BARCLAYS GLOBAL INVESTORS

Fund Watch

November 2009

Barclays Global Investors funds

For the year ending 30 September 2009

Global overview

As the year under review started, the vast majority of economic surveys of production, output and confidence were at record lows and conditions were expected to weaken further in the months ahead.

Early in 2009, the focus shifted towards the various government and central bank policy responses attempting to stem the economic downturn. The US Federal Reserve announced additional measures to help boost the economy through purchases of long-term US Treasury securities – so called 'quantitative easing'. Policymakers across Europe were slower to react. While the European Central Bank (ECB) cut interest rates to historically low levels, it did not introduce quantitative easing. In contrast, the Bank of England was one of the first to cut interest rates and adopt quantitative easing.

The second quarter of 2009 saw a rally in global markets that coincided with the first tentative signs of economic recovery. In relation to US economic data, the general theme was one of gradual improvement, albeit from very low levels.

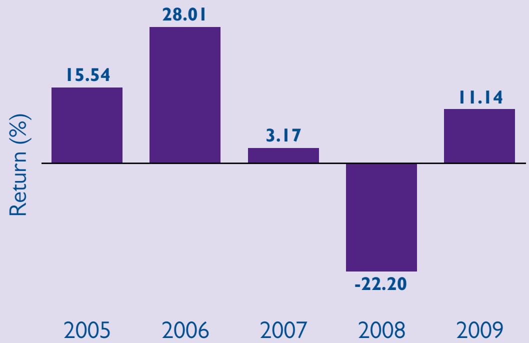
The final months of the year under review saw sentiment among market participants remain positive, reflecting additional evidence of economic recovery.

Most equity markets continued to rally with the occasional pause for breath, as the debate among economists turned to the durability and nature of the recovery.

Please note that past performance is not a guide to future performance.

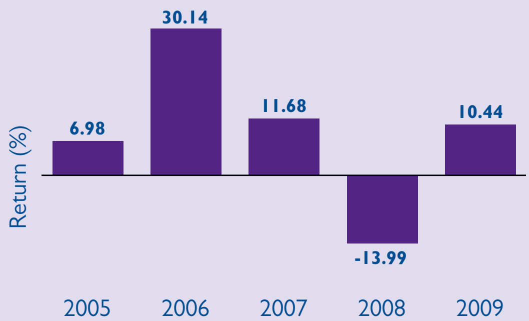
IBM PENSIONS TRUST

UK Equity Index Fund



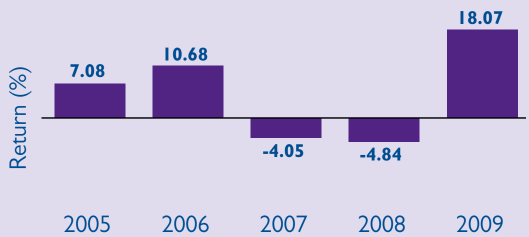
Source: BGI. Fund returns are gross of fees.

World (ex-UK) Index Fund



Source: BGI. Fund returns are gross of fees.

Corporate Bond Over 15 Years Fund



Source: BGI. Fund returns are gross of fees.

UK equities

The UK stock market lost ground during the final months of 2008 but it was actually a relative outperformer among the developed markets. The Bank of England shifted its stance quite dramatically during the fourth quarter of 2008 from being relatively cautious to pursuing very aggressive cuts in interest rates. Meanwhile, the government tried a modest but controversial fiscal stimulus in the form of a cut in indirect taxes on goods. The UK economy remained weak, hindered by headwinds from the property, construction, finance, retail and other sectors that have dominated the UK economy in recent years.

The weakness in UK equities continued in the first few months of 2009, falling in line with other European markets. The Bank of England slashed interest rates further and started quantitative easing to inject liquidity into the banking system which, it hoped, would encourage bank lending to the wider economy. Meanwhile, the UK economy continued to deteriorate.

In contrast to the preceding months, the UK stock market rose during the second and third quarters of 2009, as interest rates remained close to zero and the Bank of England continued its aggressive quantitative easing policy. On the fiscal side, it became increasingly clear that the public finances were in a dire state and the political agenda had shifted from investment in public services and stimulus to restoring the country's finances.

Against that background, some cautious commentators and investors questioned the durability and strength of the UK's economic recovery.

UK Corporate bonds

Corporate bond returns were positive during the final few months of 2008 as interest rates fell, although they underperformed UK government bonds. Credit spreads – the difference between yields on corporate bonds and government bonds – reached new highs as concerns mounted that the global economy was entering a deep, protracted recession. The outlook for corporate profitability also deteriorated as the ongoing lack of credit hampered firms' ability to refinance their debt at the same time as demand from consumers and businesses slowed sharply.

Despite several large banks in the UK, Europe and the US reporting strong starts to 2009, the financial sector was the worst performing segment of the corporate bond market. The value of banks' subordinated bonds fell as the prospect of issuers failing to pay bond interest increased and on concern that the government may force firms that have received government funds to defer coupon payments to protect taxpayers.

By the end of the second quarter of 2009, credit spreads had fallen by around a half from their peaks in March 2009, as economic data and sentiment towards the asset class improved. Demand for corporate bonds also remained high. New issues continued to be oversubscribed as investment managers looked to invest new cashflows.

In a turnaround from the previous quarter, financials performed the best as several banks tendered for their subordinated bonds at higher than market prices. Corporate bonds continued their rally during the final months of the year under review.

This was driven by improvements in economic data that suggested the recession was ending, positive surprises in company earnings and high demand for the asset class. Financials remained the best performing sector, benefitting from improved sentiment.

Performance Commentary

Over the year the Corporate Bond Over 15 years Index fund was the best performing fund with a return of 18.07%, followed by our UK Equity Index fund with 11.14% and the World (ex UK) Index with a return of 10.44%.

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- **Investment advice** If you require investment advice please contact an independent financial adviser.

Source: Barclays Global Investors (BGI). BGI is a global investment manager providing a range of investment services worldwide. BGI is owned by Barclays PLC.

This Fund performance data is not a guide to future returns and may not necessarily be repeated.

Please note as each individual fund performs differently, the graphs depicted are not represented to the same scale. The information and graphs set out in Fund Watch are provided entirely by Barclays Global Investors.

The BGI Funds were introduced for investment in the IBM pension plans from and including 6 March 2006. They were not available for investment for some of the period shown and earlier periods are included for information only.