

The Graham Tiso Staff Pension Scheme (the "Scheme")

Annual Governance Statement for the Scheme Year ending 5 April 2022

Trustees are required to prepare a statement showing how they have met certain minimum governance standards in relation to defined contribution benefits. The Scheme is a Defined Contribution arrangement under which there are Guaranteed Minimum Pension (GMP) underpin benefits for members who joined prior to 6 April 1997. However, this statement refers only to the defined contribution benefits.

The minimum governance standards cover six principal areas relating to the Scheme's defined contribution benefits, namely:

- the default investment arrangements,
- processing of core financial transactions,
- calculating member borne charges and transaction costs and explaining how they represent value for money for the members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment and
- the level of the trustee's knowledge and understanding.

As Chair of the Scheme, I have to report on how the Trustee complies with these minimum standards below. This statement covers the period from 6 April 2021 to 5 April 2022.

Default Arrangements

Royal London (formerly Scottish Life) was appointed to manage the Scheme assets when the Scheme was set up by the Company and the original Trustees.

The Scheme closed to future accrual on 31 August 2011 and is not used as a qualifying scheme for auto-enrolment.

There are 2 default arrangements under the Scheme, namely the Crest Secure Plan and the Balanced Retirement Investment Strategy of the Crest Growth Plan.

The Crest Secure Plan is similar to a with profits fund but with a lower exposure to the stock market and has been available since the Scheme's inception. As a result there is no terminal bonus provided when benefits are taken, although a regular bonus is added to the member's fund, normally annually.

The Balanced Retirement Investment Strategy of the Crest Growth Plan has been available since 1st January 2000 and invests initially in the RLP UK Equity Fund. Investments are then gradually switched annually into the RLP Managed Fund which gives access to a wider mix of markets, including property. In the later years, investments are switched into the RLP Fixed Interest and RLP Deposit funds.

The aims and objectives of the default arrangements, as stated in the Statement of Investment Principles "SIP" are as follows: -

GMP Element

The primary investment objective of the Trustee is to seek to ensure the Scheme is able to meet the benefit payments promised as they fall due from a combination of investments returns and planned contributions.

- Keep the costs and manager risk in implementing the investment strategy to a minimum;
- Seek to utilise the skills of investment managers to enhance returns to the extent they reasonably expect that the manager will be able to add value in excess of the extra fees over time;
- Seek to use the skills of investment managers to reduce volatility and to increase diversity across asset classes where prudent and to do so given the other investment objectives;
- See to manage currency risk as part of the overall investment risk of the portfolio where they reasonably consider such an approach has the potential to reduce volatility.

Defined Contributions

The long-term objectives are to provide members with investment options that will enable them to optimise the real return on investments to build a fund which will be used at retirement to purchase an annuity and or be taken as a cash lump sum. The Trustee has therefore selected the investment options: -

- Cover a range of member interests;
- Provide an appropriate level of security, quality, liquidity, cost effectiveness and profitability;
- Recognising that the available investment options directly impact the Scheme members and their expectations for their retirement provision;

The Trustee monitors Royal London's policy for Environmental Social and Governance (ESG) and their investment choices through Royal London's Stewardship and Responsible Investment Report 2022.

The Trustee regularly reviews the performance of the two funds to ensure they are still fit for purpose. The last review by the Trustee took place with the Principal Employer as part of the 2019 Actuarial Valuation on 29 April 2020. The review included an analysis of fund performance and member activity to check that the risk and return level met expectations. It was agreed to keep the Scheme investment features unchanged. The next review will take place following completion of the 2022 Actuarial Valuation.

Core Financial Transactions

The Trustee is required to explain how they ensure that core financial transactions for the defined contribution benefits are processed promptly and accurately.

Each member with defined contribution benefits has an individual earmarked preserved account with Royal London. Therefore, Royal London administers all of the financial transactions for these benefits.

The Trustee monitors the performance of Royal London service standards, both generally and on a case by case basis.

The Trustee is satisfied that the processes and controls in place with the administrator are robust and will ensure that the financial transactions are dealt with accurately and in a timely manner.

Royal London has a service level agreement ("SLA") in place which covers the accuracy and timeliness of all core financial transactions. They have confirmed there are no regular payments being paid to the Scheme. Their SLA for switches are next working day, however there have been no ad-hoc switches over the 2021/2022 Scheme Year; 100% of disinvestments were completed within 5 to 10 working days from the date the last piece of

information is received, and Royal London confirmed that they met this for the 2021/2022 Scheme Year. Royal London monitor their Service Levels on a daily basis. All administration is dealt with by one central team and this particular type of work is checked by a second user. Their work is regularly monitored by a separate Quality Assurance team and they are also internally audited from time to time. Royal London have confirmed that there have been no breaches of the requirements on these core financial transactions during the 2021/2022 Scheme year.

Assessment of member-borne charges and transaction costs

In accordance with regulations 25(1)(a) of the Administration Regulations, the Trustee is required to report on the charges and transaction costs and their assessment of the extent to which these charges and costs represent good value for money. This is important because the transaction costs and charges borne by the members directly impact on their pension savings. For this reason, the Trustees keep the level of these under regular review.

In accordance with regulations 23(1)(ca) of the Administration Regulations, as inserted by the 2018 regulations, the Trustee has provided an example illustration which show the impact on pension savings. The statutory guidance provided has been considered when providing the example.

Charges and Transaction Costs

The Crest Secure Plan is similar to a with-profits policy and as such there are no explicit charges and transaction costs. Royal London take their charges from the profits of the policy, but details of these charges are not available. The Trustee reviews the regular bonuses awarded, to ensure that they are reasonable compared with similar contracts.

The Crest Growth Plan, has the following AMCs:

RLP UK Equity Fund	1%
RLP Managed Fund	1%
RLP Fixed Interest Fund	1%
RLP Deposit Fund	1%

When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance. The Trustee's assessment of Value for Members follows in this Statement.

Occupational pension scheme - typical paid-up member data

Table 1

This table shows the projected value of a typical member's plan in the current scheme as at 06/04/2022.

Projected pension pot in today's money					
		Fund choice			
		The default fund is the only possible selection for this product.			
		Default Fund			
Years	Value of payments made, no investment	Before Charges		After all charges = costs deducted	
		£	£	£	£
1	£ 13,983	£	14,300	£	14,000
3	£ 15,443	£	14,900	£	14,200
5	£ 12,020	£	13,700	£	14,300
10	£ 11,702	£	17,800	£	14,700
15	£ 10,598	£	19,800	£	13,100
20	£ 9,600	£	22,200	£	13,500
25	£ 8,025	£	25,000	£	13,900
30	£ 7,875	£	28,000	£	18,300
35	£ 7,133	£	31,300	£	16,800
40	£ 8,480	£	33,400	£	17,200

Table 2

This table shows the projected growth rate for each fund as at 06/04/2022.

Fund choice	Investment name	Investment growth rate	Plans with this investment	AMC	Transaction costs*
Default fund:	Crest Secure Fund	2.35%	25	1.45%	0.35%

*Transaction costs are incurred by asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in.

Transaction costs are not available for all funds because the information has not been provided by all of our external fund management partners.

Transaction costs for Crest Secure (Deposit Admin) are already included in the quoted annual bonus rate for the fund, meaning there is no additional charge taken from a client's policy after the annual bonus is paid.

The transaction costs shown are the maximum transaction costs incurred for each strategy over the lifetime of the policies.

Notes

- The projected pension values are shown in today's terms and take into account the effect of future inflation, which we've assumed will be 2%.
- The starting pot size is assumed to be £15,984 and that no further contributions will be made.
- Lifestyle strategies reduce how much exposure is placed upon the retirement savings the closer the member gets to their chosen retirement age. Plans are invested in company stocks and shares in the early years and the closer they are to their retirement, are gradually switched into other assets. And whilst this reduces their exposure to the stock market, the expected growth rate can change depending on how long is left until retirement. Within these projections we've calculated these on a single equivalent growth rate using an average time to retirement over a full projection period.
- Values shown are estimates and are not guaranteed.
- Member data, including the fund value and contribution levels were last reviewed on 06 April 2022.
- TERs and transaction costs provided by Royal London are correct at 06 April 2022.

Occupational pension scheme - typical paid-up member data

Table 1

This table shows the projected value of a typical member's plan in the current scheme as at 06/04/2022.

Projected pension pot in today's money										
Fund choice										
Years	Value of payments made, no investment	Default Fund		Fund A		Fund B		Fund C		
		After all charges		After all charges		After all charges		After all charges		
		Before Charges	+ costs deducted	Before Charges	+ costs deducted	Before Charges	+ costs deducted	Before Charges	+ costs deducted	
1	£ 15,719	£ 14,100	£ 13,900	£ 13,000	£ 13,400	£ 13,900	£ 13,800	£ 14,000	£ 13,900	
5	£ 15,186	£ 14,900	£ 14,400	£ 13,400	£ 13,000	£ 14,300	£ 14,000	£ 14,700	£ 14,200	
10	£ 12,674	£ 13,300	£ 15,000	£ 13,300	£ 12,600	£ 15,100	£ 14,500	£ 15,500	£ 14,600	
15	£ 11,479	£ 18,300	£ 16,400	£ 12,900	£ 11,600	£ 16,600	£ 14,900	£ 17,500	£ 15,700	
20	£ 10,397	£ 21,100	£ 18,000	£ 12,500	£ 10,700	£ 18,300	£ 15,500	£ 19,800	£ 16,800	
25	£ 8,417	£ 24,400	£ 19,700	£ 12,100	£ 9,800	£ 20,300	£ 16,200	£ 22,400	£ 18,000	
30	£ 6,529	£ 28,300	£ 21,600	£ 11,700	£ 8,080	£ 22,300	£ 16,800	£ 25,400	£ 19,500	
35	£ 4,723	£ 32,700	£ 23,800	£ 11,400	£ 6,370	£ 24,300	£ 17,600	£ 28,700	£ 20,700	
40	£ 3,097	£ 37,800	£ 25,900	£ 11,100	£ 4,700	£ 27,000	£ 18,500	£ 32,500	£ 22,300	
45	£ 1,637	£ 43,700	£ 28,400	£ 10,700	£ 3,100	£ 29,800	£ 19,100	£ 36,800	£ 23,800	

Table 2

This table shows the projected growth rate for each Fund as at 06/04/2022.

Fund choice	Investment name	Investment growth rate	Plans with this investment	AAC	Transaction costs*
Default fund:	100% UK Equity	2.94%	3	1.00%	0.08%
Fund A	35% Deposit/40% Fixed Interest/25% Managed	-0.60%	2	1.00%	0.04%
Fund B	100% Managed	1.96%	1	1.00%	0.11%
Fund C	55% UK Equity/45% Managed	2.50%	1	1.00%	0.09%

*Transaction costs are incurred by asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in.

Transaction costs are not available for all funds because the information has not been provided by all of our external fund management partners. The transaction costs shown are the maximum transaction costs incurred for each strategy over the lifetime of the policies.

Notes

- The projected pension values are shown in today's terms and take into account the effect of future inflation, which we've assumed will be 2%.
- The starting pot size is assumed to be £13,719 and that no further contributions will be made.
- Lifestyle strategies reduce how much exposure is placed upon the retirement savings the closer the member gets to their chosen retirement age. Plans are invested in company stocks and shares in the early years and the closer they are to their retirement, are gradually switched into other assets. And whilst this reduces their exposure to the stock market, the expected growth rate can change depending on how long is left until retirement. Within these projections we've calculated these on a single equivalent growth rate using an average time to retirement over a full projection period.
- Values shown are estimates and are not guaranteed.
- Member data, including the fund value and contribution levels were last reviewed on 06 April 2022.
- TERs and transaction costs provided by Royal London are correct as at 06 April 2022.

Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of “good value” but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared with other options available in the market. The assessment was undertaken taking account of the Pensions Regulator’s code of Practice No. 13 (Government and administration of occupational trust-based schemes providing money purchase benefits).

The Trustee reviews all member-borne charges annually with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. A new value for members assessment was published by the DWP on 21 June 2021 and applies for scheme years after 31 December 2021 following statutory guidance effective from 1st October 2021. The Trustee will continue to be required to report net investment returns. The Trustee notes that value for money does not necessarily mean the lowest fees, and the overall quality of the service received has also been considered in this assessment.

The Trustee presented a proposal to the Principal Employer from the investment adviser to carry out a value for member assessment at a meeting on 6th October 2022 which was not agreed on cost grounds. The Principal Employer provided authority instead for the Trustee to discuss transfer terms for members with Defined Contribution “DC” benefits only to the People’s Pension master trust which provides the workplace pension for its employees. The Trustee received the governance statement from People’s Pension including its value for member assessment to 31st March 2022 quoting annual management charges of 0.5% for a default fund structure plus self-select options. The People’s Pension waived an initial charge for receipt of a bulk transfer on standard deed of transfer terms. The Trustee agreed with the Principal Employer to proceed with a bulk transfer at a meeting on 17th October 2022 subject to investment advice from the investment adviser, due to the competitive terms on offer to improve members’ outcomes. The Trustee will also take legal advice that a rule amendment would need to be required to proceed with the bulk transfer.

No benefits have been paid on a DC basis since the requirement within the Chair Statement to assess value for members. For members with DC benefits with a GMP underpin, the GMP benefit underpin exceeded the value of DC benefits. It is the Trustee’s view that DC benefits are highly unlikely to exceed the GMP underpin for the members of this hybrid scheme in the future. The Trustee will review this with the Scheme Actuary when reviewing the triennial valuation report.

Trustee Knowledge and Understanding

The Trustee has in-depth knowledge of the trustee deed and rules and regularly reviews all the trust documentation as part of the ongoing governance of the Scheme.

The Trustee is an accredited Professional Trustee and regularly receives Continuing Professional Development "CPD" from pension experts, seminars and conferences. The Trustee carries out a similar role for other occupational schemes and also undergoes training from Punter Southall Governance Services and met the Training Objective within the AAF 02/07 external audit for 2021. As such, the requirement under section 248 of the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Scheme year by the Trustee.

Signed for and on behalf of The Trustee of The Graham Tiso Staff Pension Scheme

K Clark

Chair of the Trustee

25th October 2022