

Premdor Crosby Pension Plan (“the Plan”)

Annual Chair’s Statement regarding governance of defined contribution (DC) arrangements including additional voluntary contributions (AVCs)

The Department for Work and Pensions (DWP) has set out in the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (‘the Regulations’) the minimum governance standards it expects defined contribution (DC) pension schemes to meet. The Pensions Regulator has also set out principles and features that it expects to be present in all well-governed DC occupational pension schemes. The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (‘the Administration Regulations’) require the Trustees of the Plan (‘the Trustees’) to include an annual statement (‘the Statement’) regarding how the DC Section of the Plan (‘the DC Section’) has been governed in the annual report.

This Statement is in respect of the period 1 April 2019 to 31 March 2020 and covers five key areas:

- the default investment arrangements
- requirements for processing core financial transactions
- assessment of charges and transaction costs
- assessment of value for members
- the requirement for trustee knowledge and understanding

Default investment strategy

Statement of Investment Principles

The Trustees have prepared a Statement of Investment Principles (SIP) which governs decisions about investments in the DC Section, including the default strategy. The SIP was reviewed in July 2020 and a copy of the latest version is attached as an Appendix to this Statement. The SIP captures:

- 1) The Trustees’ / managers’ aims and objectives
- 2) Their policies in relation to the:
 - a) Kinds of investments to be held
 - b) Balance between the different kinds of investment
 - c) Risks, including how these are measured and managed
 - d) Expected return on investments
 - e) The realisation of investments,
 - f) Financially material considerations over the appropriate time horizon of the investments, including how those considerations are taken into account in the selection, retention and realisation of investments; and
 - g) The extent (if any) to which social, environment or ethical considerations are taken into account in the acquisition, retention and disposal of investments.
- 3) Their policy in relation to:

- a) The exercise of the rights (including voting rights) attaching to the investments; and
 - b) Undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, the Trustees would monitor and engage with relevant persons about relevant matters).
- 4) Their policy in relation to the Trustees' arrangement with the fund managers, setting out the following matters (or explaining the reasons why any of the following matters are not set out):
- a) How the arrangement with the fund manager incentivises the fund manager to align its investment strategy and decisions with the Trustees' policies in sub-paragraph (ii) above;
 - b) How that arrangement incentivises the fund 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 medium to long-term performance;
 - c) How the method (and time horizon) of the evaluation of the fund manager's performance and the remuneration for fund management services are in line with the Trustees' policies mentioned in sub-paragraph (ii) above;
 - d) How the Trustees' monitor portfolio turnover costs incurred by the fund manager, and how they define and monitor targeted portfolio turnover or turnover range; and
 - e) The duration of the arrangement with the fund manager.

The DC Section is not used as a Qualifying Scheme for automatic enrolment purposes.

Default fund

Members of the Plan who do not make an explicit choice regarding the investment of their funds will be invested in a default strategy. The Trustees also make available an appropriate range of other self-select investment options, which members can utilise as an alternative to the default.

The Plan's default arrangement is looked after by Legal and General Investment Management Limited (LGIM), using a lifestyle strategy to automatically switch assets into lower risk funds as retirement approaches. During the growth phase the lifestyle strategy invests in the LGIM 60:40 Global Equity Index Fund. As members approach their selected retirement date, their assets gradually switch over to the Over 15 year Gilt Index Fund and the Cash Fund. This strategy assumes the member will purchase an annuity at retirement.

This lifestyle strategy provides members with an opportunity for asset growth while they are still some way from retirement, whilst accepting potentially greater volatility, and moving assets into investments expected to have lower volatility and potentially lower asset growth, as the member nears retirement. The Trustees believe this default offers the most appropriate balance between risk and reward for members who do not make an active choice to use the self-select funds for their retirement savings.

The default fund and range of self-select funds was last reviewed in 2013. A review was planned for 2016, but this was deferred in light of the Budget flexibilities introduced and how those could change what would be an appropriate investment strategy. This has remained on hold as a result of prioritising a strategic review of the DC section in the 2020/21 Plan year, following which, if no changes are made to the delivery vehicle, the Trustees will carry out the investment strategy. The DC design review is expected to reach a conclusion in Q4 2020.

Processing of core financial transactions

The Trustees have a specific duty to ensure that core financial transactions to and from the DC Section are processed promptly and accurately. The Pensions Regulator lists core financial transactions as the following, but not limited to:

- receipt and investment of contributions
- transfer of member assets into and out of the Fund
- transfers between different investments within the Fund
- payments to and in respect of members/beneficiaries

The administration of the DC section, including the processing of core financial transactions, is undertaken by Mercer and LGIM on behalf of the Trustees.

The Trustees periodically review how Mercer process the core financial transactions of the Plan. These include the core financial transactions set out by the Pensions Regulator, such as investment of contributions, transfers of assets into and out of the Plan, any fund switches and payments out of the Plan to and in respect of members. The performance of Mercer is also measured against agreed service levels, and the Plan's financial accounts are also audited annually by the appointed auditors Nexia Smith and Williamson.

The Trustees, having considered the above, have concluded that the Plan's core financial transactions have been processed promptly and accurately during the Plan year and that the Trustees responsibilities have been met.

Assessment of charges and transaction costs

Member borne charges

The Administration Regulations require the Trustees to make an assessment of charges and transaction costs borne by DC Section members and the extent to which those charges and costs represent good value for members. The lifestyle option has a maximum annual cost of 0.244%. This is well below the charge cap requirement of 0.75% on default funds.

Transaction costs

Transaction costs and gains are those incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are allowed for within the unit price for each of the funds. In 2017, The Financial Conduct Authority (FCA) published its policy on how asset managers must disclose transaction costs and administration charges.

The annual aggregate charges (borne by members) applied to the investment options that are available to members are set out in the table below:

| Fund | Transaction cost | Annual Management Charge | Total Expense Ratio |
|----------------------------|------------------|--------------------------|---------------------|
| Consensus Index | 0.048% | 0.320% | 0.368% |
| Global Equity 60:40 Index* | 0.004% | 0.244% | 0.248% |
| UK Equity Index | -0.026% | 0.194% | 0.168% |
| World (ex UK) Index | 0.007% | 0.287% | 0.293% |
| North America Index | 0.005% | 0.265% | 0.270% |
| Europe (ex UK) Index | 0.004% | 0.320% | 0.324% |
| Over 15years Gilts Index* | 0.054% | 0.164% | 0.218% |
| Cash* | -0.003% | 0.188% | 0.185% |

* These are the funds used in the default investment strategy.

Based on the component funds used for the default investment strategy, members therefore pay between 0.164% and 0.244% depending on how close they are to retirement.

Illustration of the effect of charges

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustees to produce a “£ and pence” illustration showing the compounded effect of costs and charges on the projected account size of representative members. As a result the Trustees have set out an illustration below which shows the projected value, over different time horizons, for two example members of the DC Section.

| Years | Member age 45 Current fund value £17,600 | | Member age 55 Current fund value £41,500 | |
|-------|---|---------|---|---------|
| | Before | After | Before | After |
| 1 | £18,200 | £18,100 | £41,000 | £40,900 |
| 3 | £19,400 | £19,200 | £39,900 | £39,700 |
| 5 | £20,600 | £20,400 | £38,900 | £38,600 |
| 10 | £24,200 | £23,600 | £36,500 | £35,900 |
| 15 | £22,700 | £21,900 | | |
| 20 | £21,300 | £20,400 | - | - |

These illustrations are intended to be an estimation of the potential effects of costs and charges on DC account sizes. The Trustees continue to work hard to ensure members are receiving good value from the DC Section, and this is covered in more detail in the next section.

Assumptions and notes

1. Projected pension account values are shown in today's terms.
2. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
3. Charges and costs are deducted before applying investment returns.
4. Switching costs are not considered in the lifestyle strategy.
5. Inflation is assumed to be 2.5% each year.
6. Values shown are estimates and are not guaranteed.
7. The illustration for the 45 year old is based upon the youngest members of the DC Section and the illustration for the 55 year old is based upon the average members of the DC Section.
8. We have assumed both members are using the default lifestyle strategy as the majority of the membership use.
9. The gross projected growth rate for the lifestyle strategy go from 5.8% to 1.2% (adjusted depending on term to retirement)
10. The fund value is expected to fall in today's terms after age 55, because the effect of expected inflation outweighs the level of investment returns.
11. Transactions costs and other charges have been provided by L&G and cover the period 1 April 2019 to 31 March 2020.

The DC Section's assumed normal retirement age is 65.

Value for members

The Trustees will be carrying out a formal assessment of the value delivered to DC section members before the end of the 2020/2021 Plan year with input from Willis Towers Watson and in light of the DWP consultation in relation to value for money from small DC schemes. At present the Trustees believe that the DC Section represents sufficient value for members, based on the following:

- The charges for the funds accessed by the DC section of 0.164% to 0.320% are all well below the statutory charge cap (0.75%).
- Members have access to a variety of asset classes and alternative investment funds and the Trustees are satisfied the funds have performed in line with expectations.

The Trustees also determined that the services and features received by members and for which the Employer bears the cost, provides additional value to members such as administration and oversight and governance by the Trustees.

Trustee Knowledge and Understanding (TKU)

It is a requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes, investment of assets and other matters to enable them to exercise their functions as trustees properly. The comments in this section therefore relate to the Trustee Board as a body dealing with the whole Plan and are not restricted to the DC Section.

The Trustees have in place arrangements for ensuring they take responsibility for keeping up-to-date with legislation and general developments and carry out a self-assessment of their training needs. The Trustees have a good working knowledge of the documentation in place for the DC Section (including the SIP, Trust Deed & Rules, Trustees' Report & Accounts and Risk Register), and review this documentation when appropriate.

At each Trustees' meeting and in between meetings by way of updates from their advisers, the Trustees receive training and education on updates concerning legislative, regulatory, provider and wider market developments where relevant to the DC Section and/or the members.

In addition, the Trustees regularly monitor and review the Plan's demographics and the members' behaviours to ensure the Plan and decisions they reach in relation to the governance of it remain fit for purpose.

Taking into account actions taken individually and collectively, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

Summary

The Trustees have reviewed and assessed the systems, processes and controls across key governance functions and are satisfied that they are consistent with those in the Pension Regulator's:

- Code of practice for the governance and administration of DC schemes trust based schemes; and
- Regulatory guidance for DC schemes.

Before the end of the 2020/21 Plan year we will be undertaking a thorough review against the code of practice to ensure the Plan can formally evidence a level of governance that will improve the outcomes members can expect in retirement.

Mr A Mincher

Signed by the Chair on behalf of the Trustees of the Premdor Crosby Pension Plan