

## **Pirelli Tyres Limited 1988 Pension and Life Assurance Fund ('the Fund')**

### **Defined Contribution Section and AVC arrangements**

### **Annual governance statement by the Chairman of the Trustee for the year ending 31 March 2023**

#### **Introduction**

Governance standards apply to defined contribution pension arrangements like the Defined Contribution Section of our Fund. These standards are designed to help members achieve a good outcome from their pension savings.

As Chairman of the Trustee of the Pirelli Tyres Limited 1988 Pension and Life Assurance Fund, I am pleased to provide you with a yearly statement which explains what steps the Trustee (with guidance from our professional advisers) has taken to meet these standards. The information included in my statement is set out in law and regulation.

The Trustee is committed to having high governance standards and we meet regularly to monitor the controls and processes in place in connection with the Fund's investments and administration.

We have included the return on investment from the default investment arrangement(s) and for each self-select fund which members are, or have been able to, select and in which members have been invested during the year, net of transaction costs and charges. The net returns to the year ending 31 March 2023 have been included to help members understand how their investments are performing.

I welcome this opportunity to explain what the Trustee does to help to ensure the Defined Contribution Section is run as effectively as it can be.

#### **Feedback**

If you have any questions about anything that is set out in this statement, or any suggestions about what can be improved, please do let us know.

Signed for and on behalf of the Trustee of the Pirelli Tyres Limited 1988 Pension and Life Assurance Fund by Paul Heaton, Chairman of the Trustee.



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Date ..... 20 September 2023 .....



## Executive summary

Over the year to 31 March 2023, the Trustee of the Fund has reviewed the following areas and our main conclusions are as follows:

### Defined Contribution Section

The default investment strategy	During the Fund year to 31 March 2023, the Trustee commenced a review of the default investment strategy and the range of self-select funds that are available for members to invest in. The review will be concluded in the Fund year to 31 March 2024 and any changes to the default investment strategy will be communicated to members in due course.
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Charges and transaction costs	The charges that members pay to invest in the investment funds in the Defined Contribution Section range from 0.11% to 0.79% per annum. Transaction costs averaged over the previous 5 years to 31 March 2023 are between 0.00% and 0.41%. The Company pays for all other costs and charges.
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Value for members and wider value for money	The charges and transaction costs incurred by members represent good value for members. When the wider services paid for by the Company as well as the generosity of employer contributions are taken into account, the Defined Contribution Section represents good value for money.
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Core financial transactions	The Fund's administrator for the Defined Contribution Section, Buck, operates to high standards around the accuracy and timeliness of all core financial transactions. There were no issues with the processing of core financial transactions during the Fund year to 31 March 2023.
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Trustee knowledge and understanding	The Trustee has a training programme to ensure that Trustee Directors meet the knowledge and understanding requirements and understand the Fund and its documents.
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### Additional Voluntary Contribution (AVC) arrangements within the Defined Benefit Section

During the year to 31 March 2023, the AVC arrangements were invested in a range of funds with Utmost and Clerical Medical.

Investments with Utmost were on a unit linked basis with charges of between 0.5% and 0.75% per annum.

With Clerical Medical, members can choose to invest in a variety of with-profit or unit-linked funds. The typical member charge in the with-profit fund is 0.5%. The charges in the range of unit-linked funds are 1% per annum.

The Trustee reviewed the AVC arrangements in the year to 31 March 2023 and no changes were made.

## **Default investment arrangement**

The Trustee provides a default investment arrangement for members who do not choose an investment option, although members can also choose to invest in this default investment arrangement.

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangements. We take professional advice from regulated investment advisers.

### **Setting an appropriate investment strategy**

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the Statement of Investment Principles. A copy of the latest statement of investment principles is attached to this statement.

We have chosen the Lifestyle Targeting Options Open as the default investment arrangement.

When deciding on investment strategy, the Trustee recognises that the majority of members do not take active investment decisions and instead invest in the default option. Therefore, the Trustee's primary objective in deciding on an investment strategy is to ensure that the strategy is appropriate for a typical member, taking into account factors such as the size of members' pension savings within the Defined Contribution Section, members' current level of income and likely expectations for income post-retirement. When choosing the default strategy, it is the Trustee's policy to consider a range of asset classes, together with their expected returns and the expected volatility of those returns, the suitability of styles of investment management, and the need for diversification. The Trustee also recognises that there are various investment and operational risks and gives qualitative and quantitative considerations to such risks.

The Lifestyle Targeting Options Open is structured to provide diversity from a range of different investment funds and the potential for a level of growth over and above inflation in the long term. As members approach retirement the monies in the Lifestyle Targeting Options Open are gradually switched to less volatile investments which aim to protect members' potential income in retirement. but with continued exposure to growth assets should members wish to keep their fund invested beyond retirement.

Up to 15 years before retirement, the Lifestyle Targeting Options Open invests mainly in equities but with a small exposure to property and infrastructure. These funds are considered 'riskier' than other fund types but aim to grow members' pension savings. Once members are within 15 years of retirement, the Lifestyle Targeting Options Open gradually moves members' pension savings into investments which are aimed to provide protection from 'riskier' funds as retirement approaches whilst continuing to provide some exposure to growth assets. The aim of this approach is to keep members' options open at retirement for those members who are not sure about how they plan to take their pension savings and offers flexibility in line with the range of choices available following the pension freedoms introduced by the government in 2015.

### **Reviewing the default investment arrangement**

The Trustee is expected to review the strategy and objectives of the default investment arrangement regularly, and at least once every three years, and take into account the needs of the Defined Contribution Section membership when designing the default arrangement.

To fulfil our fiduciary duty to act in members' best interests, we first confirm our understanding of the key features of the current and expected membership. We use this information to develop an understanding of their needs, attitudes and expectations. This enables us to make assumptions as to what members' reasonable expectations could be.

We consider members' attitudes to risk and their retirement expectations and analyse different lifestyle strategies and revisions to the funds in the default investment arrangement, before deciding on what changes would be appropriate. Investment modelling of a variety of different investment strategies contributes to our decision-making process.

From 1 March 2020, the Trustee changed the default investment strategy to the Lifestyle Targeting Options Open with the aim of improving member outcomes. The Trustee also introduced two new additional Lifestyle options for members who have decided how they would like to take their pension savings when they retire. These are called the Lifestyle Targeting Annuity and the Lifestyle Targeting Cash. Both alternative strategies use the same growth investments as the Lifestyle Targeting Options Open until five years before retirement. Once there is less than five years to go, the Lifestyle Targeting Annuity and Lifestyle Targeting Cash strategies invest members' pension savings to target a specific retirement outcome. The Lifestyle Targeting Annuity may be more useful for members who plan on taking a quarter of their pension savings as a tax-free lump sum and use the rest to purchase an annuity (guaranteed income for life). The Lifestyle Targeting Cash may be more useful for members who plan on taking all their pension savings as a cash lump sum.

A review of the default investment strategy commenced in the Fund year to 31 March 2023 and the review is still in progress. Any changes will be communicated to members once the review is completed.

In addition to the strategy review, the Trustee also reviews the performance of the default investment arrangement against their aims, objectives and policies on a half yearly basis, taking advice from the Trustee's investment consultant. During the period covered by this statement, such reviews took place in August 2022 and March 2023.

In carrying out the reviews of the performance of the default investment arrangement the Trustee considered that the funds in the default investment arrangement performed as expected in relation to their benchmarks. The default investment arrangement for the Fund therefore remains appropriate and consistent with the aims and objectives as stated in the statement of investment principles.

Members will have noticed volatile investment returns over the year to 31 March 2023 across most investment funds. Disruption to supply chains following the Covid-19 pandemic, the war in Ukraine and the significant increase in energy prices have all contributed to a sharp increase in inflation, rising interest rates, global recessionary fears and increased volatility across investment markets. Following the mini budget announced by then Chancellor, Kwasi Kwarteng, in September 2022, the bond market was also significantly affected, with the value of government bonds in particular falling. Whilst this may be alarming, members should take into account that pensions are a long-term investment and so it is important not to take knee jerk reactions in response to short term market movements.

#### **Self-select investment choices**

In addition to the default investment arrangement, the Trustee allows members to self-select from a range of funds as indicated below. Members may wish to take financial advice before choosing between these funds.

The self-select options available are shown below.

- BlackRock Passive (70:30) Global Equity Fund
- BlackRock Active Diversified Growth Fund
- BlackRock Passive Over 15 Years Gilt Index Fund
- BlackRock Cash Fund
- BlackRock Passive Index-Linked Gilt Fund
- BlackRock Active Corporate Bonds Fund
- BlackRock Global Minimum Volatility Equity Index
- Blackrock Global Property Securities
- LGIM Ethical Global Equity Index

- LGIM World Emerging Markets Equity Index
- LGIM Infrastructure Index
- MFS Global Equity
- Ninety One Global Multi-Asset Sustainable Growth Fund

## Charges and transaction costs paid by members

The Trustee is required to explain the charges and transaction costs (i.e., the costs of buying and selling investments in the Defined Contribution Section) that are paid by members rather than the employer. In the Defined Contribution Section, members typically pay for investment management and investment transactions, while the employer pays all the other costs of running the Fund such as administration and governance.

The investment management and transaction costs can be explained like so:

- The total ongoing charges figure is the total cost of investing in any fund or strategy and includes the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges). The charges for the default investment strategy are compared against the 0.75% charge cap set by legislation.
- Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments *within* each fund or strategy. They include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and the costs of borrowing or lending securities, as well as any differences between the actual price paid and the quoted 'mid-market price' at the time an order was placed. These costs will vary between members depending on the funds invested in, the transactions that took place within each fund and the date at which the transactions took place. Unlike the ongoing charges figures, transaction costs are not compared against the 0.75% charge cap set by legislation – instead, the reported performance of the fund is typically net of these transaction costs.

The level of ongoing charges applicable to the Defined Contribution Section's default investment arrangement (Lifestyle Targeting Options Open) during the last Fund year were 0.23 to 0.56%.

The charges depend on the term to retirement and a breakdown is provided for the default investment arrangement in the table below:

Term to Retirement (Years)	Ongoing charges
15+	0.23%
14	0.27%
13	0.32%
12	0.36%
11	0.41%
10	0.45%
9	0.50%
8	0.54%
7	0.56%
6	0.56%
5	0.56%
4	0.52%
3	0.47%
2	0.42%
1	0.38%
0	0.33%

The level of ongoing charges applicable to the two alternative Lifestyle options were as follows: the Lifestyle Targeting Annuity was 0.23% to 0.56% and the Lifestyle Targeting Cash was 0.13% to 0.56%.

The level of charges applicable to the Defined Contribution Section's other investment funds that members were invested in during the last Fund year were:

<b>Fund Name</b>	<b>Annual charge</b>
BlackRock Passive (70:30) Global Equity Fund	0.16%
BlackRock Active Diversified Growth Fund*	0.60%
BlackRock Passive Over 15 Years Gilt Index Fund*	0.11%
BlackRock Cash Fund*	0.13%
BlackRock Passive Index-Linked Gilt Fund	0.14%
BlackRock Active Corporate Bonds Fund*	0.47%
BlackRock Global Property Securities*	0.13%
BlackRock Global Minimum Volatility Equity Index*	0.21%
LGIM Ethical Global Equity Index	0.41%
LGIM World Emerging Markets Equity Index	0.57%
LGIM Infrastructure Index*	0.45%
MFS Global Equity	0.79%
Ninety One Global Multi-Asset Sustainable Growth Fund*	0.75%

\*Funds used in the Lifestyle options including the new default investment strategy.

The transaction costs applicable to investment funds being utilised by members averaged over the previous 5 years were confirmed by the investment managers as being:

<b>Fund Name</b>	<b>Annual charge</b>
BlackRock Passive (70:30) Global Equity Fund	0.04%
BlackRock Active Diversified Growth Fund*	0.32%
BlackRock Passive Over 15 Years Gilt Index Fund*	0.00%
BlackRock Cash Fund*	0.02%
BlackRock Passive Index-Linked Gilt Fund	0.02%
BlackRock Active Corporate Bonds Fund*	0.13%
BlackRock Global Property Securities*	0.15%
BlackRock Global Minimum Volatility Equity Index*	0.02%
LGIM Ethical Global Equity Index	0.01%
LGIM World Emerging Markets Equity Index	0.03%
LGIM Infrastructure Index*	0.01%
MFS Global Equity	0.03%
Ninety One Global Multi-Asset Sustainable Growth Fund*	0.41%

\*Funds used in the Lifestyle options including the new default investment strategy.

### **Switching between different investment funds in the Fund**

The funds used by the Defined Contribution Section of the Fund operate on a single-swinging price basis with no explicit switching costs charged to members. However, implicit costs will apply when trades are placed, which will be reflected in the prices that members receive when placing their trades. These implicit costs will vary between members depending on what switches took place for each member and the date at which these occurred. The Trustee is not able to track what switching costs have been incurred in practice for particular members although it should be noted that not all switches will incur these costs, with many taking place at nil cost.

### **Completeness of transaction cost information**

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

We confirm that there was no information about costs or charges that could not be obtained.

### Illustrations of the impact of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. We are required to provide illustrative examples of the cumulative effect over time of the impact of the charges and transaction costs on the value of a member's pension savings.

We have prepared the following illustrations, having taken account of the statutory guidance issued by the Department of Work and Pensions in preparing this section of our statement.

**Example 1 provides an example illustration for a new joiner to the Fund; joining at age 20 and paying contributions to age 65**

### Projected pension savings/pot in today's money for the youngest active member

Age	Lifestyle targeting Options Open		MFS Global Equity		BlackRock Passive Over 15 Years Gilt Index Fund	
			Only one fund is used throughout		Only one fund is used throughout	
	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£
20	-	-	-	-	-	-
21	1,808	1,806	1,813	1,806	1,781	1,780
23	5,640	5,620	5,689	5,624	5,371	5,363
25	9,778	9,718	9,925	9,733	9,001	8,977
30	21,634	21,359	22,316	21,426	18,250	18,153
35	36,007	35,302	37,783	35,472	27,755	27,532
40	53,432	52,002	57,093	52,347	37,522	37,119
45	74,559	72,004	81,198	72,619	47,559	46,918
50	100,172	95,963	111,290	96,971	57,873	56,934
55	130,087	122,254	148,855	126,227	68,473	67,172
60	164,075	149,109	195,751	161,373	79,364	77,636
65	197,565	175,409	254,294	203,594	90,557	88,333

### Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Each fund shown in the illustration has different potential returns and levels of associated risk. For example, the MFS Global Equity Fund has a higher expected projected pension than the Over 15 Years Gilt Index Fund but this is to be expected as equity funds tend to provide the best long term reward but with the highest level of risk.
3. The illustration assumes that 100% of contributions are credited to each fund.
4. The starting pot size is assumed to be £0 as would be applicable for a new joiner to the Fund (we have assumed joining at age 20 which is representative of the youngest member of the Fund).
5. Future contributions of 12% (4% member and 8% employer) and a current salary of £15,000 are assumed to be payable.
6. Inflation is assumed to be 2.5% each year.
7. Contributions are included from age 20 to 65 based on a flat rate of 12%, assuming earnings increase by 2.5% each year with a starting salary assumed to be £15,000. Values shown are estimates and are not guaranteed.
8. Negative transaction costs have been treated as zero in line with how the FCA treats transaction costs for contract-based pension schemes.
9. The projected growth rates before expenses for each fund, which is based on AS TM1 are as follows:  
Lifestyle targeting Options Open: 3.93% above inflation  
MFS Global Equity: 4.54% above inflation  
BlackRock Passive Over 15 Years Gilt Index Fund: 0.55% above inflation.
10. The growth rates are based on market conditions as at 30 September 2022.



**Example 2 provides an example illustration for a current contributing member with an existing fund of £40,000 and a current age of 45 with contributions continuing until age 65**

**Projected pension savings/pot in today's money for a 'typical' active member**

Age	Lifestyle targeting Options Open		MFS Global Equity		BlackRock Passive Over 15 Years Gilt Index Fund	
			Only one fund is used throughout		Only one fund is used throughout	
	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£
45	40,000	40,000	40,000	40,000	40,000	40,000
50	68,052	67,348	69,785	67,519	59,106	58,840
55	101,215	98,255	106,968	100,579	78,740	78,097
60	139,475	131,177	153,385	140,293	98,916	97,781
65	178,827	164,778	211,331	188,004	119,650	117,900

**Notes**

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Each fund shown in the illustration has different potential returns and levels of associated risk. For example, the MFS Global Equity Fund has a higher expected projected pension than the Over 15 Years Gilt Index Fund but this is to be expected as equity funds tend to provide the best long term reward but with the highest level of risk.
- The illustration assumes that 100% of contributions are credited to each fund.
- The starting pot size is assumed to be £40,000.
- Future contributions of 12% (4% member and 8% employer) and a current salary of £30,000 are assumed to be payable.
- Inflation is assumed to be 2.5% each year.
- Contributions are assumed to start from age 45 (which is the median age of the current DC membership of the Fund) and continue to age 65 based on a flat rate of 12% and increase in line with assumed earnings inflation of 2.5% each year.
- Negative transaction costs have been treated as zero in line with how the FCA treats transaction costs for contract-based pension schemes.
- Values shown are estimates and are not guaranteed.
- The projected growth rates before expenses from each fund, which is based on AS TM1 are as follows:  
Lifestyle targeting Options Open: 3.93% above inflation  
MFS Global Equity: 4.54% above inflation  
BlackRock Passive Over 15 Years Gilt Index Fund: 0.55% above inflation.
- The growth rates are based on market conditions as at 30 September 2022.

**Example 3 provides an example illustration for a deferred member with an existing fund of £10,000 and a current age of 45 remaining in the Fund until age 65**

**Projected pension savings/pot in today's money for a 'typical' deferred member**

Age	Lifestyle targeting Options Open		MFS Global Equity		BlackRock Passive Over 15 Years Gilt Index Fund	
			Only one fund is used throughout		Only one fund is used throughout	
	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£
45	10,000	10,000	10,000	10,000	10,000	10,000
50	12,124	11,978	12,484	12,013	10,276	10,221
55	14,568	14,062	15,584	14,432	10,560	10,448
60	17,291	16,060	19,455	17,337	10,852	10,679
65	19,823	17,887	24,287	20,828	11,151	10,916

**Notes**

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Each fund shown in the illustration has different potential returns and levels of associated risk. For example, the MFS Global Equity Fund has a higher expected projected pension than the Over 15 Years Gilt Index Fund but this is to be expected as equity funds tend to provide the best long term reward but with the highest level of risk.
3. The illustration assumes that no future contributions are payable.
4. The starting pot size is assumed to be £10,000.
5. Inflation is assumed to be 2.5% each year.
6. Age 45 is the median age of the current DC membership of the Fund.
7. Values shown are estimates and are not guaranteed.
8. Negative transaction costs have been treated as zero in line with how the FCA treats transaction costs for contract-based pension schemes.
9. The projected growth rates before expenses from each fund, which is based on AS TM1 are as follows:  
Lifestyle targeting Options Open: 3.93% above inflation  
MFS Global Equity: 4.54% above inflation  
BlackRock Passive Over 15 Years Gilt Index Fund: 0.55% above inflation.
10. The growth rates are based on market conditions as at 30 September 2022.

**Past performance of the investment options**

We have calculated the return on investments from the default investment arrangement(s) and for each self-select fund which members are or have been able to select and in which members have been invested during the year, net of transaction costs and charges.

The net returns to the year ending 31 March 2023 are shown in the tables below and have been included to help members understand how their investments are performing. Please note that past performance is no indicator of future performance.

**Annualised Returns (%) for the default investment option**

Age of member at the start of the five-year period ending 31 March 2023 *	5 years (2018-2023)	1 year (2023)
Age 25	7.7%	-1.7%
Age 45	7.7%	-1.7%
Age 55	7.0%	-1.9%

\*As the default investment option is a lifestyle strategy made up of different investment funds, the returns vary by age so we have shown the returns at three example ages in line with regulatory guidance.

**Annualised Returns (%) for the self-select investment options**

Investment Fund	5 years (2018-2023)	1 year (2023)
BlackRock Passive (70:30) Global Equity Fund	6.3%	2.0%
BlackRock Active Diversified Growth Fund	2.7%	-2.9%
BlackRock Passive Over 15 Years Gilt Index Fund	-6.5%	-30.1%
BlackRock Cash Fund	0.7%	2.1%
BlackRock Passive Index-Linked Gilt Fund	-4.2%	-29.6%
BlackRock Active Corporate Bonds Fund	0.1%	-8.4%
Aegon BlackRock Global Minimum Volatility Index	-	0.8%
MFS Global Equity	-	1.4%
Aegon LGIM World Emerging Markets Equity Index	2.3%	-4.8%
Aegon LGIM Ethical Global Equity Index	11.6%	0.5%
Aegon BlackRock Global Property Securities	-	-18.5%
Aegon LGIM Infrastructure Index	-	-5.0%
Ninety One Global Multi-Asset Sustainable Growth Fund	-	-1.3%

**Methodology:**

1. The default lifestyle performance is calculated from net of fees underlying manager performance figures minus switching costs incurred from de-risking the default lifestyle

- strategy as members approach retirement. Switching costs are calculated from the spreads applicable to the funds.
2. Figures shown for the self-select investment options are calculated based on underlying investment manager performance.
  3. Composite performance figures for the lifestyle strategy assume allocations are in line with the switching matrix at each year end. We have not allowed for deviations due to market movements in the preceding period.
  4. The Fund updated its default investment strategy in 2020. The figures shown include the historic performance of the default investment strategy applicable as at 31 March 2023 as this is deemed to be of more relevance for making intra-scheme comparisons.

## Core financial transactions

The Trustee is required to report to you about the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the Defined Contribution Section;
- transferring assets relating to members into and out of the Defined Contribution Section;
- transferring assets between different investments within the Defined Contribution Section; and
- making payments from the Defined Contribution Section to, or on behalf of, members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to Buck, the pension scheme administrators.

There is a process in place between the Trustee and the administrators to ensure accurate and timely processing of the core financial transactions for which it is responsible. The administration team is required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustee and in accordance with the Fund's trust deed and rules. Any mistakes or delays are investigated thoroughly, and action is taken to put things right as quickly as possible.

This administration service includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers), and keeping track of changes in members' circumstances.

In order to monitor this service, the Trustee expects a representative from the administration team to attend Trustee meetings regularly to report on activity, provide feedback from members and highlight any issues directly to the Trustee. The Trustee receives regular administration reports confirming key administration activity such as the payment and allocation of contributions, Fund membership and bank account transactions.

The following service standards apply to the core pension administration service:

Task	Transaction Type	Transaction Target (working days following receipt by Buck on behalf of the Trustee)
<b>Death</b>	Notification of Death	5
	Return of Certificates	5
	Payment of Benefits	5
<b>Leaver</b>	Quote	10
	Re-quote	10
	Withdrawal form (final figures)	10
<b>Retirement</b>	Quotation	10
	Actual Retirement	10

	Correspondence and Certificates	10
	Payment of Benefits	5
<b>Investment</b>	Contribution investment	5
<b>Transfer Out</b>	Initial Request	15
	Correspondence and Discharge Forms	15
	Correspondence and Certificates	5
	Payments of Benefits	5
<b>Ad Hoc Queries</b>	Member and Client Queries	10
	Third Party and NICO Queries	10

The Fund Auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

There were no material administration service issues discussed in the last Fund year which need to be reported here by the Trustee and as a result I am confident that all core financial transactions have been processed within a reasonable time.

Overall, we are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

### Trustee knowledge and understanding

The law requires the Trustee to be conversant with the Fund's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Fund effectively.

The Trustee Directors meet all the knowledge and understanding requirements and understand the Fund and its documents. The Trustee Directors are aware that they must have a working knowledge of the trust deed and rules of the Fund, the Statement of Investment Principles and the documents setting out the Trustee's current policies. They are also aware that they must have 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. The Trustee Directors do this by regularly reviewing the relevant Fund documents via an online portal.

We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board.

- Trustee Directors complete the Pensions Regulator's on-line trustee toolkit and review the toolkit on an on-going basis to ensure their knowledge remains up to date.
- New Trustee Directors are required to attend an induction training course and complete the toolkit within 6 months of becoming a member of the Trustee Board.
- We have a training log for each Trustee Director and review regularly and update with our training activities. Training over the period covered by this statement relevant to the Defined Contribution Section of the Fund included the following:

<b>Training</b>	<b>Date</b>
Illiquid assets	14/03/2023
Investment strategy considerations	14/03/2023
Minimum pension age change - 2028	14/03/2023
Value for money - framework of metrics and standards for assessment	14/03/2023
Simplified DC benefit statements	31/08/2022
Chair's Statement – including net investment returns	31/08/2022

- The Trustee Directors receive “on-the-job” training. This means that as new topics arise their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests, as well as training during the meeting so that the Trustee Directors may engage on such topics in an informed manner.
- The Trustee has assessed the Defined Contribution Section against the standards set out in the code of practice for trustees of pension schemes providing money purchase benefits (the DC code) and related guides and established an action plan to ensure we can demonstrate that we are offering a quality scheme. All elements of the action plan have now been progressed and concluded.
- Regular reviews of the performance and effectiveness of the Trustee Board are undertaken.

Relevant advisers are in attendance at meetings and in frequent contact with the Trustee Board to provide information on topics under discussion, either specific to the Fund or in respect of pension or trust law.

As a result of the training activities which have been completed by the Trustee Directors individually and collectively and taking into account the professional advice available to the Trustee Board, I am confident that the combined knowledge and understanding of the Trustee Board enables us to properly exercise our functions as a Trustee Board.

### **Defined Benefit Section - AVC arrangements**

Our historic AVC arrangements associated with the defined benefit section are provided by Utmost and Clerical Medical.

Utmost members are invested in a range of unit-linked funds with charges of between 0.5% and 0.75% per annum.

With Clerical Medical, members can choose to invest in a variety of With Profit or Unit-Linked funds. The typical member charge in the With Profits funds is 0.5%. The charges in the range of Unit-Linked funds are 1% per annum.

The Trustee reviews these arrangements on an annual basis to ensure they continue to be fit for purpose and writes directly to individual members who have such investments if there is anything of significance to highlight or make members aware of. The Trustee reviews the AVC arrangements on an annual basis.

The Trustee also reviews the investment performance of the AVC arrangements annually taking advice from the Trustee’s investment consultant.

The Trustee takes a proportionate approach to reviewing the AVC investments based on the size of the funds invested compared to the size of the funds invested in the Defined Contribution Section.

### **Assessing value for members**

As part of our assessment of the charges and transaction costs, the Trustee is required to consider the extent to which the member-borne charges and costs represent good value for members when this is compared to other options available in the market.

This section sets out the approach that the Trustee has taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

#### **Categorising costs/charges and how these impact on our assessment**

There is no legal definition of ‘good value’ and so the process of determining good value for members is a subjective one. We note that value for members does not necessarily mean the lowest fee.

In line with our legal duties and guidance issued by The Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Company.

The costs that are paid by members are fund management charges and transaction costs for the investment funds used within the Fund.

For all other costs and charges, the Company bears the full cost. This covers such areas as:

- wider investment support and governance (e.g., the costs of regularly reviewing and updating funds available to members, etc).
- administration of the Defined Contribution Section (e.g., the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, producing annual financial statements, etc).
- member communications (e.g., the costs of producing and issuing member booklets, annual benefit statements, etc); and
- the management and governance of the Defined Contribution Section (e.g., the expenses of the Trustee, the costs of legal/actuarial advisers and annual audit, etc).

The Trustee has undertaken an analysis that covers the 'value for members' (i.e., arising from the benefits that members receive from the charges and transaction costs that they directly pay). This assessment is required by legislation and is mainly limited to the performance and volatility of investment returns versus the charges members pay for holding those funds.

The analysis has then been extended to assess the overall 'value for money' offered to members of the Defined Contribution Section, with the aim of capturing not only the value from member-borne costs but also the broader elements of value that members receive from the employer-financed costs, as well as wider factors such as the employer contribution rates.

### **Overall approach and conclusion**

Assisted by our advisers and in line with The Pensions Regulator's guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay, including transaction costs (where available).
2. We have assessed the scope and quality of the services that members receive;
3. We have compared the value members receive from the services against the cost of those services; and
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that we are comparing the level of charges in each fund with the levels of return they have delivered to members, as well as comparing the costs of membership (i.e., the charges) against the benefits of membership (i.e., the services provided by the Defined Contribution Section).

In attempting to compare these against other options available in the market, the Trustee has found that there are limited industry-wide benchmarks for each service area and so the Trustee has relied on the market knowledge of its advisers.

**Based on our assessment, we conclude that the Defined Contribution Section offered good 'value for members' and good 'value for money' over the year to 31 March 2023.**

There are some areas the Trustee has identified where good 'value for money' can be maintained and the Trustee plans to perform further investigations into these areas, taking action in some, over the year to 31 March 2024 and further details are included later in this section.

### Preparation for the assessment

The Trustee received support from advisers around how to undertake the assessment and also considered the statutory guidance.

The Trustee used a scoring system for the assessment and individual elements of service were given scores by considering the scope and quality of the services under those areas. A weighted score ranging from 0% to 100% was produced and the Trustee agreed that any score between 50% to 75% represented satisfactory value and a score of 75% or over, represented good value. The Trustee agreed that scores would be compared from year to year with a view to measuring and monitoring changes in 'value for money'.

### Process followed for the assessment, including key factors considered

The Trustee then considered the services provided by the Fund in the areas where costs are borne (whether by members or by the employer), such as investment, communications, scheme management and governance, and administration. The scores for these areas were assessed by considering the scope and quality of the services in each area.

We assessed the historic return and volatility of the default fund versus benchmark, and the charges and transaction costs and reviewed the larger set of services paid for by members and the Company, including (but not limited to) the following:

Area	Examples
<b>Investments / charges</b>	The quality / governance of the default fund and alternative choices, the historic return and volatility of the default fund, charges and transaction costs versus benchmark, etc
<b>Communications / member support</b>	Whether bespoke / tailored or event-driven communications are used, at-retirement communications / guides / modellers / support, access to pension freedoms, etc
<b>Scheme management and governance</b>	Understanding of membership characteristics / attitudes / needs, compliance with The Pensions Regulator's Codes of Practice, Trustee Knowledge and Understanding practices, use of expert advisers, etc
<b>Administration / online services</b>	Online fund values / switching, use of service level agreements, core administration team / helpline, etc
<b>Employer contribution to member funds</b>	The generosity of the employer contributions over and above the automatic enrolment minimum.

While all of the factors above contribute to whether the Fund is well run, the Trustee believes that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Fund and the level of investment performance net of fees.

As a result, 40% of the overall 'value for money' score is allocated to the benefits members received including the level of contributions; 40% of the score is allocated to investments and 20% to the competitiveness of fees and transaction costs.

### Explanation of the results of the assessment

Our conclusion that the Defined Contribution Section offers **good 'value for money'** over the year to 31 March 2023 is based on aspects such as:

- The default investment strategy performance was negative over the year to 31 March 2023 but this was in line with market conditions and the performance was better than the performance of comparison data used for the assessment.
- The default investment strategy has a maximum annual charge of 0.23% in the growth phase, which compares favourably to the 0.37% average charge for default funds within trust-based defined contribution pension schemes that featured in the 2017 PLSA annual survey. Our advisers also confirm that our charge for the default

investment strategy compares favourably to market rates applicable to larger defined contribution schemes.

- The contribution structure is generous where members join the Defined Contribution Section voluntarily compared to the automatic enrolment minimum.
- The default investment strategy was designed with reference to the membership profile of the Defined Contribution Section and its performance is reviewed on a regular basis.
- Members are able to receive a wide range of administration services through Buck (e.g., a dedicated helpline manned by a ring-fenced administration team etc), which compares well to other options in the market.
- Members receive communications that aid member decision-making (including section-specific member booklet and bespoke annual benefit statements).
- The Trustee provide an At Retirement process and support for members to access the Flexible Retirement Section of the SEI Master Trust so that members can access the pension freedoms outside of the Fund at retirement with a well-established provider and competitive charges without the need for financial advice to access the arrangement. The charges for the Flexible Retirement Section have been reduced at the time of signing this statement.
- The Trustee provide online services, so that members can view and make changes to their Defined Contribution savings.
- The Trustee met many times over the Fund year, discussing DC-related matters, with a Trustee training plan in place and ad-hoc training received before major decisions, as well as clear contracts with external advisers.

It is not as easy to assess value for money for those members of the Defined Benefit Section with AVC funds, particularly for those who were invested in with-profits funds. The low transparency of costs, combined with a lack of visibility and influence on how the with-profits fund is run are a negative factor when assessing value for money. However, the inherent guarantees that feature in many with-profit funds may be valued by members.

### **Follow-on actions and investigations**

Over the year to 31 March 2024, the Trustee plan to do the following for the Defined Contribution Section:

- Continue to transform member communications with enhanced digital mediums being used to increase member engagement and provide for a more efficient delivery of information to members.
- Continued to engage with members to strengthen communication and engagement between all stakeholders and obtain feedback to ensure our future communication strategies are appropriate.
- Review governance processes in line with the Pension Regulator's new single code of practice to ensure our processes and controls meet best practice standards.
- The review of the current investment offering is underway to ensure it continues to remain appropriate for members.
- Share this analysis with the Company to obtain their views.

The Trustee's focus for the next year is to maintain the value for money and identifying if further improvements can be made. Over the year to 31 March 2024, the Trustee plans to do the following:

For the Defined Contribution Section:

For the members with AVC funds in the Defined Benefit Section:

- Continue with our annual review of the AVC arrangements to ensure these are appropriate and continue to perform in line with expectations.