5% in corporate bonds (tracking the Solactive L&amp;G ESG GBP Investment Grade Corporate TR Index)</li> <li>- 7.5% in emerging market debt (half of this also Sterling- hedged).</li> <li>- 5% in infrastructure-related investments (developed currency exposure hedged to Sterling);</li> <li>- 10% in global real estate securities (developed currency exposure hedged to Sterling; and</li> </ul>	Weighted composite Growth Plus Fund benchmark (Approx. 22% unhedged currency exposure - hedge levels in line with underlying building blocks)

## Investment Policy Implementation Document – November 2023

Manager	Fund	Description	Benchmark
		- 7.5% in commodities.  The Trustee keeps the asset allocation of this fund under review.	
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 Fund	This fund invests in a diversified exposure to the GBP corporate bond markets and aims to produce a return in line with the performance of the Solactive L&G ESG GBP Investment Grade Corporate TR Index. The index aims to provide exposure to the GBP corporate bond markets while reflecting significant ESG issues.	Solactive L&G ESG GBP Investment Grade Corporate TR Index
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 drivers change. For reporting purposes, the 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)**

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Aviva Life & Pensions UK Limited ("Aviva")	These funds are invested in the Aviva With-Profits Fund 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.
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# IBM Pension Plan (‘the Plan’)

SIP Implementation Statement for the Year Ended  
31 December 2023

July 2024



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# Section 1

## Introduction

This statement sets out how, and the extent to which, the Statement of Investment Principles ("SIP") produced by the Trustee has been followed during the year running from 1 January 2023 to 31 December 2023 (the "Plan 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 statement is based on, and should be read in conjunction with, the relevant version of the SIP that was in place for the Plan 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 sets out the investment objectives of the Plan and changes which have been made to the SIP during the Plan Year, respectively.

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

A copy of the Plan's SIP dated 2 November 2023 is available at <https://www.smartpensionsuk.co.uk/#/page/governance-documentation>.

Section 3 of this statement provides some highlights of the activity undertaken by the Trustee in relation to Responsible Investment and Environmental, Social and Governance (ESG) over the Plan Year.

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



## Section 2

### Statement of Investment Principles

#### 2.1 Investment Objectives of the Plan

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

##### DB Section

The objectives for the DB Section of the Plan specified in the SIP are as follows:

- The acquisition of suitable assets of appropriate liquidity that will generate income and capital growth to meet, together with any new contributions from the Company, the cost of current benefits that the Plan provides.
- To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.

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 Plan's investment portfolio by 20% over the 3 years from 31 December 2021 (where carbon emissions data is available and can be reported). It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) is reportable.

##### DC Section

For the **DC section** of the Plan, the Trustee's principal mission is to help members to maximise their retirement outcomes with an appropriate level of investment risk, by providing an 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.

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

- Ensure that the DC section's operational structure is suitable and cost effective.
- Make sure the DC Section of the Plan meets all regulatory requirements as set out by the Pensions Regulator.
- Ensure effective governance of climate-related risks and opportunities.
- Provide members with adequate tools and timely information to enable them to make informed contribution, investment and retirement decisions.

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

- To offer default investment strategies that are suitable for the profile of defaulting members based on their expected risk tolerances and retirement objectives and embed climate change risk and opportunity 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.



## Annual Implementation Statement for Year ended 31 December 2023

The Trustee has agreed a target, as set out in its Climate Change-Related Disclosures Report, with the aim of reducing the level of carbon intensity within the Plan's DC investment portfolio by 20% over a 3 year period from 31 December 2021. It should be noted that the target applies for the assets where Weighted Average Carbon Intensity (WACI) data is reportable.

### 2.2 Review of the SIP

In Q1 2023, the Trustee reviewed the Plan's SIP, taking formal advice from its Investment Adviser (Mercer Limited ("Mercer")). The review reflected the Trustee's requirement 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 change risks and opportunities in its investment decision-making process. The updated SIP was signed on 13 March 2023.

The updated SIP also specifies that:

- The Trustee requires detailed information on significant votes, as determined by the Trustee, to be provided by the investment managers on an annual basis. The significant votes are reviewed by the ESG Sub-Committee (a dedicated group which was set up by the Trustee to oversee ESG considerations in respect of the Plan) and disclosed on an annual basis in the Implementation Statement. The Trustee defines a 'significant vote' to be one that aligns with one of the Trustee's beliefs and stewardship priorities (which are climate change, diversity, equity and inclusion and energy efficiency).
- Reports on corporate governance produced by the investment managers along with their voting and stewardship policies are considered as part of the annual Stewardship Report which is discussed at ESG Sub-Committee meetings.
- The Trustee engages with managers on climate-related risks and exposure to these risks within the 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>).
- 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 Plan's investment portfolio by 20% over the 3 years from 31 December 2021 (where carbon emissions data is available and can be reported). The Trustee's target has been incorporated into the Investment objectives for the SIP for the DB and DC sections of the Plan.
- As part of the Plan's triennial default investment strategy reviews, the Trustee considers opportunities to improve ESG integration into the portfolio.

There were no changes made to the investment arrangements for the DB section as part of this SIP update.

For the DC section, additional updates to the SIP and accompanying Investment Policy Implementation Document ("IPID") were made to reflect the agreed changes to the investment arrangements following conclusion of the 2022 investment strategy review. The review considered the retirement objective of the default Lifecycle Balanced 2020 strategy, as well as factors such as the impact of rising levels of inflation and the financial consequences of climate change on members' pension savings. The DC section of the SIP reflected further changes made to increase ESG and climate change integration, notably the introduction of a range of sustainable and ethical investment options.

The changes are summarised below:



## Annual Implementation Statement for Year ended 31 December 2023

- Replacement of two of the underlying funds within the Growth Fund and the Growth Plus Fund with the Legal & General Investment Management Limited ("LGIM") Future World equivalent funds:
  - The All-World Equity Index Fund was replaced with the Future World Global Equity Index Fund, maintaining a 90% currency hedge
  - The Investment Grade Corporate Bond All Stocks Index Fund was replaced with the Future World GBP Corporate Bond Index Fund
- Replacement of the 10% Over 15 Year Gilts Fund allocation within the Growth Fund with the All Stocks Index Linked Gilts fund (already used within the Growth Fund).
- Replacement of the Pre-Retirement (Annuity Target) Fund with the Pre-Retirement (Annuity Target) Inflation-Linked Fund across all lifecycle arrangements, where applicable
- The Trustee also introduced the following funds within the Freestyle range: Future World Global Equity Index Fund, Future World Developed (ex UK) Equity Index Fund, Future World UK Equity Index Fund, Future World Emerging Markets Equity Index Fund, Future World GBP Corporate Bond Index Fund and HSBC Islamic Global Equity Index Fund.
- Closure of the Lifecycle to Annuity strategy, Lifestyle 97 strategy and Ex-DSL Lifestyle 97 strategy. Members were mapped across to the Lifecycle Balanced 2020 strategy and Data Science Limited Lifecycle Balanced Strategy.

The implementation of the new funds in the Freestyle range were completed in November 2022 with the implementation of the remaining changes completed in February 2023.

In Q3 2023, further amendments were made to the Plan's SIP. Additional wording was included on the Plan's efforts to align with IBM's net zero target and engage with investment managers on reducing carbon exposure. Details of the Trustee's stewardship priorities were also added, outlining the most significant votes, as determined by the Trustee.

For the DB section, the Strategic Asset Allocation was updated to reflect the reduction in the target allocation to Private Equity and Property in favour of increased allocations to Long Term UK Core Credit and Liability Matching Assets. For the DC section, the Trustee included its views and approach to investing in illiquid assets classes. The SIP was also updated to reflect the closure of the Lifecycle to Lump Sum and the Lifecycle to Drawdown strategies and these members were mapped across to the respective Lifecycle to Lump Sum 2020 and the Lifecycle to Drawdown 2020 strategies. The updated SIP was signed on 2 November 2023.

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

The information provided in this section highlights the work undertaken by the Trustee during the year, and longer term where relevant, and sets out how this work followed the Trustee's policies in the SIP, relating to the DB section and DC section of the Plan. References made to the SIP sections are to the SIP signed on 2 November 2023.

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



Annual Implementation Statement for Year ended 31 December 2023



# 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 (Plan Governance) of the SIP, which applies to the DB and DC sections of the Plan.

DB	DC
<p><b>How has this policy been met over the Plan Year?</b></p> <p>During the Plan Year, the Trustee recalibrated the Liability Matching portfolio and rebalanced the liability hedge to ensure that (a) the liabilities monitored continued to represent the Plan's actual liabilities and (b) the asset portfolio closely matched the sensitivities of these liabilities. The Trustee also undertook a full review of the Plan's investment strategy. This review covered:</p> <ul style="list-style-type: none"> <li>• Suitability of the Plan's strategic asset allocation relative to the Funding Target and Long-Term Objective, including analysis and commentary on the appropriateness of these goals.</li> <li>• Liability hedging considerations, including analysis on optimal hedge ratios for interest rates and inflation use of leverage.</li> <li>• Progress on sales of the Plan's illiquid asset portfolios and implications for the broader strategy, including the allocation to Investment Grade Credit and the Liability Matching Assets.</li> </ul> <p>The Trustee also considered the Plan's strategic allocation to cash and residual level of unhedged currency risk.</p>	<p><b>How has this policy been met over the Plan Year?</b></p> <p>During the Plan Year, the Trustee received written advice from its DC Investment Adviser, covering the following:</p> <ul style="list-style-type: none"> <li>• The closure of the Lifecycle to Annuity strategy, Lifestyle 97 strategy and Lifestyle 97 DSL strategy following initial advice in the 2022 triennial investment strategy review.</li> <li>• The potential closure of the Lifecycle to Drawdown, Lifecycle to Lump Sum, Lifecycle 2012 and Lifestyle 2002 strategies. Accordingly, a decision was made to close the Lifecycle to Drawdown and Lifecycle to Lump Sum strategies in 2023.</li> <li>• An ongoing review of the Growth and Growth Plus funds. The construction of their respective benchmarks was also reviewed.</li> </ul> <p>In addition, the Trustee receives, on an annual basis, written confirmation from its Investment Adviser that the DC section's investment managers and underlying mandates remains suitable. During the Plan Year, this confirmation was received in November 2023.</p>

In addition, the Trustee receives, on an annual basis, written confirmation from its Investment Adviser that the DB section's investment managers and underlying mandates remains suitable. During the Plan Year, this confirmation was received in November 2023.

Annual Implementation Statement for Year ended 31 December 2023

Realisation of Investments

Policy

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

DB	DC
<p><b>How has this policy been met over the Plan Year?</b></p> <p>Over the Plan Year, the Plan held a diversified portfolio consisting mostly of readily realisable assets. This included maintaining sufficient liquid assets to meet both short-term and longer-term cashflow requirements. In addition, the liquidity profile of the Plan was periodically reviewed by the Trustee.</p> <p>The Plan's cashflow requirements were considered as part of the review of the overall investment strategy and separately as part of the review of the target cash allocation and currency hedging arrangements.</p>	<p><b>How has this policy been met over the Plan Year?</b></p> <p>Members' investments within the DC section are traded and priced on a daily basis allowing members to access their investments as and when required.</p>



## Annual Implementation Statement for Year ended 31 December 2023

## Environmental, Social and Governance (“ESG”)

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

### Policy

The Plan's SIP outlines the Trustee's beliefs on ESG factors (including climate change).

**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, which applies to the DB and DC sections of the Plan. The Trustee keeps its policies under regular review.

### DB and DC

#### How has this policy been met over the Plan Year?

During the Plan Year, the Trustee produced the second Climate Change-related Disclosures report for the Plan year end 31 December 2022. 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 and against criteria which include ESG considerations. ESG and the level of integration will differ across asset classes and by investment manager.

During the Plan Year, the Trustee completed an ESG Beliefs survey. The Trustee outlined what it believed to be the key stewardship priorities for the Plan. The key stewardship priorities decided upon by the Trustee were Climate Change, Energy Efficiency, and Diversity, Equity & Inclusion. There is ongoing training being provided to the Trustee on Energy Efficiency and Diversity, Equity & Inclusion. A Stewardship and ESG Ratings review was carried out in September 2023, 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 2023 ESG score and how it compared to the peer group, the ESG assessment score, 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.
- The majority of managers have exclusions against “key” controversies.
- Most 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.

## Annual Implementation Statement for Year ended 31 December 2023

## DB and DC

The Plan'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. ESG ratings are also monitored as part of the annual Value for Members Assessment in respect of the DC Section.

The Trustee does not require the Plan's investment managers to take non-financial matters into account in their selection, retention and realisation of investments. However, the Trustee has considered and assessed member views (regarding both financial and non-financial factors) in relation to the range of DC lifecycles/lifestyles and self-select ('Freestyle') funds offered to members.



## 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's would monitor and engage with relevant persons about relevant matters).

### Policy

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to the Plan's investments to the investment managers.

The Trustee supports the aims of the Stewardship Code and its investment managers are invited 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 4 (Rights Attaching to Investments (Stewardship)) of the SIP, which applies to the DB and DC Sections of the Plan.

### DB and DC

#### How has this policy been met over the Plan Year?

During 2023, voting and engagement summary reports from the Plan's investment managers were provided to the Trustee and responsibility to consider these has been delegated to the ESG Sub-Committee. The Trustee has delegated responsibility for the exercising of rights (including voting rights) attaching to the Plan's DB and DC investments to the investment managers. Managers are encouraged to exercise these rights. The Trustee does not use the direct services of a proxy voter.

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 Plan's stewardship priorities/themes.
- A vote could also be significant for other reasons, e.g. due to size of holdings.
- Trustees are to include details on why a vote is considered significant and rationale for the voting decision.

In 4Q 2023, the Trustee conducted a survey to gauge DC members' investment and retirement preferences. Whilst 23% of respondents did not consider responsible investment to be a consideration in their investment decisions, 18% of respondents selected Environmental, Social, and Governance as

## Annual Implementation Statement for Year ended 31 December 2023

**DB and DC**

important factors in their decisions. The survey also identified that only a small number of respondents had reviewed the 2022 Climate-Related Disclosures Report.

Section 4 includes examples of engagement activity undertaken by the Plan's investment managers with investments in equities and credit, and Section 5 sets out a summary of voting activity and the most significant votes cast on behalf of the Trustee by these investment managers for the Plan's equity investments.

The Trustee carried out an ESG Beliefs survey during the Plan year, which concluded the Trustee's key stewardship priorities for the Plan are in relation to Climate Change, Energy Efficiency, and Diversity, Equity & Inclusion. Voting activity captured by the Plan's key stewardship themes are considered to be a significant vote. The significant votes were reviewed by the ESG Sub-Committee. The Trustee did not make the investment managers aware what it considered to be the most significant votes in advance of voting undertaken by the managers during the year. However, the Trustee notes that their key stewardship themes are broadly aligned with those of the Plan's investment managers. The level of climate-related engagement will also be monitored as one of the chosen metrics under the Climate Change-related Disclosures reporting requirements. As part of this monitoring, the Trustee has engaged with the Plan's investment managers where appropriate to understand the climate-related engagement activity undertaken.

The Trustee has appointed a Stewardship Manager role to ensure the Trustee's expectations for the Plan's investment managers to be compliant with the UK Stewardship Code were met where appropriate. All of the Plan's investment managers within the DB section, where their mandates form part of the investment strategy, are signatories to the current UK Stewardship Code. The Plan has historic investments with Nephila and Securis, but do not form part of the strategic asset allocation of the DB section of the Plan and are not signatories to the UK Stewardship Code. The Plan's investment managers within the DC section (LGIM and HSBC) are also signatories to the UK Stewardship Code.



## 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, which applies to the DB and DC sections of the Plan.

#### DB

#### DC

#### How has this policy been met over the Plan Year?

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

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

#### How has this policy been met over the Plan Year?

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

In the year to 31 December 2023, the Trustee remained satisfied that the contractual arrangement in place with LGAS remained appropriate.

In addition, the Trustee's approach on assessing the investment managers' stewardship and how ESG integration is monitored is set out earlier in this statement.

The Trustee has communicated carbon emissions targets set out within the Climate Change-related Disclosures report with the Plan'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, which applies to the DB and DC sections of the Plan.



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DB	DC
<p><b>How has this policy been met over the Plan Year?</b></p> <p>Over the year to 31 December 2023, quarterly performance reviews were held with most of the Plan's investment managers.</p> <p>In addition, both quarter and longer-term performance metrics for all of the Plan's investment mandates were reported to the Investment Committee quarterly at both an asset class and investment manager level.</p>	<p><b>How has this policy been met over the Plan Year?</b></p> <p>The performance of each of the Plan's funds, including those used in the Lifecycle and Lifestyle arrangements, were reviewed by the Investment Committee at each of its quarterly meetings. This included fund performance against their benchmarks over both quarter and longer-term periods.</p> <p>The charges paid to LGIM for their services in 2023 were analysed as part of the annual Value for Members assessment for the DC section, which was conducted by the Plan's Investment Adviser in March 2024. The Investment Adviser determined that the funds available to members were competitively priced, being positioned below the lower quartile of the peer group fees, with the exception of the Global Equity 70:30 Index, Global Equity 60:40 Index, UK Equity Index, Global Real Estate Equity and Future World funds which lie within the medium-upper quartile range.</p>

## Monitoring portfolio turnover costs

### Policy

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

DB	DC
<p><b>How has this policy been met over the Plan Year?</b></p> <p>As noted in the SIP, the Trustee does not explicitly monitor portfolio turnover costs with respect to the DB section of the Plan. Investment manager performance was reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets), and where possible, performance objectives for investment managers were set on a net basis. In this way, managers were incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.</p>	<p><b>How has this policy been met over the Plan Year?</b></p> <p>Transaction costs were reviewed by the Investment Committee at each of its quarterly meetings and by IBM Pensions Trust periodically throughout the year. The transaction costs are also disclosed in the annual Chair's Statement. The transaction costs for each fund covers the buying, selling, lending and borrowing of the underlying securities in the fund by the investment manager.</p>

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# The duration of the arrangements with asset managers

## Policy

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

DB	DC
<p><b>How has this policy been met over the Plan Year?</b></p> <p>Over the Plan Year, the Trustee terminated the Plan's allocation to Private Equity and continued to sell down the allocation to Property, revising down the Strategic Asset Allocation to 0.5% of total assets (noting that there are some Private Equity mandates that the Trustee decided not to sell at current pricing). This activity reflects the funding position for the DB section and desire for liquidity. The Trustee's policy is not to alter investment arrangements on a frequent basis, in line with the above.</p>	<p><b>How has this policy been met over the Plan Year?</b></p> <p>There remains no set duration for investment manager appointments. The final changes following the triennial investment strategy review carried out in 2022 were completed in February 2023, including the closure of the Lifecycle to Annuity strategy, Lifestyle 97 strategy and Lifestyle 97 DSL strategy.</p> <p>The Trustee conducted a further review of the Plan's legacy Lifecycle/Lifestyle arrangements in 2023 and the conclusions following this review are set out below, which were implemented in Q4 2023:</p> <ul style="list-style-type: none"> <li>• Lifecycle to Drawdown was closed and the members invested in this strategy were transferred to the Lifecycle to Drawdown 2020.</li> <li>• Lifecycle to Lump Sum was closed and the members invested in this strategy were transferred to the Lifecycle to Lump Sum 2020.</li> <li>• Lifecycle 2012 and Lifestyle 2002 remained open and these arrangements are to be reviewed as part of the next triennial investment strategy review.</li> </ul>

There have been no changes to the Plan's investment managers over the Plan Year.



## Strategic Asset Allocation

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

DB	DC
<p><b>Policy</b></p> <p>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:</p>	<p><b>Policy</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Overall Aims and Objectives (SIP Section 6.11 – 6.12)</li> <li>• Investment Objectives (SIP Section 6.13 – 6.14)</li> <li>• Investment Policies (SIP Section 6.15 – 6.21)</li> <li>• Default Investment Strategy - Aims and Objectives, Investment Policies, Members' Best Interests (SIP Sections 6.22 – 6.31)</li> <li>• Legacy Default Investment Strategies - Aims and Objectives, Investment Policies, Members' Best Interests (SIP Sections 6.31 – 6.39)</li> <li>• Additional Default Arrangements, Aims and Objectives, Investment Policies, Members' Best Interests (SIP Sections 6.40 – 6.45)</li> </ul>

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

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

## Annual Implementation Statement for Year ended 31 December 2023

DB	DC
<p><b>How has this policy been met over the Plan Year?</b></p> <p>The Trustee regards the basic distribution and balance of the assets to be appropriate for the Plan's objectives and liability profile. Currently the Plan targets a Growth / Matching portfolio of 0.5% / 99.5%, which has been updated relative to the prior Plan Year to reflect the termination of the Private Equity and Property portfolio (with proceeds reallocated across the Matching portfolio).</p> <p>The revised target investment strategy was assessed to have an expected return sufficient to achieve the funding objective of the Plan, with a level of investment risk that was consistent with the return, whilst providing flexibility to be able to reallocate to adapt to any changes in funding objectives.</p> <p>The SIP was updated in November 2023 to reflect the agreed changes to the investment arrangements.</p>	<p><b>How has this policy been met over the Plan Year?</b></p> <p>As part of the quarterly Investment Committee meetings, the Trustee reviewed the performance of the funds within the Plan's investment range, including the funds that form part of the Lifecycle and Lifestyle arrangements. This included fund performance against benchmarks over both short and longer-term periods. The Trustee was satisfied with the performance of the majority of the funds over the Plan Year which had performed in line with their underlying aims and objectives.</p> <p>Over the Plan year, the Trustee reviewed the rebalancing policy for the underlying allocation of the Growth and Growth Plus funds. Additionally, the Trustee introduced ongoing reviews for the Growth and Growth Plus funds as well as for the Future World fund range invested by the Plan, providing analysis on performance against their benchmarks and peers.</p> <p>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 Plan's aims and not just based on historic performance. Mercer's investment manager research and their assessment and view on the managers' ability to achieve the performance objective of the funds is 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.</p>



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

DB	DC
Policy	Policy
<p>The Trustee recognises a number of risks involved in the investment of the assets of the DB Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks can be found under the following section of the SIP:</p> <ul style="list-style-type: none"> <li>• Risk Management (Section 6.10) in the SIP.</li> </ul>	<p>The Trustee recognises a number of risks involved in the investment of the assets of the DC Section and that the choice and allocation of investments can help to mitigate these risks. Details of these risks can be found under the following section of the SIP:</p> <ul style="list-style-type: none"> <li>• Investment Policies (SIP Section 6.20)</li> </ul>
<p>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.</p>	<p>In determining which investment options to make available the Trustee considers the investment risk associated with DC pension investment. The risk can be defined as the uncertainty over the ultimate amount of savings available on retirement.</p>
<p><b>How has this policy been met over the Plan Year?</b></p>	<p><b>How has this policy been met over the Plan Year?</b></p>
<p>Details of how the specific risks identified in the SIP are measured and managed can be found under Section 6.10 of the SIP.</p>	<p>Details of how the specific risks identified in the SIP are measured and managed can be found under Section 6.20 of the SIP.</p>
<p>During the Plan Year, the Trustee reviewed the investment strategy in full, which included a detailed quantitative assessment of the investment risks associated with the DB Section's assets. This strategy review was carried out in conjunction with an update to the Scheme's Liability Matching portfolio, with the purpose of ensuring that the interest rate and inflation risk associated with the Liability Matching Assets was in line with expectations.</p>	<p>The Trustee received administration reports quarterly which were reviewed by the Trustee to ensure that core financial transactions were processed within agreed service levels and regulatory timelines.</p>
<p>The Trustee also reviewed its currency hedging arrangements to ensure the level of unhedged currency exposure is appropriate.</p>	
<p>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 Plan's LDI portfolio.</p>	

## Annual Implementation Statement for Year ended 31 December 2023

**DB and DC**

The Trustee maintains a register of key risks, including investment risks, which is reviewed annually by the Governance Committee or more frequently if new risks are identified. 'Top' risks are also reviewed quarterly. The register of key risks rates the impact and likelihood of the risks and identifies mitigating factors and additional actions taken. Updates were made to risks considered by the Plan surrounding the climate risks, with ESG integration in every triennial investment strategy.

As part of the Climate Change-related Disclosure requirements, the Trustee has decided to carry out climate scenario analysis again.

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



## Section 3

### Responsible Investment and ESG Activity by the Trustee during the Plan Year

#### Climate Change-related Disclosure Reporting

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

The key takeaways from the second year 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 of the DB portfolio and outcomes for DC members.
- Four metrics have been chosen to monitor the progress against climate change risk. This includes the reporting of a new 'Portfolio Alignment' metric in line with the current regulatory requirements.
- Significant progress has been made to report on carbon metrics as far as possible – in particular for the DB Section, where the coverage at mandate level has increased year to year from 35% to 91% (based on the strategic asset allocation, excluding the buy-in policy).
- The Trustee is required to report on Scope 3 emissions for Climate Change-related Disclosures reports produced from the second year onwards and has included this where the data is available from the investment managers. However, the Trustee notes that the data in this area is still very limited and expects this position to improve over time.
- The Trustee carried out the triennial investment strategy review for the DC Section over the reporting period and agreed to implement changes proposed by the Plan's Investment Advisor to improve the focus on sustainability. Some of these changes were implemented over 2022 with five new sustainable funds added to the Freestyle range.
- The Trustee will continue to engage with the investment managers to help progress towards its WACI target and will review the appropriateness of the DB target as part of future DB investment strategy reviews.
- Significant progress has been made towards the target for the DC Section over 2022 and further progress is expected in 2023 following the implementation of the agreed changes to the Lifecycle arrangements.

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

## Annual Implementation Statement for Year ended 31 December 2023

### ESG Integration Assessment (RITE<sup>1</sup>)

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

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

### Trustee Training

Over the Plan 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 DC Section, which was carried out in the Plan Year.
- A detailed annual Stewardship and ESG Rating Review covering how ESG is integrated into each manager's investment process, the extent to which investment managers' key themes and priorities align with the Trustee's key ESG beliefs, ESG assessment (considering climate change, biodiversity and DEI), and 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.

<sup>1</sup> 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++. 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/>.



# Section 4

## Engagement Activity by the Plan’s Investment Managers

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

DB	DC
<p><b>Wellington engages with Duke Energy Corporate on its Climate Transition Plan</b></p> <p>Wellington met with Duke during the fourth quarter of 2023 as a follow up from a previous engagement in 2022 to receive an update on its climate transition plan.</p> <p>Duke stated that it had an updated goal of 30,000 MW wind and solar by 2035 and is making a significant investment in storage by 2025. This compares with 6,650 MW of regulated wind &amp; solar that was achieved in 2022.</p> <p>Duke also noted that they have had conversations with the SBTi about the adoption of science-based targets. However, in terms of reliability and affordability, as it stands, Duke does not think the SBTi allows them to deliver reliable and affordable power.</p> <p>Overall, Duke remains an industry leader on emissions reductions, having reduced emissions from electricity generation by over 40% since 2005. This reduction is primarily attributed to its significant retirement of coal, with a target to exit coal by 2035.</p>	<p><b>LGIM All World Equity Index Fund – Engaging with Nucor Corporation to achieve net-zero emissions</b></p> <p>The company was pleased to observe that Nucor, one of the selected “dial-mover” companies, has recently made a commitment to achieve net-zero emissions. Nucor, the largest steel producer in the US and among the top 20 globally, plays a crucial role in the energy transition. Steel is essential for the automotive industry and renewable energy infrastructure. Nucor’s commitment includes interim targets and a published decarbonisation plan.</p> <p>This represents a significant milestone in the company’s journey. While acknowledging that corporate decisions are influenced by various factors, LGIM’s engagements under the Climate Impact Pledge are guided by sector-specific principles and “red lines,” which include a commitment to achieving net-zero operational emissions. LGIM had voted against the Chair of the company in its 2023 Annual General Meeting (AGM) for failing to meet this “red line” of commitment to achieving net-zero operational emissions at the time. Therefore, the company’s recent announcement of their commitment, interim targets, and plan is highly appreciated.</p>

It is worth noting that this is not the first instance where the company has made a commitment following a vote against their Chair. In 2021, a vote against was cast due to a lack of emissions reduction targets, but the company subsequently established these targets the following year, resulting in no sanctions from the organisation in 2022.



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DB	DC
<p><b>Western engaged with Volkswagen over Human Rights concerns</b></p> <p>Volkswagen ("VW") was being investigated for human rights concerns with a specific focus on its supply chain stemming from China's treatment of Uyghurs and the Xinjiang Autonomous Region.</p> <p>Western engaged with VW and learned that they were unable to fully address these matters due to limited alternatives for the commodities and parts needed for automobile manufacturing outside the region.</p> <p>VW announced that an audit has found no indications of use of forced labour, although Western, and the industry at large, are skeptical of the impartiality of the auditor used given they are Chinese domiciled. VW have been placed on Western's 'ESG Watch List', meaning portfolio managers have discretion to divest from this issuer but are not mandated to do so.</p>	<p><b>HSBC Islamic Global Equity Fund – Engaging with Hong Kong Gas Provider on net zero strategies</b></p> <p>A prominent Hong Kong company, which plays a crucial role in Hong Kong's net zero ambitions, is facing concerns regarding its governance practices, independence, and decision-making. The company's board is entrenched, its audit committee lacks independence, and it does not have a net zero strategy in place. Additionally, the company's all-male board falls short of the updated requirements set by HKEx, exposing it to reputational and regulatory risks. Furthermore, there are concerns about the data quality and accuracy of the company's reported information, particularly in relation to environmental data. These issues highlight the need for improvements in governance, transparency, and sustainability practices within the company.</p>
<p><b>GSAM engage with AB Inbev on plans for plastic packaging</b></p> <p>Members of GSAM's Global Stewardship Team and Fixed Income Investment team engaged with the company's Investor Relations team to discuss its plans for reducing the use of plastics within its packaging. In December 2023, the company confirmed it has now set a target to have 100% of packaging to be returnable or made from majority recycled content by 2025. The company advised it remains on track to meet this target.</p>	<p>In meetings between HSBC and the company, discussions were held to address various issues and gain insights into the company's perspectives and strategies. HSBC's voting intentions for the upcoming Annual General Meeting (AGM) were shared during the meetings. The discussions also revolved around peer strategies, approaches to achieving net zero, and the company's role in Hong Kong's net zero strategy. Emphasis was placed on the importance of having ESG (Environmental, Social, and Governance) expertise at the board level, and it was encouraging to learn that this is being considered in candidate appointments. However, due to the company's all-male board and a perceived lack of sufficient independence, HSBC voted against several director re-elections.</p>
<p><b>Northern Trust engage with EDF over safety concerns at the Company's nuclear reactors</b></p> <p>Loomis Sayles (on behalf of Northern Trust) met with EDF in June to discuss the progress made on corrosion repair works. The company communicated 10 of the 56 reactors had already been fixed, 3 were under repair, with 3 additional reactors scheduled for repair soon. The remaining 40 reactors did not require immediate attention and could be inspected according to the original schedule.</p>	<p>Hong Kong Gas Provider has responded to the feedback received and made commitments towards achieving net zero in alignment with the Hong Kong Government's target of "carbon neutrality" by 2050. They have also acknowledged the importance of assuring their ESG data by involving an audit firm, rather than solely relying on verification. Furthermore, the Company has committed to adding an additional female board member by the end of the year and is actively sourcing candidates with suitable skillsets and experience, taking into account the feedback provided. Efforts are being made to address issues related to board independence. A follow-up engagement is scheduled to take place in March 2024 to continue the dialogue.</p>
<p>EDF management is increasingly confident that they will complete the repairs on schedule and meet output guidance for 2024. Loomis Sayles was pleased with the company's attention to this issue and will continue to monitor progress toward their repair and inspection goals.</p>	



# Section 5

## Voting Activity during the Plan year

### DC Section

Set out on the right is a summary of voting activity for this reporting period relating to the relevant strategies in the DC Section of the Plan. Funds where voting is not applicable (i.e. non-equity funds) are not included.

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

Except for certain Additional Voluntary Contributions (AVCs) invested with Aviva, the DC investments are managed by LGIM and HSBC and held on the Legal & General investment platform.

Source: LGIM and HSBC.

Extracts from LGIM's voting policy (full voting policy can be found on [https://www.lgim.com/landq-assets/lgim/\\_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf](https://www.lgim.com/landq-assets/lgim/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf)): "LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients. All decisions are made by LGIM's Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. LGIM's Investment Stewardship team uses Institutional Shareholders Services' (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions."

HSBC states that they exercise their voting rights as an expression of stewardship for their client assets. They have global voting guidelines which protect investor interests and foster good practice, highlighting independent directors, remuneration linked to performance, limits on dilution of existing shareholders and opposition to poison pills. HSBC uses the leading voting research and platform provider Institutional Shareholder Services (ISS) to assist with the global application of HSBC's voting guidelines. ISS reviews company meeting resolutions and provides recommendations highlighting resolutions which contravene HSBC's guidelines. HSBC reviews voting policy recommendations according to the scale of HSBC's overall holdings. The bulk of holdings are voted in line with the recommendation based on HSBC's guidelines. HSBC's Global Voting Guidelines can be found on <https://www.global.assetmanagement.hsbc.com/-media/files/attachments/common/resource-documents/global-voting-guidelines-en.pdf>.



## Annual Implementation Statement for Year ended 31 December 2023

## Most significant votes

A "Significant Vote" is defined as one that is related to the Plan's beliefs and stewardship priorities, and/or it is a significant because of the size of the Plan's holdings portfolio. The votes included below are those that the Trustee believe to be significant based on:

- the Trustee's beliefs and stewardship priorities which relate to Climate Change, Energy Efficiency, and Diversity, Equity & Inclusion; and
- the top 10 holdings of the underlying funds invested in the Plan's default investment strategy (the Lifecycle Balanced 2020 Strategy) which has equity exposure (i.e. All World Equity Index Fund, Future World Fund and Global Real Estate Equity Index Fund).

✗ 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 Theme	Next Steps
All World Equity / Future World	4.1 / 5.4	Microsoft	07/12/2023	Report on Gender-Based Compensation and Benefits Inequities	Against	Shareholder Resolution - Environmental and Social: 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.	✗	Diversity, Equity, and Inclusion	N/A
Report on Risks of Omitting Viewpoint and Ideological Diversity from EEO Policy									
				Report on Climate Risk in Retirement Plan Options	Against	Shareholder Resolution - Environmental and Social: 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.	✗	Diversity, Equity, and Inclusion	N/A
Report on Civil Rights and Non-Discrimination Audit									
				Report on Median Gender/Racial Pay Gap	For	Shareholder proposal - Report on retirement funds - Climate risks: A vote against is applied because the company's retirement plan is managed by a third-party fiduciary and employees are offered a self-directed option.	✗	Climate Change	N/A
Report on Civil Rights and Non-Discrimination Audit									
				Report on Median Gender/Racial Pay Gap	For	Shareholder Resolution - Inequality - Gender Pay Gap transparency: A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.	✗	Diversity, Equity, and Inclusion	N/A



## Annual Implementation Statement for Year ended 31 December 2023

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	Next Steps
2.0 / 1.7		Amazon	24/05/2023	Report on Climate Risk in Retirement Plan Options	Against	Shareholder Resolution - Environmental: A vote against this resolution is warranted. The company's retirement plan is managed by a third-party fiduciary and employees are offered an option for investing more responsibly.	✗	Climate Change	N/A
				Report on Impact of Climate Change Strategy Consistent With Just Transition Guidelines	For	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to be taking sufficient action on the key issue of climate change.	✗	Climate Change	N/A
				Report on Climate Lobbying	For	Shareholder Resolution: Climate Change Lobbying - a vote in favour is applied, LGIM encourages all companies to report their climate lobbying activity in line with the Global standard on responsible corporate climate lobbying.	✗	Climate Change	N/A
				Report on Median and Adjusted Gender/Racial Pay Gaps	For	Shareholder Resolution - Inequality - Gender Pay Gap transparency: A vote in favour is applied as LGIM expects companies to disclose meaningful information on its gender pay gap and the initiatives it is applying to close any stated gap.	✗	Diversity, Equity, and Inclusion	N/A
				Report on Cost/Benefit Analysis of Diversity, Equity and Inclusion Programs	Against	Shareholder Resolution - Diversity: A vote AGAINST this proposal is applied as the intention of the proposal as disclosed in the supporting statement is not in line with LGIM's view. LGIM support the adoption of strong diversity and inclusion policies as wit consider these issues to be a material risk to companies.	✗	Diversity, Equity, and Inclusion	N/A
				Consider Pay Disparity Between Executives and Other Employees	For	Shareholder Resolution - Remuneration - Inequality- A vote in favour is applied as LGIM regards such reports to be valuable in order to assess pay disparity between executives and employees.	✗	Diversity, Equity, and Inclusion	N/A
				Establish a Public Policy Committee	For	Shareholder Resolution - Board structure: A vote in favour is applied as LGIM considers such a committee to be beneficial to board discussions on environmental and social issues.	✗	Climate Change	N/A
				Report on Efforts to Reduce Plastic Use	For	Shareholder Resolution - Environment: A vote in favour is applied as LGIM believes that improving the recyclability of products will have a positive impact on climate change and biodiversity.	✗	Climate Change	N/A

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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	Next Steps
1.7 / 2.4		Nvidia	22/06/2023	Elect Director Stephen C. Neal	Against	Diversity: A vote against is applied as LGIM expects a company to have at least one-third women on the board. Average board tenure: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	✓	Diversity, Equity, and Inclusion	N/A
						Shareholder Resolution - Environmental and Social: A vote against this proposal is warranted, as the company provides enough information for shareholders to understand its policies and processes for removing content.	✗	Climate Change	N/A
1.2 / 1.2		Meta Platforms	31/05/2023	Report on Government Take Down Requests	Against	Report on Executive Pay Calibration to Externalized Costs	✗	Climate Change	N/A
						Shareholder Resolution: Transparency. A vote FOR this proposal is warranted, as the request is not considered burdensome, the company's executive compensation metrics do not clearly disclose weightings or metrics, and there is ambiguity into the impact that environmental and other globally-focused goals have on the annual bonus payout.	✗	Climate Change	N/A
				Report on Framework to Assess Company Lobbying Alignment with Climate Goals	For	Shareholder Resolution: Climate Change Lobbying - a vote in favour is applied, LGIM encourages all companies to report their climate lobbying activity in line with the Global standard on responsible corporate climate lobbying.	✗	Climate Change	N/A
						Diversity: A vote against is applied as LGIM expects a company to have at least one-third women on the board. Average board tenure: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. Independence: A vote against is applied as LGIM expects the Chair of the Board to have served on the board for no more than 15 years and the board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. Shareholder rights: A vote against is applied because LGIM supports the equitable structure of one-share-one-vote. LGIM expect companies to move to a one-share-one-vote structure or provide shareholders a regular vote on the continuation of an unequal capital structure.	✓	Diversity, Equity, and Inclusion	N/A
A: 1.2, C: 1.1 / A: 1.0		Alphabet A / Alphabet C	02/06/2023	Elect Director John L. Hennessy	Against				

## Annual Implementation Statement for Year ended 31 December 2023

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	Next Steps
All World Equity	1.0 / 1.0	Tesla	16/05/2023	Elect Director Robyn Denholm	Against	Classified Board: A vote against is applied as LGIM supports a declassified board as directors should stand for re-election on an annual basis. Diversity: A vote against is applied as LGIM expects a company to have at least one-third women on the board. Diversity: A vote against is applied due to the lack of gender diversity at executive officer level. LGIM expects executive officers to include at least 1 female. A vote AGAINST audit committee chair Robyn Denholm is warranted given concerns on the risk oversight function of the board, in light of the pledging of a significant amount of the company's stock by certain directors and executives.	✓	Diversity, Equity, and Inclusion	N/A
	0.7	Eli Lilly & Co	01/05/2023	Report on Effectiveness of Diversity, Equity and Inclusion Efforts and Metrics	For	Shareholder Resolution - Inequality: A vote in favour is applied as LGIM believes that disclosing the level of information contained in the EEO report may lead to reduced inequality.	✗	Diversity, Equity, and Inclusion	N/A
	0.7	JP Morgan Chase & Co	16/05/2023	Adopt Time-Bound Policy to Phase Out Underwriting and Lending for New Fossil Fuel Development	For	Shareholder Resolution - Climate change: A vote in support of this proposal is applied as LGIM expects company boards to devise a strategy and 1.5C-aligned pathway in line with the company's stated commitments and recent global energy scenarios. This includes but is not limited to, devising sector exclusion policies for thermal coal and a time-bound policy to phase-out investment in new exploration and development of oil and gas supply.	✗	Climate Change	N/A
				Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets	For	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects the company to be undertaking appropriate analysis and reporting on climate change matters, as LGIM considers this issue to be a	✗	Climate Change	N/A



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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	Next Steps
Future World	0.9	Broadcom	03/04/2023	Elect Director Henry Samueli	Against	material risk to companies. Such reporting will help the company to demonstrate to investors and other stakeholders how it is implementing its climate transition strategies and emissions reduction targets.			
						Report on Risks Related to Discrimination Against Individuals Including Political Views	Against	Shareholder Resolution - Diversity: A vote against this proposal is applied as the intention of the proposal as disclosed in the supporting statement is not in line with LGIM's view. LGIM supports the adoption of strong diversity and inclusion policies as it considers these issues to be a material risk to companies.	Diversity, Equity, and Inclusion N/A
						Disclose 2030 Absolute GHG Reduction Targets Associated with Lending and Underwriting	For	Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.	Climate Change N/A
Global Real Estate Equity	7.5	Prologis	04/05/2023	Elect Director Jeffrey L. Skelton	Against	Climate Impact Pledge: A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management.		Climate Change	N/A
						Diversity: A vote against is applied as LGIM expects a company to have at least one-third women on the board. Average board tenure: A vote against is applied as LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. Independence: A vote against is applied as LGIM expects the Chair of the Committee to have served on the board for no more than 15 years in order to maintain independence and a balance of relevant skills, experience, tenure, and background. Diversity: A vote against is applied as the company has an all-male Executive Committee.		Diversity, Equity, and Inclusion	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
						Shareholder Resolution - Climate change: A vote in favour is applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short-,		Climate Change	LGIM will continue to monitor the board's response to the relatively high level of support received for this resolution.

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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	Next Steps
medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.									
2.4	Digital Realty Trust	08/06/2023	Report on Risks Associated with Use of Concealment Clauses	For	Shareholder Resolution - Diversity: A vote in favour is applied as LGIM supports proposals related to improvement in information available in respect of diversity and inclusion policies as LGIM considers these issues to be a material risk to companies.	✗	Diversity, Equity, and Inclusion	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	
2.4	Realty Income	23/05/2023	Elected Director Michael D. McKee	Against	Climate Impact Pledge: A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management. Independence: A vote against is applied as LGIM expects the Chair of the Board to have served on the board for no more than 15 years and the board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background.	✓	Climate Change	LGIM will continue to engage with the company and monitor progress.	
2	Vici Properties	27/04/2023	Elected Director James R. Abrahamson	Against	Climate Impact Pledge: A vote against is applied as the company is deemed to not meet minimum standards with regard to climate risk management.	✓	Climate Change	LGIM will continue to engage with the company and monitor progress.	
1.6	AvalonBay Communities, Inc.	24/05/2023	Elected Director Susan Swarletzky	Against	Diversity: A vote against is applied as LGIM expects a company to have at least one-third women on the board.	✓	Diversity, Equity, and Inclusion	LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.	

Source: LGIM. "N/A" – data is not available at time of writing.

\*LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. It is their policy not to engage with their investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics.