

IBM PENSIONS TRUST

IBM Pension Plan (The Plan)

Annual Chair's Statement for the year ended 31 December 2021



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 2021.

This statement covers six key areas:

- The investment strategy 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; 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 \(smartpensionsuk.co.uk\)](https://smartpensionsuk.co.uk)) and the information concerning cost disclosures will be signposted in the annual benefit statements.

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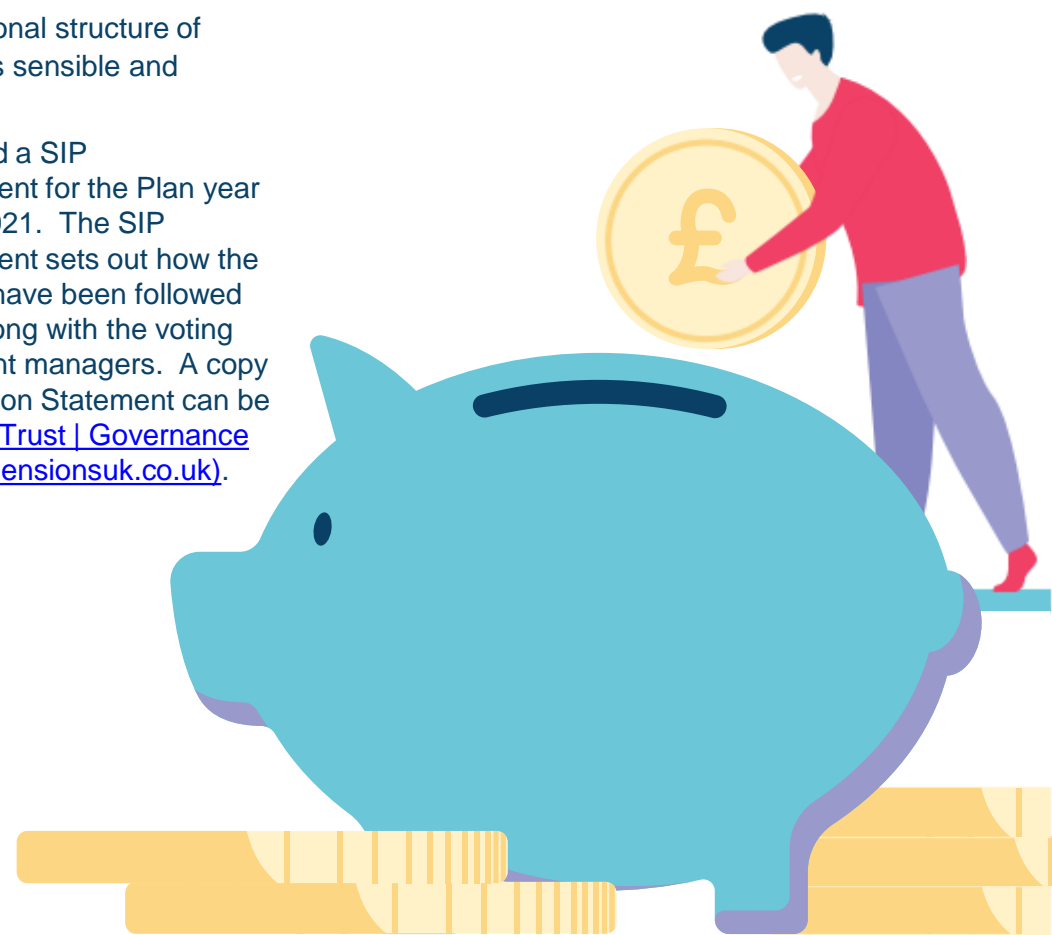
1 Investment Principles

- 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 appropriate investment framework which represents value for members 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 Statement of Investment Principles ("SIP"), 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 and were last updated in October 2021 and dated 4 November 2021. Specific reference to the investment principles overarching the DC Section of the Plan and further details of the Plan's default investment arrangement(s), including their aim and objectives, can be found in Sections 6.10 to 6.42 of the SIP and Schedule C of the IPID.

1.3 The Trustee seeks to:

- Offer suitable default investment arrangements and self-select ('Freestyle') investment options which are appropriate for members based on their expected risk tolerances and retirement objectives;
- 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 sensible and cost-effective.

- 1.4** The Trustee has drafted a SIP Implementation Statement for the Plan year ended 31 December 2021. The SIP Implementation Statement sets out how the policies within the SIP have been followed during the Plan year along with the voting 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-trust.co.uk/governance/documentation).



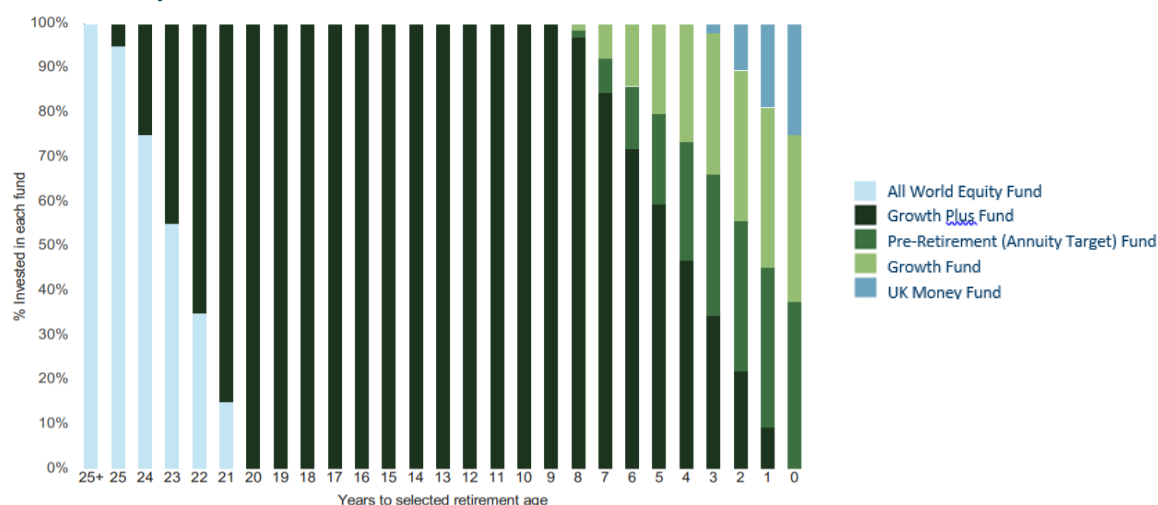
2 DC Section Investment Arrangements

2.1 In 2020, Legal & General Assurance Society Limited (“LGAS”) were appointed to supply bundled investment and administration services to the Trustee of the Plan. As part of the transition, members’ assets were moved onto Legal & General Investment Management (“LGIM”)’s investment platform in January 2021. The Trustee sought legal advice to ensure the new position on asset security remained appropriate and acceptable under the new structure.

Main Default Arrangement During the Majority of the Plan Year – Lifecycle Balanced 2020

2.2 The Trustee last completed a review of the Plan’s DC investment arrangements in 2019 (including a review of the default investment arrangement) and the final changes were agreed at the 18 December 2019 Investment Committee meeting. Following this review, the Trustee decided to change the default arrangement from the ‘Lifecycle to Annuity’ strategy to the ‘Lifecycle Balanced 2020’ investment strategy to offer members increased flexibility at retirement. This new default arrangement was launched in the first quarter of 2021 alongside the move to the new bundled arrangement with LGAS.

2.3 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 structure of the Lifecycle Balanced 2020 is detailed in the chart below:



Source: LGAS

2.4 During 2021, the Trustee reviewed the projected pensions of the Plan’s membership against the Pensions and Lifetime Savings Association (“PLSA”) Retirement Living Standards¹ using Mercer’s Retirement Readiness Index².

2.5 The analysis concluded that the majority of active members³ of the Plan are on track for a ‘moderate’ outcome at retirement, based on the PLSA Retirement Living Standards.

2.6 The Trustee agreed to implement a tailored communications strategy to follow up on some of the actions from this review.

¹Further information on the PLSA Retirement Living Standards can be found here: [Home - PLSA - Retirement Living Standards](#).

²Retirement Readiness Index (RRI) assesses how well members of the Plan are likely to do against the PLSA’s Retirement Living Standards. Schemes are rated as C/C+/B/B+/A/A+/A++. Any rating 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. RRI is an evaluation at a point in time, informed by Mercer. More information can be found at <https://www.uk.mercer.com/what-we-do/wealth-and-investments/defined-contribution-pension-schemes/retirement-readiness-index.html>.

³The analysis covered the DC benefits of active members of the Plan, based on the members’ tenure with the Plan. The analysis excluded any DB benefits or other pension arrangements. State Pension benefits are included within the analysis.

Alternative Investment Arrangements

2.7 During the Plan year, members were offered three additional 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.

2.8 Unless members made their own investment selection, most members were moved to the new Lifecycle 2020 strategies following their launch in the first quarter of 2021. These additional Lifecycle investment strategies are also considered default arrangements (see 2.10).

Legacy Default Arrangements

2.9 There are five legacy default investment strategies that are no longer open to new member selection:

- Lifecycle to Annuity,
- Lifecycle 2012,
- Lifestyle 2002,
- Lifestyle 1997, and
- Lifestyle 1997 (ex-DSL)⁴.

Additional Default Arrangements

2.10 In accordance with the Occupational (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,
- Lifecycle to Lump Sum, and
- Lifecycle to Annuity (also a legacy default arrangement as noted in 2.9).

2.11 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.

2.12 The performance of all default arrangements is monitored on a quarterly basis with a strategic review being carried out at least triennially.



⁴ The Lifestyle 97 (ex DSL only) remains open to DC members of the DSL Plan only

Self-Select (“Freestyle”) Fund Range

- 2.12** The Plan offers a range of Freestyle funds for members who wish to take a more active role in the investment of their DC pension savings. These funds comprise traditional and alternative asset classes (including more illiquid investments such as Infrastructure Equity and Global Real Estate Equity) at competitive fees.
- 2.13** In the first quarter of 2021, the Trustee also introduced the LGIM Future World Fund to the Freestyle fund range.
- 2.14** 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.

Investment Performance

- 2.15** 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 adviser 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.
- 2.16** The Trustee has been satisfied with the performance of the funds over the Plan year, which have performed in line with their underlying aims and objectives.
- 2.17** The Trustee periodically assesses the risks associated with foreign currency denominated investments with the most recent review conducted in 2020. This review included consideration of the unhedged currency exposure for the new DC investment options.



Environmental, Social and Governance

- 2.18** 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 seeks to select industry leaders in investment management who are committed to the Principles for Responsible Investment (“PRI”). The Trustee requires LGIM to report on their commitment and how these principles have been implemented.
- 2.19** The Trustee has an appointed Stewardship Manager 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.
- 2.20** 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.
- 2.21** The Plan’s Freestyle fund range includes the LGIM Ethical UK Equity Index and the LGIM Ethical Global Equity Index Funds whose underlying investments exclude companies involved in business activities that do not comply with a range of ethical and environmental guidelines.
- 2.22** From the first quarter of 2021, members were also able to invest in the LGIM Future World Fund. This ESG focused fund invests in a diversified range of global companies but tilts away from companies who generate revenue from fossil fuels in favour of companies which are less carbon intensive or who earn ‘green revenues’.
- 2.23** ESG integration within both the default arrangements and Freestyle options will be considered further as part of the 2022 investment strategy review.
- 2.24** The Trustee has also set up an ESG sub-committee to focus on the development of its ESG policies and climate-related disclosures.
- 2.25** The Trustee engages with managers on climate-related risks and exposure to these risks within the Plan’s investments. The Trustee has adopted the Task Force on Climate Related Financial Disclosures (“TCFD”) framework recommendations and the Plan’s first TCFD report will be made available online at [IBM Pensions Trust | Governance Documentation \(smartpensionsuk.co.uk\)](https://www.ibm-pensions.co.uk/governance/documentation).
- 2.26** Over the year, a quantitative Responsible Investment Total Evaluation (“RITE⁵”) assessment was undertaken by the Plan’s Investment Consultant. RITE assesses how well the Trustee integrates ESG factors into the Plan’s investment decision-making. By undertaking this assessment, the Trustee has made significant steps to improve the level of ESG factors within their investment decision-making and the actions from the assessment has also led to enhanced compliance in each area of the TCFD framework. This is evidenced by an improvement in the RITE rating, over the year, from B to A for the DC Section.



⁵ Responsible Investment Total Evaluation (RITE) assesses the extent to which schemes integrate ESG factors. Schemes are scored on a scale from 0-100, with those scores then mapped to a rating of C/C+/B/B+/A/A+/A++. Any rating/score has been determined at the sole discretion of Mercer, as professional adviser to the Plan. Mercer does not accept any liability or responsibility to any third party in respect of these findings, RITE is an evaluation at a point in time, informed by Mercer’s Sustainable Investment Pathway, more details on the Pathway can be found here <https://www.uk.mercer.com/our-thinking/wealth/responsible-investing-for-uk-pension-schemes.html>.

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 financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately. This includes:

- 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.

Service Level Agreement

3.3 During the Plan year a Service Level Agreement ("SLA") was in place between the Trustee and the administrator of the DC Section of the Plan (LGAS)⁶ for the administration services that are provided to assist the Trustee in fulfilling its regulatory duties. The services in scope included:

- 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.

3.6 LGAS produce a Monthly Dashboard which includes information on the monthly performance against the SLAs. These are reviewed prior to the monthly Operations Meetings held between IBM Pensions Trust and LGAS and any issues or concerns are raised during the meeting.

3.7 In addition, the Trustee's Governance Committee meets quarterly during the Plan year to review the LGAS quarterly Governance Reports. LGAS are invited to the quarterly Governance Committee meetings to provide an update on performance against the SLA and to discuss any significant issues that may have arisen in the previous quarter as well as other key operational measures.

⁶ The administration services were transitioned from IBM Pensions Trust to LGAS in January 2021.

Timeliness of Financial Transactions

3.8 During the Plan year, the timeliness of financial transactions was reported via the Monthly Dashboard and the quarterly Governance reports provided by LGAS. A summary of the SLA performance is reported to the Trustee Board each quarter.

3.9 In 2021, DC contribution payments to LGAS were received and invested within 24 hours. Investment switch requests were also processed within 24 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 March 2022, 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 are relevant for the 2021 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 During the 2021 Plan year there were a number of processes adopted by LGAS to help it achieve the SLA and increase transaction accuracy. This included the following:

- Cross training of resource so that there is flexibility to support different teams that may be seeing increased activity;
- Enhanced planning capability with continued review of work volumes to ensure the right skill and staffing levels;
- Ongoing AAF⁷ work to ensure robust risk and control framework in place. The latest AAF 01/20 – Type 2 report was completed in 2022 covering the period 1st October 2020 to 30th September 2021. The report states that most of the controls have been assessed as being designed and operating effectively within the reporting period. The testing identified a number of controls that did not operate effectively within the period. The Trustee Board are engaging with LGAS to seek assurances on these control deficiencies. The Trustee Board have been advised that LGAS are working on:
 - Enhanced Quality Monitoring with the development of an independent Quality Team;
 - New Helpline Management structure to support ongoing increased activity and enhance leadership capability; and
 - Ongoing Transformation activity and robust deep dive into processes and digital formats to increase operational performance through process automation.

3.12 LGAS have also completed a review of key processes through the year and have made several improvements, including:

- Upgrade to the telephone platform - The new supported platform enables the LGAS Helpline to service members more efficiently and on a more robust platform, providing improved functionality and an enhanced service;
- New Transfer Regulations - New enhanced due diligence team set-up with all regulation requirements being followed in relation to transfer requests; and
- Investment in the online member portal, Manage Your Account (“MYA”) – More options for members to self-serve including a new simplified journey for members switching investments.

3.13 The Governance Committee and LGAS agreed a 95% accuracy target for all the processes including several services such as Transfer Payment, Processing of members’ contributions, Divorce Quote, Surrender, Investment Management (Switches) and others. During 2021, the core financial transactions have been processed promptly and accurately to an acceptable level.

3.14 The 95% SLA accuracy target has been met for some of the agreed service levels. LGAS are working to improve areas below the accuracy level as detailed in 3.11 and 3.12 above.

⁷ Assurance reports on internal controls of service organisations.

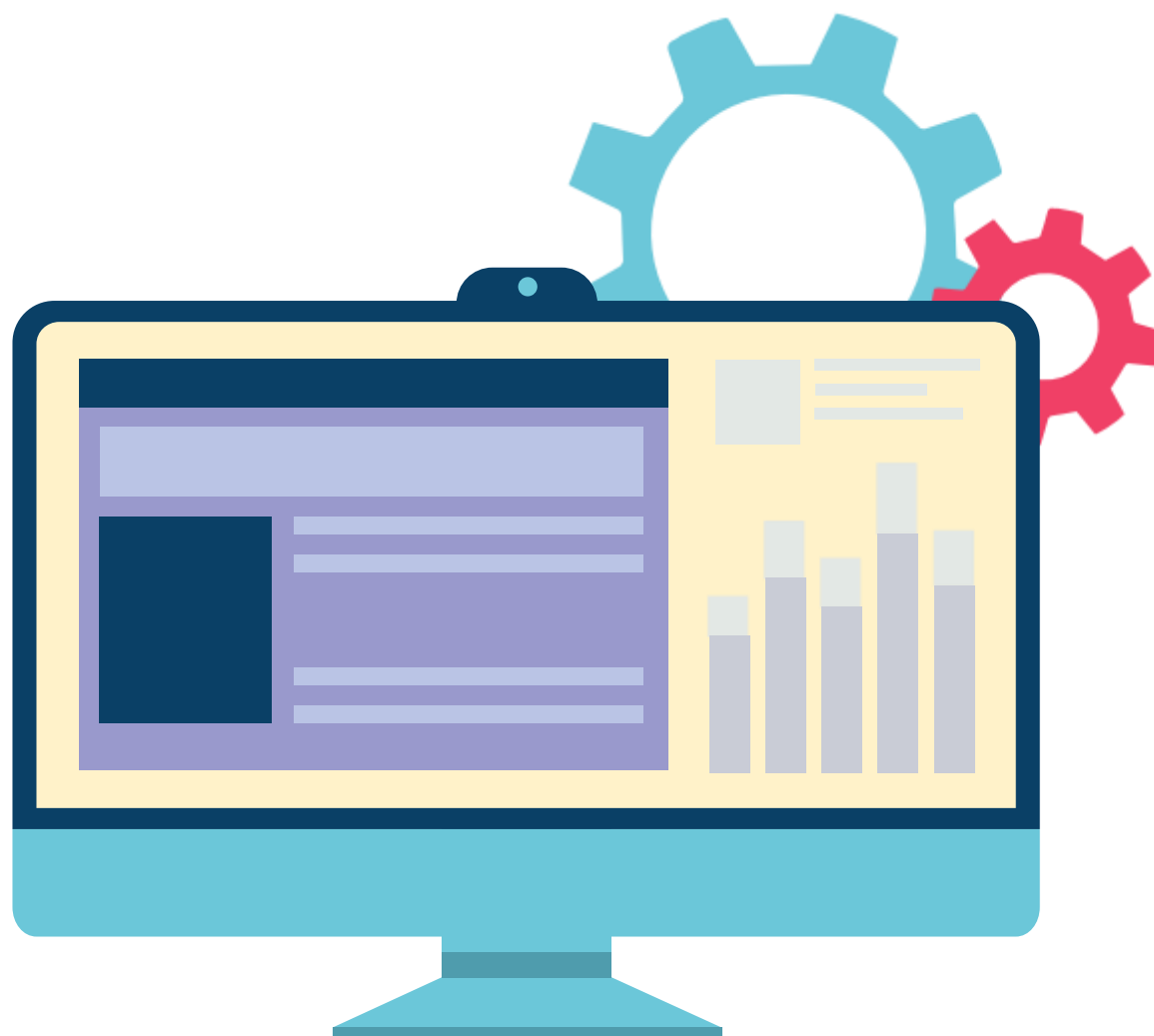
Business Continuity, GDPR and Cyber Security

3.14 The Trustee 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.

3.15 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

3.16 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 requirement⁸ to report on the charges and transaction costs for the default and Freestyle 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 by the investment manager and which are further defined below.
- 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 pensions management and administration services.

Charges

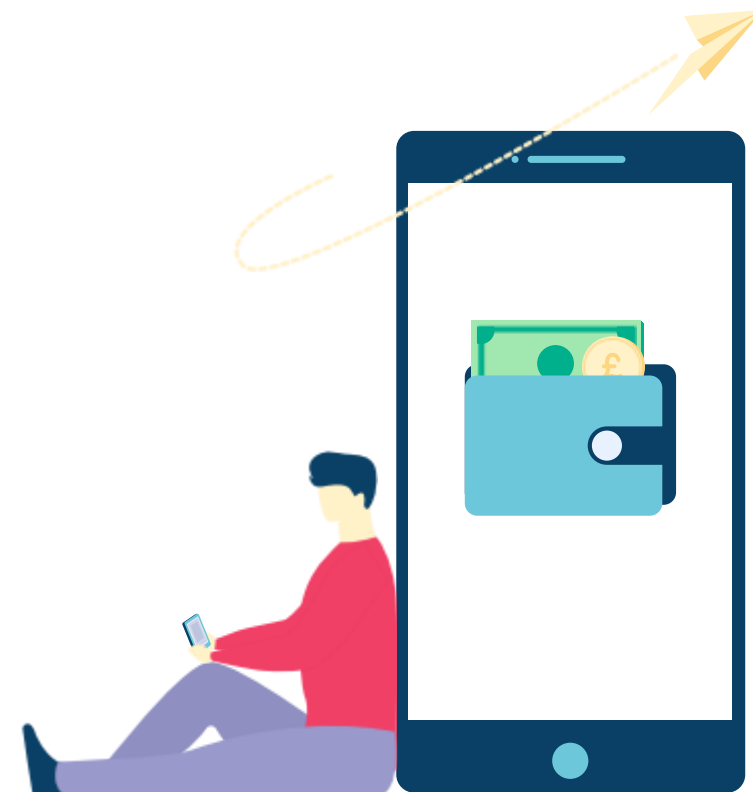
- 4.5** Ongoing fund charges include both the Investment management charge ("IMC"), which is applied by LGIM as a percentage of the assets held within each fund to cover the cost of managing the investments, and other ongoing charges such as indirect fees. Taken together, these are known as the "total 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' methodology.

These implicit costs are not explicitly deducted from the fund but are captured by a reduction 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.



⁸ In accordance with regulation 25(1)(a) of the Administration Regulations 1996.

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 new default arrangement launched in the first quarter of 2021, the Lifecycle Balanced 2020 investment strategy, has a TER of between 0.09% p.a. and 0.14% 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 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:

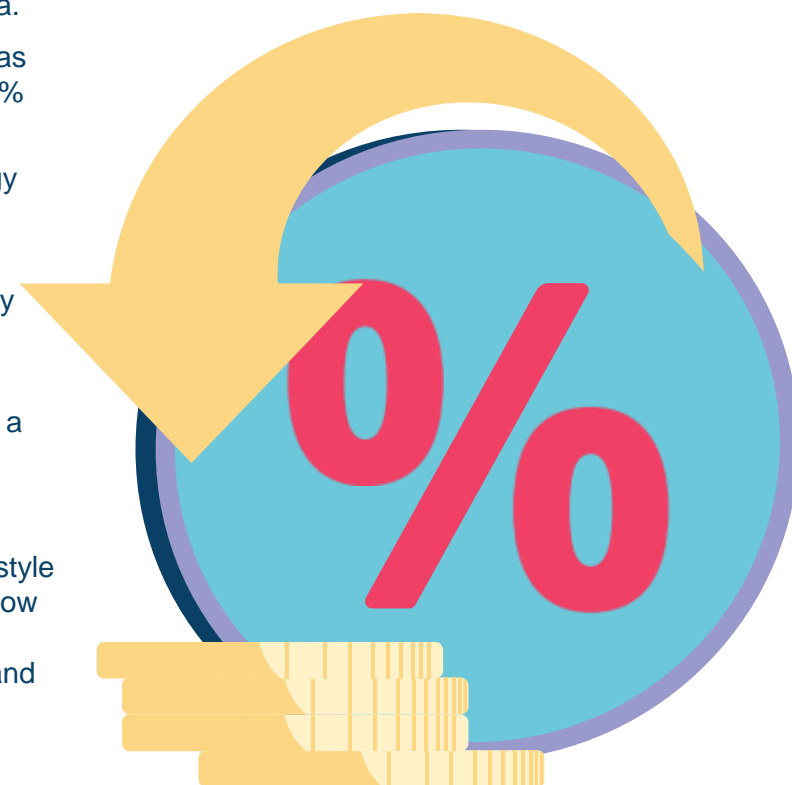
- (a) The Lifecycle to Annuity Strategy has a TER ranging between 0.08% and 0.14% p.a. (also a technical default)
- (b) The Lifecycle 2012 Strategy has a TER ranging between 0.07% and 0.14% p.a.
- (c) The Lifestyle 2002 Strategy has a TER ranging between 0.05% and 0.11% p.a.
- (d) The Lifestyle 1997 Strategy has a TER ranging between 0.05% and 0.11% p.a.
- (e) The Lifestyle 1997 (Data Science Limited members only) Strategy has a TER ranging between 0.00% and 0.05% p.a.

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 lifecycle 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 0.02% p.a.⁹
- (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 0.14% p.a.
- (d) The Lifecycle to Lump Sum 2020 Strategy has a TER ranging between 0.06% and 0.14% p.a.
- (e) The Lifecycle to Drawdown 2020 Strategy has a TER ranging between 0.09% and 0.14% p.a.
- (f) The Lifecycle to Lump Sum Strategy has a TER ranging between 0.08% and 0.14% p.a.

4.13 All other investment options, within the Freestyle range of funds attract TERs that are well below the charge cap. The TERs for the individual funds range from 0.04% p.a. to 0.34% p.a. and are detailed in the table overleaf.

4.14 The table overleaf provides details of both The IMCs and TERs as at 31 December 2021 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 methodology¹⁰ in compliance with the FCA's Conduct of business sourcebook rule 19.8 and are for the period from 1 January 2021 to 31 December 2021.



⁹Annual management charges for certain Data Sciences funds are borne by the Employer.

¹⁰Transaction 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.

Asset Class	Fund IMC (% p.a.)	Fund TER (% p.a.)	Transaction Costs (% p.a.)	Total of TER & Transaction Costs (% p.a.)
Multi-Asset Funds				
Growth Fund ^{1,2}	0.12	0.13	0.02	0.15
Growth Plus Fund ^{1,2}	0.13	0.14	0.03	0.17
Equity Funds				
Global Equity 70:30 Index Fund ^{2,3}	0.06	0.11	0.02	0.13
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	0.01	0.10
World (ex-UK) Developed Equity Index Fund	0.06	0.06	0.01	0.07
UK Equity Index Fund	0.05	0.13	0.02	0.15
World Emerging Markets Equity Index Fund	0.20	0.22	0.02	0.24
Cash Funds				
Money Fund ^{1,2}	0.05	0.06	0.00	0.06
Specialist Funds				
Global Real Estate Equity - GBP Hedged Fund	0.20	0.22	0.08	0.30
Ethical UK Equity Index Fund	0.15	0.16	0.02	0.18
Ethical Global Equity Index Fund	0.17	0.17	0.02	0.19
Infrastructure Equity MFG - GBP Hedged Fund	0.34	0.34	0.05	0.39
Emerging Market Debt Fund	0.18	0.18	0.00	0.18
Future World Fund ⁴	0.23	0.23	0.15	0.39
Fixed Income Funds				
Over 15 year Gilts Index Fund ²	0.04	0.04	0.04	0.08
Annuity Protection Index Fund ^{2,3}	0.04	0.04	0.04	0.08
Pre-retirement (Annuity Target) Fund ^{1,2}	0.07	0.07	0.00	0.07
Pre-retirement Inflation linked (Annuity Target) Fund	0.07	0.07	0.00	0.07
Investment Grade Corporate Bond All stocks Index Fund	0.07	0.07	0.00	0.07
All Stocks Index Linked Gilts Fund	0.04	0.04	0.04	0.08

Source: LGIM. Figures 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 Fund was only available to members from 8 January 2021 and hence the TER covers the period from inception to 31 December 2021

Additional Contributions

4.15 In addition to funds invested with LGIM, as at 31 December 2021, the Plan also held legacy with-profits additional contributions with Aviva Life & Pensions UK Limited (“Aviva”). The Trustee communicates annually with members regarding these holdings. The Trustee’s view is that the complex structure of these funds means Value for Members cannot be assessed and will vary by member. As such, these holdings were excluded from the most recent VFM assessment.

4.16 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	0.50	0.14	0.64

Source: Aviva. This information relies upon data provided by third parties.

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

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

4.17 The Trustee has prepared a set of illustrations for the following groups of members:

- M Plan active members
- M Plan deferred members
- Ex-DSL members

The illustrations can be found on [IBM Pensions Trust | Governance Documentation \(smartpensionsuk.co.uk\)](https://smartpensionsuk.co.uk).

The illustrations detail 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 requirements¹¹.

4.18 The latest regulatory 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.

4.19 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

4.20 To illustrate the impact of charges on a typical member’s pension pot, we have made the following assumptions:

- For the purposes of the charges and costs illustrations, all active members are assumed to contribute 15% of their salary 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 29):	A starting annual Contribution of £6,156	A starting fund value of £87,740
Average (Age 51):	A starting annual Contribution of £12,280	A starting fund value of £110,110.

- Deferred members:

Younger (Age 29):	No ongoing contributions	A starting fund value of £87,740
Average (Age 51):	No ongoing contributions	A starting fund value of £110,110.

- The illustrations include all member costs, including the Total Expense Ratio, estimated transaction costs and inflation.

¹¹ In accordance with regulation 25(1)(a) of the Administration Regulations 1996.

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

[illegible]

5 Value for Members

5.1 The Trustee is required¹² to undertake a review of the charges and costs incurred by members in order to ascertain whether they represent good value for members, relative to peers and alternative arrangements that are available.

5.2 The Trustee is committed to ensuring that members receive good value from the Plan. In conjunction with the Trustee's investment advisers (currently Mercer), the Trustee has undertaken a formal value for members' assessment ("VFM"); this has been the case since 2015. In February 2021 Mercer conducted the Trustee's most recent VFM assessment evaluating the charges borne by members in relation to the services received during 2021.

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

- Investment charges for the default and Freestyle arrangements
- Transaction costs
- Performance
- Investment manager ratings
- Plan governance
- Investment design and range
- Member services
- The costs funded by the Company, (rather than the member) of:
 - Plan administration;
 - Trustee's advisory costs; and
 - 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:

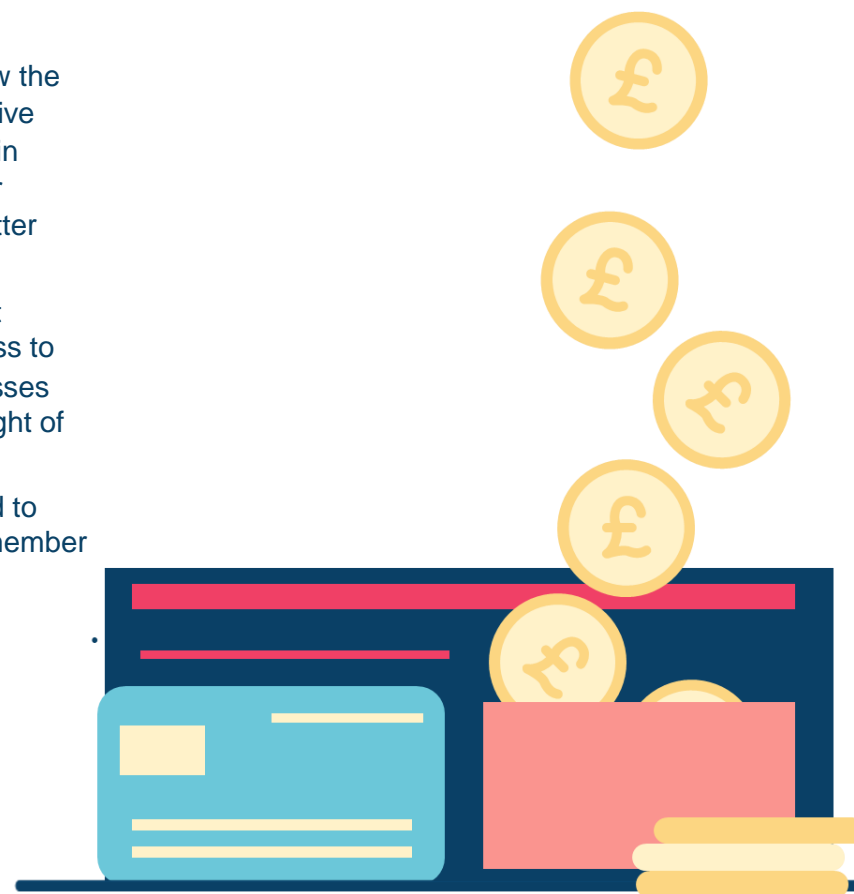
- Highly rated by Mercer;
- Offer a competitive fee rate (relative to peer group analysis and standard fees); and
- Are performing in line with expectations over the longer-term.

5.5 In addition to this:

- Charges for the default investment arrangements are significantly below the charge cap of 0.75% p.a. and effective December 2020, further reductions in IMCs were negotiated with LGIM for certain funds, which resulted in better value for members in 2021.
- 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).

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

¹² Required under regulation 25(1)(b) of the Administration Regulation 1996.



6 Long-term Net Investment Returns

- 6.1** Regulations introduced in 2021 require the Trustee to report on the net investment returns for the Plan's default arrangement(s) and for each fund 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 lifecycle/lifestyle arrangement(s) which have been calculated in accordance with the statutory guidance.

Strategy	Annualised returns to 31/12/2021 (%)		
Lifecycle Balanced 2020 (Default)			
Age of member	1 Year	5 Years	10 Years
25	21.1	-	-
45	19.0	-	-
55	19.0	-	-
Lifecycle to Annuity 2020			
Age of member	1 Year	5 Years	10 Years
25	21.1	-	-
45	19.0	-	-
55	19.0	-	-
Lifecycle to Lump Sum 2020			
Age of member	1 Year	5 Years	10 Years
25	21.1	-	-
45	19.0	-	-
55	19.0	-	-
Lifecycle to Drawdown 2020			
Age of member	1 Year	5 Years	10 Years
25	21.1	-	-
45	19.0	-	-
55	19.0	-	-
Lifecycle to Annuity			
Age of member	1 Year	5 Years	10 Years
25	21.1	13.1	-
45	19.0	10.4	-
55	8.7	6.8	-

Strategy	Annualised returns to 31/12/2021 (%)		
Lifecycle to Lump Sum			
Age of member	1 Year	5 Years	10 Years
25	19.0	10.4	-
45	18.8	10.3	-
55	8.7	6.8	-
Lifecycle 2012			
Age of member	1 Year	5 Years	10 Years
25	21.1	13.1	-
45	19.0	10.4	-
55	8.7	6.8	-
Lifecycle 2002			
Age of member	1 Year	5 Years	10 Years
25	18.1	8.1	10.1
45	18.1	8.1	10.1
55	18.1	8.1	10.1
Lifecycle 1997			
Age of member	1 Year	5 Years	10 Years
25	19.0	7.8	9.7
45	19.0	7.8	9.7
55	18.3	7.7	9.6
Lifecycle 1997 (ex-DSL)			
Age of member	1 Year	5 Years	10 Years
25	19.0	7.8	9.7
45	19.0	7.8	9.7
55	18.3	7.7	9.6

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, trustees should show age specific results for savers aged 25, 45, and 55 at the start of the recommended five-year reporting period.

Some of the lifecycle arrangements have been in place for less than 10 years and hence the 10 year performance (and for the 2020 lifecycles the 5 year performance) is not available.

6.3 The table below includes the long-term net investment return for the Plan's Freestyle funds:

Freestyle fund		Annualised net returns to 31/12/2021 (%p.a.)		
	Inception Date	1 year	5 years	10 years
Multi-Asset Funds				
Growth Fund ^{1,2,4}	04/04/2012	8.7	6.8	7.1
Growth Plus Fund ^{1,2,4}	04/04/2012	19.0	10.4	10.6
Growth Plus Fund (DSL) ^{3,5}	08/04/1997	19.0	10.4	10.3
Equity Funds				
Global Equity 70:30 Index Fund ^{2,3}	09/04/1997	19.0	7.8	9.7
Global Equity 60:40 Index Fund ^{2,3}	06/12/2002	18.1	8.1	10.1
All World Equity Index Fund ^{1,2,4}	04/04/2012	21.1	13.1	12.9
World (ex-UK) Developed Equity Index Fund	05/10/2011	23.8	14.2	14.6
UK Equity Index Fund	05/10/2011	18.2	5.5	7.8
World Emerging Markets Equity Index Fund ⁴	17/04/2012	1.3	7.6	6.4
Cash Funds				
Money Fund ^{1,2,5}	15/07/2009	0.0	0.4	0.4
Specialist Funds				
Global Real Estate Equity - GBP Hedged Fund	23/03/2015	29.5	7.3	8.1
Ethical UK Equity Index Fund	06/12/2002	17.0	5.2	7.9
Ethical Global Equity Index Fund ⁴	17/04/2012	26.6	14.3	14.8
Infrastructure Equity MFG - GBP Hedged Fund ⁴	19/08/2013	17.2	9.1	11.0
Emerging Market Debt Fund ⁴	17/04/2012	-5.2	2.0	2.8
Future World Fund ⁴	08/01/2021	-	-	21.8
Fixed Income Funds				
Over 15 year Gilts Index Fund ²	09/04/1997	-7.3	4.1	5.9
Annuity Protection Index Fund ^{2,3}	06/12/2002	0.7	4.8	6.7
Pre-retirement (Annuity Target) Fund ^{1,2,4}	05/10/2011	-5.0	3.9	6.2
Pre-retirement Inflation linked (Annuity Target) Fund ⁴	12/01/2017	-0.2	-	4.6
Investment Grade Corporate Bond All stocks Index Fund ⁴	17/04/2012	-3.1	3.3	5.1
All Stocks Index Linked Gilts Fund	17/04/2012	4.2	4.7	6.6

Source: LGIM, net of fees. We note that the performance figures shown above reflect the underlying pooled fund used by the Scheme and is based on daily midday mid-prices.

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 Since inception performance provided as funds were inception within 10-year period to 31 December 2021.

⁵ This fund is also a 'technical default'.

7 Trustee Knowledge and Understanding

7.1 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.

7.2 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 and the SIP together with an understanding of the laws relating to pensions trusts, and funding principles. The Governance Committee oversees the Trustee’s approach to meeting the TKU requirements. The current TKU process is set out below.

Recruitment

7.3 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 that is achieved via a democratic election process. Education and training sessions are provided to potential candidates to enable them to understand the roles and responsibilities ahead of their respective nomination;
- The recruitment process for company nominated Trustee Directors is managed by the company;
- A process for appointing a chair of the Trustee Board and the leadership qualities required for that role.

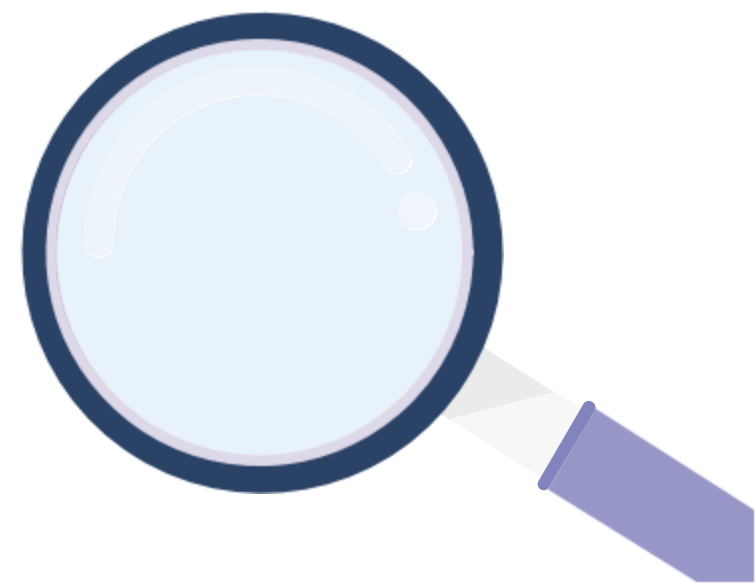
Induction Process

7.4 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.

7.5 During 2021, one new Trustee Director was appointed. The Trustee Director was appointed in May 2021 and completed the Trustee Toolkit within the stipulated six months and undertook the induction education, performed by the IBM Pensions Trust Manager, which covered the following areas:

- Trustee knowledge and education requirements;
- Trustee duties and powers;
- Conflicts of interest;
- IBM Pension Plans; and
- Trustee committee structure.



Ongoing Education

- 7.6** For existing Trustee Directors, the ongoing education programme 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 Director's self-assessment survey.
- 7.7** Trustee training sessions were held over the year covering the following topics:
- Conflicts Education;
 - Responsible Investment Total Evaluation;
 - Trustee Effectiveness, Decision Making and Round table discussion;
 - ESG – Climate Change Training and TCFD requirements;
 - TPR's Single Code of Practice;
 - TCFD Reporting Strategy;
 - TCFD Reporting, Governance and Risk Management.
- 7.8** A log of Trustee Directors' attendance at education sessions and Committee meetings is maintained.
- 7.9** All Plan documents are available to the Trustee Directors via a dedicated Trustee online repository.

The Trustee Effectiveness Assessment

- 7.10** A training session on Trustee Effectiveness took place in May 2021 in the form of education on Decision Making, by the Trustee's legal advisors Sackers & Partners LLP. A questionnaire was sent to all Trustee Directors ahead of a workshop.
- 7.11** The questionnaire revealed a high level of consensus amongst the Trustee Directors, which led to the workshop being centred around giving the Trustee the opportunity to discuss what they would like the Trustee board to have achieved for the Plan over the next 12 months and 3 years. The Trustee discussed potential future challenges and whether any governance changes were necessary as a result.
- 7.12** Following the Trustee Effectiveness exercise, the suggestion from the Governance Committee for 2022 is to focus on embedding the recommendations and continuing to work on the Trustee's effectiveness through compliance with TPR's new Single Code of Practice, ensuring an "Effective System of Governance".



Utilising Advisers

- 7.13** The Trustee believes that the best run schemes utilise the combined skill and knowledge of both the Trustee and their professional advisers. The relevant skills and experience of those advisers are key criteria when evaluating adviser performance and selecting new advisers.
- 7.14** Additionally, the following measures have applied during the period:
- The Trustee's professional advisers, where relevant, attend their formal meetings; and
 - The Trustee receives briefings from their advisers on relevant legislative and regulatory developments and DC topics at each relevant meeting.

- 7.15** 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. Advisers are invited to all relevant meetings.
- 7.16** Taking into account actions taken individually and as a Trustee group and the professional advice available to it, the Trustee considers that they are able to exercise their function as a Trustee appropriately.

Summary

- 7.17** The Trustee Effectiveness review undertaken in 2021, 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 Sub Committees, together with tailored training and professional advice undertaken in 2021, 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

By.....

Date: 27th July 2022

Chair of Trustee



