

## **Annual Governance Statement**

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The Occupational Pension Schemes (Charges and Governance) Regulations 2015 ('the Regulations') require trustees of money purchase pension schemes to prepare an annual statement that discloses how they have governed certain aspects of the scheme. A money purchase scheme is one where broadly, each member has their own savings pot into which both employer and member contributions are paid. The retirement benefits eventually paid to members are not known in advance but depend instead on factors such as the amounts of contributions that are paid, the investment returns that they earn and the charges that are deducted from savings. Members' outcomes at retirement are therefore partly affected by how well the Trustee carries out their investment governance functions as well as their ability to negotiate charges and services that provide good value for members. The purpose of the annual statement is for trustees of money purchase schemes to explain how they have exercised their responsibilities in these crucial areas.

### **Impact on the Kentucky Fried Chicken (GB) Ltd Pension and Life Assurance Plan (the 'Plan')**

The Plan is not typically regarded as a money purchase pension scheme. Members' pensions at retirement are calculated on a defined benefit formula based on pay and length of service (1/60th of Final Pensionable Salary for each year of Pensionable Service), irrespective of investment returns or fund charges. However, these defined benefits have a notional money purchase underpin attached to them. This means that when the Plan was open to accrual, a contribution was notionally invested for each member in each pay period as part of the overall scheme assets. When a member retires or transfers out, pension rights calculated on the defined benefit formula described above are compared against the benefits that could be provided from the value of the money purchase underpin determined from the contributions and investment returns on Plan assets. If the latter benefits are greater, the member's benefits will be topped up accordingly.

There are also a small number of members who transferred in benefits from a previous employer's pension scheme and these benefits are invested on a money purchase basis in the same way as the money purchase underpin above, i.e. there is no specific fund for each member but the transferred in money is invested in the general scheme assets and the member's fund value is based on the returns of the Plan as a whole. Some of these transferred in benefits include Guaranteed Minimum Pensions (GMP) so the member is entitled to the GMP as a minimum benefit.

Although analysis suggests that money purchase underpins are very unlikely to exert any influence on members' outcomes in retirement in the vast majority of cases, the Trustee is advised that the presence of money purchase underpins potentially creates a regulatory requirement to prepare a statement of governance. In addition, as the transferred in benefits are invested on a money purchase basis this creates a requirement for a statement of governance. Also, if such a requirement does exist, the statement must also address the Trustee's governance in relation to the Plan's Additional Voluntary Contributions ('AVCs'). This is an area of some legal uncertainty but the Trustee has decided to adopt best practice in relation to money purchase benefits by preparing this statement.

Reflecting regulatory requirements, the statement covers four principal areas, namely;

1. How the Trustee designs any default investment arrangement to be in members' interests.
2. Processes for ensuring that financial transactions are both prompt and accurate.
3. Value, with a particular focus on charges and transaction costs deducted from members' funds as well as investment returns.
4. Arrangements for ensuring that the Trustee has both the knowledge and resources to run the Plan effectively.

**Annual Governance Statement - continued****1. Default investment arrangement**

The Plan is not used as a Qualifying Scheme for compliance with automatic enrolment legislation and as such there is no legislative requirement for the Plan to have a default investment option in relation to the notional money purchase underpin, the transferred in benefits or the Additional Voluntary Contribution policies. For this reason, the Trustee believes that the disclosures required in the Regulations with regard to default investment arrangements are not applicable to this statement. For the same reason, the Trustee's Statement of Investment Principles does not contain wording relating to default investment arrangements.

**2. Core financial transactions**

The Trustee recognises that delay and error can cause significant losses for members. They can also cause members to lose faith in a pension plan which may in turn reduce their propensity to save and thereby impair future outcomes. The Trustee therefore operates measures and controls aimed at ensuring that all financial transactions, including core financial transactions, are processed promptly and accurately. For example, they agree and monitor target timescales with the administrator for the calculation and payment of benefits such as retirement benefits and transfer values. These timescales are all comfortably within statutory timescales.

Core financial transactions include (but are not limited to):

- Investment of contributions;
- Transfer of members' assets to and from the scheme;
- Switching between investments within the scheme; and
- Payments out of the scheme to members/beneficiaries

The Plan administrators, Mercer Ltd, record all member transactions and benefit processing activities in a work flow management system which assigns the relevant timescale to the task. They disclose quarterly, to the Trustee their performance against these agreed timescales. These disclosures are considered by the Trustee at their meetings (10 June 2022, 22 September 2022, 15 December 2022 and 22 February 2023).

Crucially, all target timescales include allowance for tests to be carried out on whether money purchase underpins 'bite' i.e. whether their value is such that the member's benefits are uplifted.

The Plan is closed to future accrual and therefore no further contributions are notionally allocated to members' money purchase underpins or AVCs and no further transfers in are permitted. No timescales are therefore required in relation to contribution payments. Also, as money purchase underpins are purely notional in nature, members are not allowed to direct how they are invested, so investment switching in relation to money purchase underpins or transferred in benefits does not arise in practice.

Table 1 sets out the service level agreements between the Trustee and Mercer Ltd. There were no issues during the Plan year.

**Table 1**

Task	Service Level Agreement	Comment
Transfer in	N/A	The Plan is closed for future contributions or members
Transfer out	20 days	100% completed within target over the year
Retirement quote	10 days	93% completed within target over the year
Death claim	2 days	100% completed within target over the year
Transfer and retirement settlements	15 days	100% completed within target over the year
Investment Switch	N/A	Members do not currently have investment choice

Based on the above, the Trustee is satisfied that the Plan's core financial transactions have been processed promptly and accurately by the administrator during the period to which this Statement relates.

**3. Value for members****Charges and transaction costs**

The Trustee is required to report on the charges and transaction costs for the investments used by the Plan, and the extent to which those charges represent good value to their members. As mentioned, money purchase underpins are notionally invested in accordance with the Plan's average asset allocation. The charges deducted from these funds relate entirely to investment management services and are;

- Total Expenses Ratio ('TER') - these costs comprise of management fees and additional expenses such as legal fees, auditor fees and other operational expenses.

#### Annual Governance Statement - continued

- Transaction costs - these are the fund manager's expenses associated with trading a fund's underlying securities, including commissions and stamp duty. These costs are taken into account by the fund managers when calculating the unit price for each of the funds, but are not included in the TER.

The FCA's policy statement (PS17/20) provides guidance to investment managers regarding calculations and disclosures of transaction costs which comply with regulations. Due to the way in which transaction costs are calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity. The Trustee requested this information from Mercer, and the available data supplied by the provider is shown in Table 2a below.

**Table 2a**

Fund name	TER (% .a.)**	Transaction Costs (% p.a.)***
Plan portfolio*	0.49	0.09

Source: Mercer

\*The Plan's investment portfolio is where money purchase assets are invested.

\*\*TER based on the fees paid over 12 month period to 31 March 2023 (based on average assets over the same period), weighted by the target allocation of the growth and matching portfolios. The TER calculated excludes performance related fees and other expenses to the fund not directly related with the management fee.

\*\*\* Transaction costs as per the MiFID Statement provided by Fund Assist over the 12-month period to 31 December 2022.

Table 2b below provides the charges and transaction costs for the AVC funds with BlackRock and Prudential that are available through the Plan.

**Table 2b**

Fund name	TER (% p.a.)	Transaction Costs (% p.a.) <sup>1</sup>
AE BLK Alpha Smaller Companies	0.90	0.41
AE BLK American Flexible Equity	0.90	0.06
AE BLK Cash	0.33	0.01
AE BLK Emerging Markets	0.94	0.48
AE BLK European Growth	0.90	0.03
AE BLK Developed Markets Sustainable Equity	0.93	0.30
AE BLK Japanese Growth	0.90	0.33
AE BLK Managed Portfolio	0.92	0.29
AE BLK Pacific Growth	0.90	0.04
AE BLK Sterling Bond	0.50	-0.01
AE BLK UK Growth	0.90	0.15
AE BLK UK Income	0.92	0.44
AE BLK UK Special Situations	0.92	0.48
Prudential Deposit Fund <sup>2 3</sup>	-	0.00
Prudential With Profits Fund <sup>3</sup>	-	0.20

Source: Aegon, Prudential.

<sup>1</sup>Transaction costs for Aegon (BlackRock) funds shown for 12 month period to 31 March 2023. Prudential fund transaction costs shown to 31 December 2022 as the latest available.

<sup>2</sup>Closed to new contributions since May 2017.

<sup>3</sup>These are not unit linked funds, therefore there are no TER's for these funds. There are no explicit charges for the Deposit Fund and the charges for the With Profits Cash Accumulation funds are implicit and deducted through the bonus mechanism. Transaction costs shown to 30 September 2022 as the latest available.

The Trustee fully supports transparency of charges and costs for members. However, a key consideration for members is the performance produced net of combined charges and costs. Moreover, a cheaper fund does not necessarily deliver the best value for money.

To illustrate the impact of charges and costs on a typical member's pension pot, and a selection of AVC funds, the Trustee has provided the illustration in Table 3. The statutory guidance has been considered in preparing this example. As the Plan has closed for contributions, the illustrations assume no further contributions are made.

**Annual Governance Statement - continued**

**Table 3**

Years from Today	Plan Portfolio		Blackrock Cash (cheapest)		BlackRock Emerging Markets (most expensive)	
	Before charges and costs	After all charges and costs deducted	Before charges and costs	After all charges and costs	Before charges and costs	After all charges and costs deducted
1	56,695	56,332	55,473	55,284	57,862	56,859
3	59,825	58,685	56,040	55,470	63,597	60,348
5	63,129	61,137	56,613	55,657	69,900	64,051
10	72,209	67,724	58,072	56,127	88,529	74,334
15	82,595	75,020	59,568	56,601	112,123	86,267
20	94,475	83,102	61,103	57,079	142,005	100,116
25	109,063	92,055	62,677	57,562	179,850	116,188
30	123,606	101,972	64,292	58,048	227,782	134,840
35	141,384	112,958	65,948	58,538	288,488	156,487

**Notes**

1. Values shown are estimated projections and are not guarantees.
2. The starting pot size is assumed to be £55,191 as at 31 March 2023 (This is based on the average notional value of money purchase benefits excluding members with transferred in benefits), for the relevant members at 31 March 2020, rolled up by the inflation assumption).
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed to 0% (Plan closed to future contributions).
5. Projection shown for 35 years, based on assumption that a young member (aged 30) accesses benefits at the end of their Normal Retirement Age (age 65). Illustrations are equally valid for projections over similar periods at/to other ages.
6. The projected growth rates before charges and costs are as follows:  
Plan portfolio: 2.57% per year above inflation, with transaction costs of 0.15% (see note 7) and other charges of 0.49% p.a., calculated based on MiFiD Statement produced by Fund Assist over 12-month period to 31 December 2022 (data provided annually).  
BlackRock Cash: -1.75% below inflation, with transaction costs of 0.01% and charges of 0.33%.  
BlackRock Emerging Markets: 4.0% above inflation, with transaction costs of 0.80% and charges of 0.94%.
7. Transaction costs are assumed to not be negative at any stage. As defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the illustration should be based on an average of the previous 5 years' transaction costs or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available. Due to availability of data, transaction costs used are for years ending 31 December in each respective year. The transaction costs of the BlackRock Cash Fund reflect the average over the three year period and BlackRock Emerging Markets the average over a four year period.
8. The projected growth rates use Mercer's capital market and asset class alpha assumptions plus any transaction costs.

**Value for members**

In accordance with Regulation 25(1)(b), the Trustee is required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether they represent good value for members. All investment costs levied in the money purchase Section are met by the members, separate from the costs associated with administering any Defined Benefit rights to which members may also be entitled, the costs of which are met by the Company. The Trustee has only considered those costs notionally paid by the Plan members.

The Trustee has invested in a preset derisking strategy that reduces investment risk as the Plan's funding level improves. This approach is aimed ultimately at seizing market opportunities with a view to making the Plan's defined benefit rights more secure. It does not have explicit regard to money purchase underpins as these are not expected to influence members' retirement outcome in the vast majority of cases. The Trustee also does not take explicit consideration of the notional funds relating to transfer in benefits, which account for a small proportion of the scheme's overall investments. In taking the approach of aiming to provide security for the Plan's defined benefit rights the Trustee is also implicitly aiming to provide security for the GMP element of the transferred in entitlements.

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The Trustee has assessed that the size of members' notional money purchase underpins are typically low when compared with the value of the attaching defined benefit rights and, as such, are unlikely to deliver any material value to members. This would be true even if the charges and transaction costs on the Plan's underlying funds were reduced to nil. For as long as this situation prevails, the Trustees' investment governance activities will likely have regard only to the Plan's defined benefit obligations. The transferred in benefits are invested in line with the general scheme assets which are reviewed regularly by the Trustee.

The Plan's assets also include unit linked AVC investments with BlackRock and legacy Deposit Account and WithProfits policies with Prudential Assurance Company. By their nature, the charging structure of WithProfits policies is not transparent; for example, investment returns are earned in the form of discretionary bonuses calculated by Prudential. The Trustee does not believe that it is proportionate to undertake a market review of price and performance, particularly as switching away from the current policy will result in members' losing their accumulated terminal bonus, which on average equate to 25% of the value of members' AVC investments. The pricing on the range of AVC funds offered is between 0.33% and 0.94%.

The Trustee reviews the AVC policies on a regular basis, with the last full review in October 2021 and have undertaken actions as appropriate, including:

- They write to members to remind them of the risk and return characteristics of AVCs. In doing so they seek to obtain data from BlackRock and Prudential on charges deducted from these policies.
- Reminding members of the other investment funds available from BlackRock and Prudential.
- Reminding members that they can transfer AVCs to the Company's group personal pension plan, where there is online functionality and a wider fund range. However, members might be reluctant to forfeit their terminal bonus in the With Profits fund and indeed their ability to exchange more than 25% of their AVCs as tax free cash.

There are very few, if any Defined Contribution ('DC') schemes with similar arrangements, so it is difficult to fairly compare and assess the value from member-borne deductions relative to similar schemes. As such, no formal value for members assessment has been carried out. For members with transferred in benefits, there are currently no self-select options and the current single fund option does not address de-risking for members approaching retirement.

In the context of DC schemes more generally, the TER for the Plan's total portfolio (the only investment option), is comfortably within the charge cap, however the cumulative effect of costs and charges on the total portfolio seem relatively high. However, the Trustee notes that whilst the Plan's total portfolio returned -37.0% over the year, this was due to significant market shocks during Q4 2022. The portfolio has performed better over the longer term, delivering a net return of 0.4% since inception and continues to target a low risk investment portfolio over the long term. While this strategy has been designed with the intention to secure the defined benefit rights, it is also considered to be beneficial to member outcomes in respect of their transferred in benefits.

The limited fund choice is also not the market norm for DC schemes. While the administrative costs, communications and advisory costs are company borne, the Trustee believes that the Plan provides reasonable value, primarily due to limited investment choice and charges applicable.

The Trustee continually considers the Plan and its long term strategy to determine the most effective way of delivering member benefits.

#### Net Investment performance

	1 Year	3 Years (pa)	5 Years (pa)	Since inception (pa)
Plan portfolio*	-37.0%	-10.9%	-5.5%	0.4%

Source: Mercer

\*The Plan's investment portfolio is where money purchase assets are invested. Due to the underlying asset allocation of the default portfolio not being influenced by member age, only one set of performance figures has been shown above. These performance figures would be applicable to a member at any age.

#### 4. Trustees' Knowledge and resources

The Trustee is a Sole Trustee appointment from an Independent Professional Trustee Company and its representatives have a number of years of experience acting as a Trustee for the Plan, and other schemes, over which time they have received regular training on all aspects of running a trust based pension scheme including investments, legislation and governance, which is all documented in their professional training log.

The Trustee Company also performs secretariat services which helps ensure that the meeting agendas cover those issues that need to be addressed to ensure the Plan functions effectively

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The Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice, which is available to them, enables them to properly exercise their functions and duties in relation to the Plan. The Trustee meets these requirements in the following ways:

- Holds regular Trustee meetings at which updates on current issues are provided by advisers, with ad-hoc advice provided in relation to any new requirements as a result of changes in regulation or legislation.
- Vidett Trust Corporation Limited (Vidett) as Trustee has internal controls which are independently audited. These controls include the requirement for client directors to undertake and record CPD each year. Therefore, all Vidett representatives that work on the Plan undertake relevant CPD training.
- Vidett Trust Corporation Limited obtain and review all the relevant governing documentation (e.g. trust deed and rules, Statement of Investment Principles etc.) as part of the take on process for new schemes, so that they can properly undertake the trustee role.
- Ensuring they comply with the Trust Deed and Rules, the current Statement of Investment Principles and other key Plan documents that set out the Trustee's policies when making decisions in relation to the Plan, seeking assistance from their legal advisers for complex areas or where there is ambiguity.

The Trustee receives professional advice from Mercer and Osborne Clarke (previously BDB Pitmans LLP) (legal advisers) to support them in reviewing the performance of the Plan and in governing the Plan in line with the Trust Deed and Rules. The relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers. The advice received by the Trustee along with their own knowledge and experience allows them to properly exercise their function as Trustee. If there are any ambiguities regarding the Trust Deed and Rules, the legal adviser is asked to provide advice.

In addition to the regular review of Plan documentation and policies, the Trustee has undertaken ongoing training, both as a group and individually to keep abreast of relevant developments.

The Trustee receive topical briefings from Mercer at each meeting (10 June 2022, 22 September 2022, 15 December 2022 and 22 February 2023), examples over the year included Actuarial valuation training, Defined Benefit Funding Code, Pensions Dashboard, DWP Funding Regime, Responsible Investment Trustee Evaluation Review.

Additionally, their professional advisors, Mercer Ltd attend each Trustee meeting and bring to the Trustee's attention any new regulatory requirements and current topical issues. Taking into account the experience and expertise of the Trustee Company, and the professional advice available, the Trustee considers themselves properly enabled to exercise their function as the Trustee.

*16 October 2023*

Signed on behalf of Vidett Trust Corporation Limited on.....