

## **IFM Electronic Pension Scheme (the "Scheme")**

### **Annual Governance Statement for the Scheme Year ending 31 December 2020**

#### **Introduction**

Welcome to the annual Governance Statement ("Chair's Statement") for the IFM Electronic Pension Scheme. This Statement has been prepared in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended). The Regulations require Trustees of defined contribution (DC) pensions schemes to prepare an annual Statement showing how they have met certain minimum governance standards in relation to those DC benefits. This Statement explains how the Trustee of the IFM Electronic Pension Scheme has met the governance standards that apply to the Scheme.

The Scheme is a DC arrangement and was formerly contracted-out of the State Earnings Related Pension Scheme (SERPS) by reference to Protected Rights. Contracting out on a Protected Rights basis was abolished with effect from 6 April 2012 and all affected schemes were contracted back in to SERPS. Protected Rights ceased to exist and are treated in the same way as any other DC benefits.

The Trustee of the Scheme is **IFM Electronic Ltd**.

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

- the default investment arrangement
- the 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 (TKU).

As Chair of the Scheme, I have to report on how the Trustee complies with these minimum standards. This Statement covers the period from 1 January 2020 to 31 December 2020.

The Scheme is open to future accrual and has never been used as a qualifying scheme for auto-enrolment (AE). Therefore, as noted below, the Scheme does not provide a default investment fund under the meaning of regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 for automatic enrolment purposes or regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. There are no 'self-select' funds available to members.

#### **Default investment arrangement**

There is no default investment arrangement under the Scheme, as the Scheme is not used for AE purposes. All members of the Scheme are invested in a 'with-profits' fund managed by Aviva Life & Pensions UK Ltd ('Aviva').

A 'with-profits' fund is a low to medium risk investment that has the advantage of pooling members' money so that members benefit from investing in a wide range of assets. The money paid into the Scheme by the Employer and members is pooled with other investors' money in Aviva's with-profits fund. Aviva manages the funds by investing in underlying investments such as shares, property, bonds, and cash. The Trustee has no say regarding the allocation of funds to the underlying investments, or the strategic asset allocation itself. The asset selection and allocation of funds to those assets is made by Aviva.

The costs of running Aviva’s pensions business are deducted from the with-profits fund and the net amount remaining is available to be paid to the Scheme members. These payments are in the form of a combination of guaranteed interest, additional interest, and bonuses. A regular bonus is added to the Scheme, normally annually, and a terminal bonus is provided when benefits are paid out to members.

The amount of interest and bonuses added by Aviva depends on the performance of the underlying investments and the net amount available for distribution, less all costs and charges. The level of interest and bonuses will be reduced in those years where the investment returns are lower.

For the year ended 31 December 2020, the following premiums and additions were paid to the Scheme:

Total Regular Premiums due:	£359,944.70
<u>Plus</u>	
Total Accounts at 01/01/2020:	£8,487,888.32
Total Net Interest Additions credited to Members’ Accounts:	£531,340.61
Extra Credit on Contributions:	£28,795.18
<u>Less</u>	
Accounts Surrendered or Transferred:	£915,468.20
Total Value of Accounts at 31/12/2020:	<u>£8,492,500.61</u>

### **Statement of Investment Principles (SIP)**

The Trustee has a SIP dated 30 September 2019 in place. This was last reviewed by the Trustee in September 2020.

The primary investment objective of the Scheme’s investments, as stated in the Statement of Investment Principles, is to seek to ensure the Scheme is able to meet the benefit payments promised as they fall due from a combination of investment returns (interest and bonuses) and planned contributions.

### **Investment performance**

The Trustee monitors the performance of the with-profit fund on an annual basis to ensure it remains fit for purpose. The last review by the Trustee took place in Q1 2021 for the year-ended 31 December 2020. The review included a check that the level of additions (interest and bonuses) met expectations; there were no concerns to raise with Aviva following the review. As a result, the Trustee decided to keep the Scheme investment strategy unchanged. The next review will take place in Q1 2022 in respect of the year-ended 31 December 2021.

The published investment returns over recent years for the Aviva with profits fund are:

	2020	2019	2018	2017	2016
<b>before tax (pensions)</b>	1.2%	12.5%	-3.1%	8.1%	11.4%

Note: the above investment returns are applicable to the whole fund and not to any individual policy or plan. Figures shown are before any deduction for investment expenses. Past performance is not a guide to future investment returns.

## **Investment markets in 2020**

Investment markets fluctuated materially over 2020 as the Covid-19 pandemic spread around the world with economies feeling the impact of lockdowns to battle the virus, then recovering once lockdowns were lifted and vaccine news lifted hopes. Some global equity markets finished 2020 with double-digit returns, rebounding strongly from their March lows. UK equities on the other hand were down considerably over the year, only partially recovering their early losses as the UK economy experienced a large fall in economic activity and Brexit trade deal uncertainty overshadowed the UK economy throughout 2020.

Between 1 January 2020 and 31 December 2020, the FTSE 100 Share Index (a commonly used indicator of the performance of UK shares), delivered negative returns of -11.6%. UK government bond returns, which reached a high point in March due to safe haven demand, achieved a positive return of +8.3%. UK corporate bonds delivered positive returns of +7.8% during this period of economic distress and stock market volatility.

## **Core Financial Transactions**

The Trustee has a specific duty to ensure that the core financial transactions relating to the Scheme are processed promptly and accurately.

The transactions are undertaken by Aviva on the Trustee's behalf. Aviva administers all of the financial transactions including the investment of employer and member contributions, the payment of transfers-out and the payment of benefits on death or retirement. A 'With-Profits Committee' has been formed by Aviva, with a majority of independent members, to provide oversight and challenge to Aviva to ensure that fairness and customer interests are appropriately considered in Aviva's governance structures and decision-making processes. The Trustee has regular communication with Aviva to monitor that the objectives are being met and the procedures are being followed.

The Trustee also monitors the performance of Aviva's administration service, both generally and on a case by case basis. This is done via annual administration reports as provided by Aviva to the Trustee. These reports show:

- number of new members joining the Scheme
- number of transfers-out, deaths, retirements
- dates of receipt, reconciliation and investment of employer and member contributions
- error and complaints reporting (if any), and the resolution of these.

The Trustee is satisfied that there have been no material administration errors in relation to the processing of the core financial transactions and all core financial transactions have been processed promptly and accurately during the 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 make an assessment of the charges and transaction costs borne by members and the extent to which those 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.

## **Charges and Transaction Costs**

As the Scheme is invested in a with-profits policy, Aviva takes its charges from the profits of the policy. The charges levied by Aviva cover the administration costs, expenses and investment management costs. Where a member engages an IFA, the member separately pays the IFA's fees or any commission. These IFA fees and charges are outside the scope of this Statement.

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 below.

As at 31 December 2020, Aviva has confirmed that the With Profits Fund Management costs were:

Investment expenses and administration costs (%p.a.)	Transaction cost (% p.a.)	Total costs (% p.a.)
0.55	0.039	0.589

### '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 the Scheme 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 ('Governance and administration of occupational trust-based schemes providing money purchase benefits').

However, the Trustee considers that 'value for money' does not necessarily mean costs alone, and the overall quality of the service received from Aviva has also been considered in this assessment. It is also noted that all other administration and advisory expenses of running the Scheme are borne by the Principal Employer and not charged to the Scheme.

As part of its value for members assessment, the Trustee has considered the following:

**Governance** – Aviva has a With-Profits Committee that is dedicated to five key objectives:

1. to challenge Aviva to show that its decisions are fair to all With-Profit customers
2. to check that Aviva is keeping to its 'Principles and Practices of Financial Management'
3. to make sure that Aviva is being fair to both new and existing With-Profits customers and not favouring one group over the other
4. to help make sure Aviva sends clear and complete communications to With-Profits customers
5. to require Aviva to respond to any recommendations raised by the committee.

**Investment** – one of the main features of a With-Profits investment is that it aims to grow in value smoothly from year to year rather than being affected by the significant ups and downs of the stock market. This means that this type of investment can protect members' pensions when markets perform badly, but still lets members benefit from some market growth. As the Scheme is invested in a conventional With-Profits policy, this means that at the end of the policy's term (the member's retirement date or the policy's maturity date) or on death, Aviva pays the basic guaranteed benefit as well as any regular bonuses that have already been added, even if the stock market falls significantly. The guaranteed amount is reduced if the member surrenders their policy early before the maturity date.

**Administration** – Aviva holds the members' data and deals with members when they wish to take their benefits or transfer out. The scheme has guaranteed annuity rates which apply if benefits are taken in line with the terms and conditions of the arrangement. These guaranteed annuity rates can be a valuable feature for members.

**Communications** – standard communications are produced by Aviva and typically issued by the Trustee. The main item of communication is the annual benefit statement, including the Statutory Money Purchase Illustration (SMPI). At retirement, members receive details of the services provided by the Money and Pensions Service (MaPS).

**Charges** – the employer pays the cost of the Scheme services and the only charges borne by members are those outlined above within the With-Profits policy. The Trustee's assessment is that the charges and transaction costs represent fair value for members, particularly in consideration of the bonuses applied and that the total charge is less than the 'default fund' charge cap of 0.75% pa as set by the Government.

Aviva may add regular bonuses, if any, once a year to the guaranteed amount. Conventional With-Profits policies can receive two types of regular bonus, which are added on top of the initial guaranteed amount. These are calculated as:

- a proportion of the initial guaranteed amount
- a proportion of any bonuses Aviva has added previously.

Once added, Aviva guarantees that the regular bonus will be paid at the member's chosen retirement date, the policy's maturity date or on death. Regular bonuses are designed to be sustainable and provide steady growth over time in the value of the members' investments.

It is the Trustee's view that the level of services provided by Aviva, including the processing of the core financial transactions, and the payment by the Principal Employer of the cost of the Scheme services, are material factors that contribute towards the assessment of value for members. The Trustee has therefore considered these and has concluded that the Scheme provides good value for members.

### **Trustee Knowledge and Understanding**

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07: Trustee knowledge and understanding (TKU).

The Trustee is familiar with the trust deed and Scheme rules and other relevant documents relating to the Scheme's governance and general administration. In addition, the Trustee takes advice as necessary and appropriate from its professional advisers, taking account of the fact the Scheme is an insured with-profits arrangement with Aviva. The combination of these factors means that the Trustee has sufficient knowledge and understanding of trust law and pension legislation as well as a good working knowledge and understanding of the principles relating to scheme governance, management and investment.

Taking this into account and the professional advice available to the Trustee from Aviva and its advisers as required, the Trustee considers that it can properly exercise its functions in line with its duties and obligations.

### **Signed for and on behalf of The Trustee of the IFM Electronic Pension Scheme**

Syed Kabir

Chair of the Trustee

31 July 2021