

The Cray Research (UK) Limited 1994 Retirement Benefits Scheme

Defined Contribution Governance Statement (unaudited)

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding the governance of Defined Contribution ('DC') funds within the Cray Research (UK) Limited 1994 Retirement Benefits Scheme ('the Scheme'). This statement must be included in the annual report and accounts and published online.

Most members of the Scheme have a Guaranteed Minimum Pension underpin. As the underpin may or may not come into payment when members take benefits, we have treated these members' funds as DC funds for the purposes of this Statement.

This statement covers the period 6 April 2022 to 5 April 2023. It describes how the Trustee has met the statutory governance standards in relation to the Scheme's DC funds held with Royal London and Utmost Life and Pensions ('Utmost') in the following areas:

1. The default investment arrangements,
2. Net investment returns,
3. Charges and transaction costs paid by members (including illustrations of the impact of costs and charges),
4. Value for members, and
5. Processing of core financial transactions,
6. Trustee knowledge and understanding.

1. Default investment arrangements

The Scheme has never been used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since April 2006. This means that the Scheme does not have a default investment arrangement, as defined by the Charges and Governance Regulations.

However, as funds were automatically invested into the Utmost 'investing by age' strategy when the Equitable Life With Profits Fund closed on 1 January 2020, this strategy may be considered a 'deemed default'. We have therefore treated the Utmost investing by age strategy as a default investment arrangement for the purposes of the disclosures in this Statement.

The Trustee is responsible for setting and overseeing the Scheme's investments, although that responsibility is delegated entirely to Royal London for the funds that it holds. As the Scheme now has less than 100 members, the Trustee no longer maintains a Statement of Investment Principles.

In accordance with the Regulations, the Trustee is expected to carry out a formal investment strategy review every three years. Under the contractual terms of the Royal London policy, the responsibility for reviewing investment strategy is delegated to Royal London. Royal London has confirmed the most recent review of the strategic asset allocation of the strategy is on-going. To date, Royal London has not made any changes to investment strategy as a result of its review.

The last investment strategy review for the Utmost funds was completed on 20 November 2019, the next investment review was therefore due to take place by 20 November 2022. The Trustee transferred almost all Utmost funds to the Mercer Master Trust in February 2022. A small number of members could not be included in the bulk transfer either because they were over 75, or the Trustee did not hold sufficiently complete records for the Master Trust to accept these members. The Trustee is taking steps to resolve these issues and it is the Trustee's intention to discharge these funds as soon as possible. The Trustee has therefore decided not to carry out the review of the investment strategy.

On an annual basis, the Trustee reviews the performance of the unit-linked funds net of charges and the interest / bonus rates declared on the non-unitised funds held by members as part of the work undertaken to prepare this Statement. The performance over periods to 31 March 2023 has been in line with expectations.

2. Net investment returns

The Trustee is required to report the net investment returns for each fund that Scheme members were invested in during the Scheme year. Net investment returns refer to the returns on funds minus all member-borne transaction costs and charges.

The net investment returns have been prepared having regard to statutory guidance. The guidance states that net investment returns must be shown for a member aged 25, 45 and 55 at the start of the investment reporting period, where they vary dependent upon term to retirement, for example in a lifestyle strategy. This requirement only applies to the Utmost Investing by Age strategy.

It is important to note that past performance is not a guide to future performance.

Net investment return to 31 March 2023	1 year (%)	5 years (% p.a.)
Royal London funds		
Crest Secure	0.3	1.5
Crest Growth Unitised With Profits 1&2	2.2	2.0
Crest Growth Unitised With Profits 3	2.2	2.1
Crest Growth RLP Managed	-5.7	4.1
RLP Deposit	1.4	-0.2
RLP Managed	-5.7	4.1
RLP Unitised With Profits 2	2.2	2.0
RLP Unitised With Profits 3	2.2	2.1
Utmost funds		
Investing by Age strategy – members aged 25 and 45 at the start of the investment reporting period	-5.9	Not available
Investing by Age strategy – members 55 at the start of the investment reporting period	-6.1	Not available

Notes

For the Royal London Crest Secure Fund and the With Profits Funds, the net investment returns shown above are the annualised bonus rates declared on the relevant fund over the previous calendar year i.e. 2022 for 1 year returns and 2018 – 2022 for 5 year returns. For the With Profits Funds (not the Crest Secure Fund), we would expect a terminal bonus to increase returns to close to the returns achieved by the underlying assets of the funds over the period held (after all costs of running the fund, including the costs of any guarantees). However, the level of terminal bonus is unknown until it is paid and is not guaranteed. A market value reduction, which can reduce the return delivered to investors, may be applied on exit from the With Profits Fund at any time other than at maturity date, or in the event of death before retirement.

The Utmost Investing by Age strategy was launched on 1 January 2020, so 5-year returns are not available.

3. Charges and transaction costs paid by members

The Trustee is expected to monitor:

- (i) the explicit charges, such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio ('TER'). The TER is the total explicit cost of the fund to an investor and includes legal, administration, audit, marketing, and regulatory costs. It is calculated by dividing all expenses paid by the fund over the year by the value of the fund's assets.
- (ii) transaction costs (i.e. the costs of buying and selling investments in a fund). These costs are not explicit but they have an impact on the returns achieved by unit-linked funds.

The costs and charges borne by members over the period covered by this Statement have been provided by Royal London and Utmost and are set out in the table below. Utmost reports transaction costs on a quarterly basis, therefore the transaction costs shown for Utmost funds in the table below are for the twelve-month period to 31 March 2023. Royal London report transaction costs quarterly for some funds and annually for others. The transaction costs shown below for the Crest Secure, Deposit and Managed Funds are for the twelve-month period to 31 March 2023. Those for the With Profits Funds are for the twelve-month period to 31 December 2022. Where transaction costs have been provided as a negative cost, these have been set to zero by the Trustee to avoid under-estimating total costs and charges.

Royal London Fund	TER (% p.a.)	Transaction Costs (%)	Total costs and charges (%)
Crest Secure	1.45 ¹	0.0	1.45
Crest Growth Unitised With Profits (1, 2 and 3)	1.0 ¹	0.08	1.08
RLP Deposit	1.0	0.05	1.05
RLP Managed	1.0	0.06	1.06
RLP Unitised With Profits (2 and 3)	1.0 ¹	0.08	1.08

Source: Royal London

Utmost Fund	TER (% p.a.)	Transaction Costs (%)	Total costs and charges (%)
Investing by Age strategy	0.50 – 0.75 ²	0.01 – 0.36 ²	0.51 – 1.11 ²

Source: Utmost

Notes

¹ The charges on the Royal London Crest Secure Fund and the Royal London With Profit Funds are not explicit, they are taken into account when the bonus or interest rate on the Fund is declared however, Royal London has confirmed the charges for operating the funds are as shown above.

² Depending upon members' age.

Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of costs and charges paid by a typical member on their pension savings (as a “pounds and pence figure”). The Regulations allow the Trustee to exercise its discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided three illustrations of the cumulative effect on the value of typical Scheme members' savings over the period to retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out below under 'notes and assumptions'.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme, they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

The three example members are:

- Example member 1: the youngest member who has a Guaranteed Minimum Pension underpin and is therefore invested in the Crest Secure Fund. This member is 49 years old, so is 16 years from retirement and has a current fund value of £7,000.
- Example member 2: the youngest Royal London member invested in the Crest Growth Funds. This member is 49 years old, so is 16 years from retirement and has a current fund value of £24,000.
- Example member 3: a member of the Utmost policy who is 3 years from retirement and has a current fund value of £10,300.

Example member 1: the impact of costs and charges on the Crest Secure Fund for this member are shown in the table below:

Years from now	Before charges	After charges	Effect of charges
1	£6,990	£6,890	£100
6	£6,940	£6,360	£580
11	£6,890	£5,870	£1,020
16	£6,840	£5,420	£1,420

Source: Aon

Example member 2: Royal London members who do not have a Guaranteed Minimum Pension underpin invest in the Crest Growth Funds or RLP Funds. In accordance with the guidance, we have illustrated the effect of charges on the Royal London Managed Fund (which is the unit-linked fund with the highest charges) and the Royal London Deposit Fund (which has the lowest charges). These are shown in the table below:

Years from now	Managed Fund (highest charges)			Deposit Fund (lowest charges)		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
1	£23,850	£23,570	£280	£23,090	£22,860	£230
6	£23,110	£21,520	£1,590	£19,050	£17,920	£1,130
11	£22,400	£19,650	£2,750	£15,720	£14,050	£1,670
16	£21,710	£17,940	£3,770	£12,970	£11,010	£1,960

Source: Aon

Example member 3: members of the Utmost policy invest in the 'Investing by Age' strategy. The impact of costs and charges on projected fund values is shown in the table below:

Years from now	Before charges	After charges	Effect of charges
3	£10,270	£9,950	£320

Source: Aon

Notes and assumptions

Fund values shown are estimates and are not guaranteed.

Data used is as at 5 April 2023.

The projected fund values assume no further contributions are paid as the Scheme is closed.

Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

Inflation is assumed to be 2.5% p.a.

The projected growth rates used are consistent with the statutory guidance for producing money purchase illustrations.

Projected fund values shown in the tables above are dependent on investment returns as well as the level of costs and charges. The growth rates and total charges used for the illustrations are shown in the table below.

Fund / Strategy	Total charges (% p.a.)	Expected growth rate
Royal London Crest Secure	1.47	2.35% p.a.
Royal London RLP Managed	1.21	1.86% p.a.
Royal London Deposit	1.00	-1.37% p.a.
Utmost 'Investing by Age' strategy	1.05 – 1.07 ³	2.2% p.a. to 3.2% p.a. ³

³ Depending upon members' age (we have run projections to age 65)

Where available, transaction costs have been averaged over up to 5 years in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

4. Value for members

The Trustee is required to assess the extent to which the charges and transaction costs borne by members represent good value for members when compared to other options available in the market.

As the Scheme has been operating for more than three years and its total assets are under £100m, the Trustee is required to carry out a more detailed value for members assessment. In this assessment, the costs and charges and the net investment returns have been assessed relative to suitable comparator funds in three other large schemes. The three large schemes used as comparators are the Mercer Master Trust, the Aon Master Trust and NEST. None of the comparator schemes offer a With Profits Fund therefore we have not been able to make any like for like comparisons with the Royal London Crest Secure Fund or the With Profits Funds, in which the majority of the Scheme's assets are invested. We have compared the Crest Secure Fund and the With Profits Funds to the comparator scheme default investment strategy, in accordance with the guidance.

Costs and charges - the costs have been identified as the TER and the transaction costs, as set out in section 3 of this statement. The assessment identified that the costs and charges for the Scheme's funds are higher than those for the similar funds in all three comparator schemes.

Net investment returns - these are as set out in section 2 of this statement.

We have placed greater weight on the Royal London Crest Secure and Managed Funds as these are the only funds in which a significant proportion of members invest.

We have concluded that overall the net returns on the Royal London Crest Secure Fund have provided value for members over this reporting period due to the smoothing mechanism and capital protection and because any shortfall in the fund required to provide the members' (unequalised) Guaranteed Minimum Pension will be met by Royal London.

We consider the net investment returns on the Managed Fund to be broadly in line with the comparators overall and therefore conclude this Fund has provided value.

We conclude the net investment returns achieved by the Utmost funds have not provided value for members over this reporting period, as they have been lower than corresponding returns achieved by all three the comparator schemes. The Trustee has an action plan in place to settle or transfer the funds remaining with Utmost at the earliest opportunity.

Scheme governance

A sole independent Trustee, Vidett Trust Corporation Limited represented by Kevin Clark, was appointed on 23 November 2022. The Trustee holds regular conference calls with advisers and service providers to discuss matters that require input from the Trustee. The Trustee maintains a risk register for the Scheme and all providers and advisers have continuity plans in place. The out-going and in-coming Trustees have spent an appropriate amount of time on key areas of Scheme management during this reporting period, taking the legacy nature of the Scheme into account.

Investments

The Trustee reviews investment performance (as far as this is available) on an annual basis as part of the work to prepare this Statement. Under the terms of the Royal London policy, Royal London is responsible for the investment strategy for funds it holds and discussions are still underway with Royal London to clarify the roles and responsibilities for the investment governance of these funds. The Trustee has an action plan in place to settle or transfer the funds remaining invested with Utmost as soon as possible.

Administration

The Trustee has a service level agreement in place with Mercer, however Mercer has not reported performance against this historically as there has been a very low volume of administration tasks.

The Trustee does not have a service level agreement in place with Royal London and Utmost. However, both providers operate standard turn-around times for processing core financial transactions. Given the deferred nature of the membership, core financial transactions are limited to payment of benefits (retirement, transfers and death claims) and fund switches. The Trustee believes that the processes it has in place currently will identify if there are any material issues with these transactions, however the Trustee is in the process of reviewing these processes.

During this reporting period there were no core financial transactions.

Communications

The Scheme's member communications meet statutory requirements. The Trustee has commissioned a tracing exercise so that it can communicate better with members.

Conclusion

The Trustee has concluded that overall, the Scheme's Royal London arrangements do provide value for members.

Members of these arrangements also have a defined benefit underpin. Whilst this is hard to quantify and is not explicitly taken account of in the prescribed value assessment (which is intended for DC schemes), we believe this guarantee does provide good value for members.

The Trustee has concluded that the Utmost arrangement does not provide value for members and has an action plan in place to discharge these funds and close the policy as soon as possible.

Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries.

Core financial transactions are undertaken on behalf of the Trustee by the Scheme administrator, Mercer and the providers Royal London and Utmost. The Trustee has a service level agreement in place with Mercer, however Mercer has not reported performance against this historically as there has been a very low volume of administration tasks. Currently the Trustee checks that core financial transactions relating to individual members have been dealt with promptly and accurately during the Scheme year as part of the annual accounts process.

Mercer has standard operating procedures in place for all key administration tasks, and in order to minimise the risk of inaccurate or late payment of core financial transactions.

Key processes include:

- reconciliation of the Trustee bank account,
- checks for all transactions prior to processing,
- documentation and operation in line with Mercer's quality assurance policies and procedures.

Due to the closed nature of the Scheme, there are relatively few core financial transactions and there were no core financial transactions during the period covered by this Statement.

Trustee Knowledge and Understanding

The law requires trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

A sole independent Trustee, Vidett Trust Corporation Limited represented by Kevin Clark, was appointed on 23 November 2022. Mr Clark is an accredited professional trustee and holds the PMI Trustee Certificate. He has a strong working knowledge of pensions and pension law, gained from professional roles and experience and is subject to the Continuing Professional Development requirements.

The former Trustee engaged with the Scheme's professional advisers regularly throughout this reporting period to ensure that they exercised their functions properly and took professional advice where needed.

The Trustee has engaged with the Scheme's providers and professional advisers since appointment to access professional advice and support with decision making where required, and to develop an understanding of relevant Scheme documentation, processes and procedures.

The Trustee believes that the professional background of the Trustee and the Trustee Representative, the training activities undertaken as part of their role and the professional advice available to the Trustee enables it to exercise its functions properly. The Trustee also believes that this has been demonstrated and evidenced where advice has been provided, discussions held and decisions taken in relation to any matters material to the running of the Scheme during this reporting period.

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Chair of Trustee

Date