

## **Annual Governance Statement for the Plan Year Ending 31 December 2021**

Governance requirements apply to defined contribution (DC) pension schemes, to help members achieve a good outcome from their pension savings. For the Bristol Myers Squibb Pension Plan's ('the Plan') Additional Voluntary Contribution (AVC) and transfers-in arrangement (referred to here as 'the Arrangement'), the Trustee of the Plan is required to produce this yearly statement (which is signed by the Trustee Chair) to describe how these governance requirements have been met in relation to:

- The investment options in which members' funds are invested,
- The requirements for processing financial transactions,
- The charges and transaction costs borne by members and the extent to which they provide members with value, including an illustration of the cumulative effect of these costs and charges on the value of a member's AVCs,
- The investment performance, net of all charges, achieved by each of the investment options, and
- The Trustee's knowledge and understanding.

This statement covers the Plan's year from 1 January 2021 to 31 December 2021.

### **Investment strategy**

The Arrangement is not being used by the employer to meet its automatic-enrolment obligations since its primary purpose was to facilitate the payment of AVCs as well as transfers-in of DC benefits from other plans. No default investment option has ever been applied to these investments.

The investment strategy for the Arrangement and the Plan as a whole is set out in the Trustee's Statement of Investment Principles.

The provider for the Arrangement is Prudential.

### **Financial transactions**

There are no contributions being paid into the Arrangement, so the core financial transactions are limited to transfers-out, payments of benefits to members/beneficiaries and investment switches.

Administration of these transactions is undertaken by both the Plan's administrator (WTW) and Prudential, with the former acting as lead administrator.

There is an agreed Service Level Agreement (SLA) in place with both WTW and Prudential that applies to all tasks and excludes time waiting for third parties.

The Trustee has a process in place for monitoring administration performance, which includes:

- The receipt of quarterly administration reports from WTW that include details of any financial transactions relating to the Arrangement over the quarter and highlights if there have been any issues or delays, so that they can be addressed if needed
- An annual review of the WTW's success versus the SLA
- An annual review of Prudential, which considers administration performance as a core item.

For the reasons below, the Trustee is satisfied that over the period covered by this statement the Arrangement's core financial transactions have been processed promptly and accurately:

- The Trustee's annual review of administration performance showed that WTW completed 100% of core financial transactions within the SLA

- No issues or delays with regards to core financial transactions were noted at the quarterly meetings during the Plan year.

However, whilst the Trustee is unable to obtain Plan-specific statistics for Prudential's SLA performance, the Trustee is aware that Prudential's administration performance, across all its clients, declined during the Plan year. This was a result of disruption caused by Prudential outsourcing its internal administration function to a third party. The Trustee understands that the situation improved following the Plan year-end, although has reflected the 2021 position in the Plan's Value for Members assessment (see later in this statement).

## Charges and transaction costs

### Member-borne charges and transaction costs

The Trustee is required to set out in this statement the on-going charges borne by members of the Arrangement. These comprise of annual fund management charges plus additional fund expenses, such as custody costs (but excluding transaction costs – see below). This is known as the Total Expense Ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

The Trustee is also required to disclose transaction costs that are borne by members. In the context of this statement, the transaction costs shown are those incurred when the Arrangement's fund manager (Prudential) buy and sell assets within each investment fund.

The level of charges and transactions costs applicable to each fund in which members' assets were invested during the Plan year is shown in the table below:

Fund	Annual Fund Management Charge	Additional Fund Expenses	Total Expense Ratio (TER)	Transaction Costs
Prudential With-Profits	1.00%	0.18%	<b>1.18%</b>	0.00%
Prudential Deposit Fund	There are no explicit charges as the monthly interest rate is declared net of charges			0.00%
Prudential International Equity Fund	0.75%	0.02%	<b>0.77%</b>	0.00%
Prudential Long Term Bond Fund	0.65%	0.01%	<b>0.66%</b>	0.00%
Prudential UK Equity Passive Fund	0.65%	0.01%	<b>0.66%</b>	0.15%
Prudential Long Term Gilt Passive Fund	0.65%	0.01%	<b>0.66%</b>	0.00%
Prudential Dynamic Growth I Fund*	0.72%	0.01%	<b>0.73%</b>	0.00%

- The above charges and transaction costs have been supplied by Prudential.
- \*The Prudential UK Property Fund closed in June 2021 and was replaced by the Prudential Dynamic Growth I Fund. Transaction costs are unavailable for the Prudential UK Property Fund over the period. The latest transaction costs available are those shown in the Annual Governance Statement for the Plan Year Ending 31 December 2020

- The transaction costs shown are over the period 1 January 2021 to 31 December 2021.
- When preparing this section of the statement, the Trustee has taken account of the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes". Accordingly, negative transaction costs have been reported as zero.

## Net investment returns

The Trustee annually monitors the performance of the investment funds used by members. The table below shows the net investment returns for the Plan funds used by members; taking account of the above charges and transaction costs.

When preparing this information, the Trustees have taken account of the guidance issued by the Department for Work and Pensions (DWP) titled 'Completing the annual Value for Members assessment and Reporting of Net Investment Returns' dated October 2021.

Plan fund	1 Year NIR (% p.a.)	5 Year NIR (% p.a.)
Prudential With Profits Fund*	1.0%	1.2%
Prudential Deposit Fund	0.0%	0.0%
Prudential International Equity	14.1%	7.7%
Prudential Long Term Bond	-6.7%	4.9%
Prudential UK Equity Passive	17.4%	4.8%
Prudential Long Term Gilt Passive	-7.6%	3.9%
Prudential Dynamic Growth I	0.7%	4.7%
Prudential UK Property**	12.0%	4.3%

\*does not include performance arising from the final or terminal bonus

\*\* fund closed in June 2021

## Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's AVC benefits can reduce the amount available to the member at retirement. In this section, the Trustee sets out illustrations of the cumulative impact of charges and transaction costs on different investment options in the Arrangement. These illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings. In-line with this guidance, the Trustee has provided illustrations that cover:

- The fund with the lowest expected return (before charges) – this is the Deposit Fund
- The fund with lowest annual member borne costs – this is also the Deposit Fund
- The fund in which most members are invested – this is the With-Profits Fund
- The fund with highest annual member borne costs – this is also the With-Profits Fund
- The fund with the highest expected return (before charges) – this is the International Equity Fund.

As each member has a different amount of savings within the Arrangement and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. These assumptions are explained beneath the table of illustrations.

The "before charges" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after charges" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and average transaction costs over time.

End of year	Deposit		With-Profits		International Equity	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£7,000	£7,000	£7,000	£7,000	£7,000	£7,000
1	£6,920	£6,920	£7,110	£7,070	£7,140	£7,110
5	£6,320	£6,320	£8,070	£7,640	£8,350	£8,050
10	£5,640	£5,640	£9,440	£8,420	£10,160	£9,390
15	£5,030	£5,030	£11,050	£9,270	£12,360	£10,960
20	£4,490	£4,490	£12,940	£10,220	£15,040	£12,800
25	£4,010	£4,010	£15,140	£11,260	£18,300	£14,940
30	£3,580	£3,580	£17,730	£12,400	£22,260	£17,440

### Assumptions

- The charges used in the illustrations are based on:
  - The Total Expense Ratios (TERs) shown previously in this statement
  - An average of transaction costs over all periods available from Prudential
- The starting pot size used is £7,000 with no ongoing contributions
- The projection is for 30 years, being the approximate duration that the youngest scheme member has until they reach the Plan's Normal Pension Age.
- The annual growth rates before inflation assumed for each fund are as follows:
  - Deposit: 0.25%
  - With-Profits: 5.70%
  - International Equity: 6.50%
- Projected pension account values are shown in today's terms by assuming future inflation of 2.5% each year.

### Value for members

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members.

There is no precise legal definition of "good value", but in-line with the Pension Regulator's guidance, the Trustee considers annually what members of the Arrangement receive in exchange for the charges they pay; noting that value for members does not necessarily mean the lowest fee.

The date of the last assessment was April 2022 (in respect of Plan year covered by this statement) and covered 4 key areas, namely Governance, Administration, Investment and Communications.

In this assessment, the Trustee considered both the quality of those aspects of the Arrangement that members pay for, plus the broader benefits members receive without charge.

The assessment concluded that members are receiving 'High' value in three key areas and 'Fair' value for administration as a result of the Prudential issues noted previously. A summary of the assessment is provided below:

<b>Plan area</b>	<b>Summary of assessment findings</b>	<b>Overall Value in 2021</b>
Governance	<ul style="list-style-type: none"> <li>Plan members benefit from the Trustee's governance framework for both the Arrangement and the wider Plan, the cost for which is not paid by members of the Arrangement.</li> <li>The Trustee undertakes an annual review of the Arrangement, which includes benchmarking of member charges, administration, and investment performance.</li> </ul>	<b>High</b>
Administration	<ul style="list-style-type: none"> <li>The Plan's lead administrator (WTW) has performed 100% of core financial transactions within the Service Level Agreement.</li> <li>Prudential is also involved in part of the Arrangement's administration, with this being paid for by member charges. There is evidence that Prudential's service, across all its clients, declined in 2021 as a result of an outsourcing exercise.</li> </ul>	<b>Fair</b>
Investment	<ul style="list-style-type: none"> <li>Overall, the performance of the Arrangement's funds has been satisfactory. In particular, the With-Profits and Deposit funds, in which nearly all of the assets are held, have both met their investment objectives.</li> <li>The annual management charges paid by members are broadly in-line with those seen in similar closed AVC arrangements.</li> <li>Transaction costs are generally negligible.</li> </ul>	<b>High</b>
Communications	<ul style="list-style-type: none"> <li>Only communications prepared and sent by Prudential are paid for by members of the Arrangement.</li> <li>Members receive a variety of communications, including an annual newsletter and at-retirement communications.</li> </ul>	<b>High</b>

In conclusion, in return for the charges they pay, the Trustee believes that members of the Arrangement received High value overall particularly when taking into account the wider benefits of membership for which members do not pay.

### **Trustee knowledge and understanding (TKU)**

Each Trustee Director and the Trustee board as a whole is required to maintain appropriate levels of knowledge and understanding to run the Arrangement and the Plan. Accordingly, each Trustee Director must:

- Be conversant with the trust deed and rules of the Plan, the Plan's Statement of Investment Principles (SIP) and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Arrangement and the Plan more generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual to properly exercise his or her functions as a Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

Details of how the above requirements have been met during the year covered by this statement are set out in this section.

All the Trustee Directors are familiar with and have access to the current Plan governing documentation, including the Trust Deed & Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Plan and, where relevant, deciding individual member cases.

Further, the Trustee considers it has sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil its duties. This has been achieved as follows:

- All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit, which is a free online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law
- Regular training is provided with 'hot topics' presented at each quarterly Trustee meeting by WTW, and a legal update by the Plan's legal adviser
- There is an induction process in place for new Trustee Directors (there were three new Trustee Directors appointed in 2021, one of whom previously served as a Trustee Director ).

Aside from the above activity, during 2021, the Trustee received training on the following topics:

- A training session on cyber security delivered by Aon TBC
- A training session by WTW that covered both Prudential's capabilities, investment performance, administration performance and value for members
- A training session by the Trustee's legal advisor regarding Trustee board composition, inclusion and diversity.
- A training day by WTW covering at-retirement support and the new single Code of Practice.

All training, including attendance at seminars and events, is recorded in the Trustee training log that is maintained by the Scheme Secretary.

The Trustee, with the help of its advisers, regularly considers training requirements for upcoming meetings, with periodic assessment of knowledge gaps undertaken.

Taking into account the above, the Trustee believes it is well placed to exercise its functions properly and effectively.

**Signed by the Trustee Chair on behalf of the Arrangement:**

**Date:** 28th July 2022