Roll Group Pension Scheme
Defined Contribution Section and AVC arrangements

Annual governance statement by the Chair of Trustees for the year ending 5 April 2020

Introduction

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

As Chair of the Trustees of the Roll Group Pension Scheme, I have to provide you with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards. The information included in my statement is set out in law and regulation.

The Trustees are committed to having high governance standards and we meet regularly to monitor the controls and processes in place in connection with the Defined Contribution Section's investments and administration.

I welcome this opportunity to explain what the Trustees do 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 Trustees of the Roll Group Pension Scheme by David Attle, Chair of Trustees

[redacted]

Date 10th September 2020

Executive summary

Over the year to 5 April 2020, the Trustees of the Scheme have reviewed the following areas and our main conclusions are as follows:

Defined Contribution Section

The default investment strategy	The Trustees last reviewed the default strategy and investment choices in September 2019 and, as a result of this review, made changes to the default and other investment choices after the year end, in July 2020. The next Chair's Statement will provide further details on these changes. This year's statement provides details of the approach that was in place as at 5 April 2020.
Charges and transaction costs	The charges that members paid to invest in the funds in the Defined Contribution Section ranged from 0.55% to 0.58% per annum over the year to 5 April 2020. Transaction costs over the year to 5 April 2020 appear to be up to 0.19%. The Company pays for all other costs and charges.
Value for members and wider value for money	The charges and transaction costs incurred by members represent satisfactory value for members and value for money (when the wider services paid for by the Company are taken into account).
Core financial transactions	The Scheme's administrator, Buck, operates to high standards around the accuracy and timeliness of all core financial transactions.
Trustee knowledge and understanding	The Trustees receive regular training to ensure that the Trustees meet the knowledge and understanding requirements and understand the Scheme and its documents.

AVC arrangements within the Defined Benefit Section

The AVC arrangements are closed to new members and have no 'default' fund but instead members invest in a range of funds with Utmost Life and Pensions and Aberdeen Standard which have total charges between 0.5% and 1.01% per annum.

The Trustees consider the AVC arrangements to currently offer satisfactory value for members following the transfer of all with-profit holdings from Equitable Life to Utmost Life and Pensions on 1 January 2020.

Default investment arrangement in the DC Section

The Trustees have selected and provides a default investment arrangement for members who do not choose an investment option for their contributions, although members can also choose to invest in this default investment arrangement.

The default investment arrangement was amended in July 2020. As this was after the scheme year end of 5 April 2020, the below details relate to the default investment arrangement that was in place over that period. Details on the new default investment strategy will be provided in the next Chair's Statement.

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangement. We take professional advice from regulated investment advisers.

Setting an appropriate investment strategy for the DC Section
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 (this provides details of the new investment arrangements). A copy of the previous statement of investment principles is available on the website www.rollgrouppension.co.uk (this provides details of the investment arrangements that were in place at 5 April 2020 and are summarised below).

We have chosen the Lifestyle Investment Programme as the default strategy.

When deciding on the Lifestyle Investment Programme as the default investment strategy, the Trustees recognise that the majority of members do not take active investment decisions and instead invest in the default option. Therefore, the Trustees' 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 etc. When choosing the default strategy, it is the Trustees' 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 Trustees also recognise that there are various investment and operational risks, and gives qualitative and quantitative considerations to such risks.

The Lifestyle Investment Programme is structured to provide the potential for a level of growth over and above inflation in the long term. In addition, as members approach retirement the monies in the Lifestyle Investment Programme are gradually switched to less volatile investments which aim to protect members' potential income in retirement (assuming an annuity is purchased).

The Lifestyle Investment Programme uses a 5-year glide-path to phase a member's investments between individual funds as they approach retirement. When members are more than 5 years from retirement, they are invested in the BlackRock Consensus (Aquila C) fund. Approaching retirement investments are gradually switched out of this fund into the Pre-retirement Fixed Interest fund and the Cash fund.

Reviewing the default investment arrangement
The Trustees are 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 it.

The Trustees review the investment objectives and the performance of the default investment arrangement on a three yearly basis, taking advice from the Trustees' investment consultant.

During the Scheme year the Trustees have reviewed the default investment arrangement (with recommended changes discussed at the meeting on 27 September 2019). This included taking advice from the Trustees' investment consultant.

The Trustees have considered the membership profile of the Defined Contribution Section, the risk profile and number of investment funds offered to members.

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

We considered members' attitudes to risk and their retirement expectations and analysed different lifestyle strategies and revisions to the funds in the default investment arrangement, before deciding on what changes would be appropriate at this time.

As a result of this review, the Trustees introduced a new default lifestyle strategy (Flexible Lifestyle Strategy), alternative lifestyle strategies (Annuity Lifestyle Strategy, Cash Lifestyle Strategy and Lower Risk Lifestyle Strategy) and changed the range of self-select investment options. These changes were introduced in July 2020 with members being notified of them in June 2020

COVID-19 impact on savings
Due to the COVID-19 outbreak, longer-term 'growth' assets, like equity funds and diversified funds are likely to have suffered significant falls. Other types of investment options, such as bonds are unlikely to have been affected as much as shares. Cash funds will have provided protection from the volatility that most other types of investments have experienced.

As pensions are a long-term savings plan it is expected that there will be some short-term fluctuations in order to stimulate longer-term growth. The current situation is extreme but looking back over history there have been many periods of turmoil that global economies and markets have recovered from.

Self-select investment choices
In addition to the default investment arrangement, over the year to 5 April 2020 the Trustees allowed members to self-select from the following range of Aviva funds:

Av BlackRock UK Equity Index (Aquila C) Fund
Av Global Equity Fund
Av BlackRock Consensus (Aquila C) Fund
Av Managed Fund
Av Fixed Interest Fund
Av Pre-retirement Fixed Interest Fund
Av Cash Fund

Members may wish to take financial advice before choosing between these funds.

Charges and transaction costs paid by members

The Trustees are 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 Scheme members typically pay for investment management and investment transactions as well as administration costs, while the employer pays all the other costs of running the Scheme such as governance.

The investment management and transaction costs can be explained as follows:

- 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. 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.

- In addition, there can be switching costs occurred as a result of the buying and selling of funds. This may relate either to member-driven trades (e.g. a self-select member switching their investment arrangements) or to automatic trades (e.g. those associated with fund switches resulting from progression along a lifestyle glidepath). These costs relate to the difference between the fund price used to place the trade and the price which would have applied to that fund on that day had the trade not been placed. These are implicit costs which are not typically visible to members.

The level of charges applicable to the Scheme's default investment arrangement and self-select investment choices during the last scheme year were confirmed by Aviva as being:

Fund	Member Charges
Av BlackRock UK Equity Index (Aquila C) Fund	0.55%
Av Global Equity Fund	0.58%
Av BlackRock Consensus (Aquila C) Fund	0.55%
Av Managed Fund	0.55%
Av Fixed Interest Fund	0.57%
Av Pre-retirement Fixed Interest Fund	0.55%
Av Cash Fund	0.55%

The transaction costs applicable to the default investment arrangements and self-select investment choices were confirmed by Aviva as being (we have taken an annual average over the last 2 years of data available):

Fund	Transaction Costs
Av BlackRock UK Equity Index (Aquila C) Fund	0.06%
Av Global Equity Fund	0.08%
Av BlackRock Consensus (Aquila C) Fund	0.10%
Av Managed Fund	0.13%
Av Fixed Interest Fund	0.17%
Av Pre-retirement Fixed Interest Fund	0.13%
Av Cash Fund	0.01%

In terms of switching costs, the funds used by the Defined Contribution Section operate on a single-swinging price basis with no explicit switching costs charged to members. However, members may experience implicit switching costs whenever assets are sold (as is the case throughout the lifestyling phase).

These costs will vary between members depending on what switches took place for each member and the date at which these occurred. The Trustees are not able to track what costs have been incurred in practice for particular members.

The table below sets out the potential size of these switching costs depending on whether the dealing price swings to bid or offer at the time of dealing, although it should be noted that not all switches will incur these costs, with many taking place at nil cost.

Fund	Potential swing to bid	Potential swing to offer
Av BlackRock UK Equity Index (Aquila C) Fund	Not provided	Not provided
Av Global Equity Fund	0.09%	0.13%
Av BlackRock Consensus (Aquila C) Fund	0.04%	0.18%
Av Managed Fund	0.05%	0.06%
Av Fixed Interest Fund *(underlying Sterling Corporate Bond Fund)*	0.35%	0.34%
Av Fixed Interest Fund *(underlying Sterling Gilt Fund)*	0.03%	0.04%
Av Pre-retirement Fixed Interest Fund	0.18%	0.18%
Av Cash Fund	0.01%	0.01%

The Trustees will be analysing the actual transaction costs incurred by members as a result of the change in investment strategy in July 2020 and will provide details in the next Chair’s Statement.

Any members considering switching funds during the COVID-19 pandemic should consider the risk involved and take any advice they feel is necessary.

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. Other than the potential swing costs for the UK Equity Fund, we confirm that there was no information about costs or charges that could not be obtained.

It should be noted that the transaction costs (and therefore the ‘total’ charges above) are likely to vary from fund to fund and from year to year.

Examples of the impact of costs and charges
We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on the value of a member's pension savings.

Aviva have prepared the attached examples, having taken account of the statutory guidance issued by the Department of Work and Pensions in preparing this section of our statement.

The attached Costs and Charges Illustrations prepared by Aviva are broadly representative of a new starter who does not yet have any money in their pension pot and starts employment with relatively modest contributions. This compares to an 'average member' of the Scheme who has a current pot of £20,000 and monthly contributions of c.£250. For a personalised illustration on the impact of investing to your retirement date please refer to your annual benefit statement.

Core financial transactions

The Trustees are 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 the Scheme's administrator, Aviva and Buck.

There is a service level agreement in place between the Trustees and Buck which provides for Buck to ensure accurate and timely processing of the core financial transactions for which it is responsible. Aviva 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 Trustees and in accordance with the Scheme'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 Trustees receive 6-monthly reports confirming the payment and allocation of contributions, together with statistics on the level of service that is provided in comparison to agreed targets and timescales. The Trustees monitor transactions made via the Trustees bank account on a regular basis.

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

Transaction	Service Standard (working days) following receipt of full data
Contribution Investments	5 days
Deaths	5 days
Investment Changes/Switches	5 days
Leavers	10 days
New Entrants	10 days
Retirement	10 days
Transfers In/Out	15 days

The Scheme 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 Scheme year which need to be reported here by the Trustees and as a result I am confident that all core financial transactions have been processed accurately within a reasonable time.

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

Defined Benefit Section AVC arrangements

Our historic AVC arrangements associated with the Defined Benefit Section (which are closed to new members) are provided by Aberdeen Standard and Utmost Life and Pension (previously invested with Equitable Life Assurance Society).

Members with Utmost Life and Pension can choose to invest in a range of Unit-Linked funds and lifestyle strategies, with annual management charges of 0.5% or 0.75% p.a..

With Aberdeen Standard, members can choose to invest in a variety of Unit-Linked funds, each of which has an annual management charge of 1.0% p.a. and also incur an additional charge of 0.01% p.a. to cover expenses.

The Trustees periodically review these arrangements 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 Trustees have not accessed transaction costs for these arrangements but plan to consider these as part of the next review of the arrangements.

The Trustees take a proportionate approach to reviewing the investments based on the significance of the value of each member's AVC fund relative to the member's overall benefits in the Scheme and the relatively small numbers of members who are invested in these arrangements.

Trustee knowledge and understanding

The law requires the Trustees to be conversant with the Scheme'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 Scheme effectively.

The Trustees meet all the knowledge and understanding requirements and understands the Scheme and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the statement of investment principles and the documents setting out the Trustees 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 Trustees do this by regularly reviewing the relevant Scheme documents.

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

During the Scheme year the following training and development activities have taken place:

- The training received is regularly reviewed to identify any gaps in the knowledge and understanding across the Trustee Board as a whole.

- All of the Trustees have been in role for a number of years and have completed the Pensions Regulator's on-line trustee toolkit. New trustees are required to complete the toolkit within 6 months of becoming a member of the Trustee Board. Trustees must review the toolkit on an on-going basis to ensure their knowledge remains up to date.

- The Trustees 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 Trustees may engage on such topics in an informed manner.

- Recent training received (that relates specifically to DC pensions) has included:
    - DC investment design, including demographic analysis of membership
    - Updated SIP requirements
    - COVID-19 and updated Regulator's guidance

- The Trustees have 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 to ensure we are offering a quality scheme.

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 Scheme or in respect of pension or trust law.

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

Assessing value for members

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

This section sets out the approach that the Trustees have 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, and the overall quality of the service received has been taken into account in the assessment of value to members.

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 Principal Company.

As indicated, the costs that are paid by members are fund management charges and transaction costs for the investment funds used within the Scheme as well as administration costs.

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);
- 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 Trustees, the costs of legal/actuarial advisers and annual audit, etc).

The Trustees have 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, in line with criteria agreed by the Trustees in advance;
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 Trustees have found that there are limited industry-wide benchmarks for each service area and so the Trustees have relied on the market knowledge of its advisers.

Based on our assessment, we conclude that the Defined Contribution Section offered satisfactory 'value for members' and satisfactory 'value for money' over the year to 5 April 2020.

There are areas where overall 'value for money' could be improved for members and the Trustees plan to perform further investigations into these areas, taking action in some, over the year to 5 April 2021 – details are included later in this section.

Preparation for the assessment
The Trustees received support from advisers around how to undertake a value for members assessment and also considered the statutory guidance.

The Trustees 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 Trustees agreed that any score between 50% to 75% represented satisfactory value and a score of 75% or over represented good value. The Trustees 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 Trustees then considered the services provided by the Scheme 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
Investments / charges	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
Communications / member support	Whether bespoke / tailored or event-driven communications are used, at-retirement communications / guides / modellers / support, access to pension freedoms, etc
Scheme management and governance	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
Administration / online services	Online fund values / switching, use of service level agreements, core administration team / helpline, etc
Employer contribution to member funds	The generosity of the employer contributions over and above the automatic enrolment minimum.

While all of the factors above contribute to whether the Scheme is well run, the Trustees believe that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Scheme 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 satisfactory ‘value for money’ over the year to 5 April 2020 is based on aspects such as:

- The default investment strategy broadly matched the benchmark over the year to 5 April 2020;
- The default investment strategy has a maximum annual charge of 0.55%, which compares to the 0.37% average charge for default funds within trust-based defined contribution pension schemes that featured in the Pensions and Lifetime Savings Association annual survey;
- The contribution structure is in line with the automatic enrolment minimum requirements only;
- The default investment strategy was designed with reference to the membership profile of the Defined Contribution Section (but has since been changed in July 2020) and has its performance reviewed on a regular basis;
- Members are able to receive good administration support from Buck. However, over the year to 5 April 2020 members did not receive the wide range of online services that can be found in some occupational defined contribution pension schemes (e.g. online fund values / switching, modellers around future investment strategies and contribution rates, etc) and members did not have access to tools / guidance / support or in-scheme flexibilities at retirement. During the 2020/21 Scheme year, these services have been introduced for members;
- Members receive communications that aid member decision-making (including regularly updated member booklets, an annual benefit statement, etc); and
- The Trustees meet around four times a year, discussing DC-related matters at each meeting, with 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 was run are a negative factor when assessing value for money, However the inherent guarantees that featured in many with-profit funds may have been valued by members.

During the period covered by this statement, the with-profits funds at Equitable Life were unitised and transferred to Utmost Life and Pensions and an uplift to fund values applied.

Follow-on actions and investigations
The Trustees’ focus is on monitoring the value for members and identifying if further improvements can be made. Over the year to 5 April 2021, the Trustees plan (or have implemented) the following:

For the Defined Contribution Section:

- Introduce a new default lifestyle strategy (Flexible Lifestyle Strategy), alternative lifestyle strategies (Annuity Lifestyle Strategy, Cash Lifestyle Strategy and Lower Risk Lifestyle Strategy) and change the range of self-select investment options;
- Launch a member portal that allows members to view details of their benefits, access retirement planning tools and make changes to their investment options;
- Communicate these changes to members including a presentation to members and revised Scheme literature;

- Review the at-retirement tools and guidance provided to members, as well as the options available within the Scheme, including allowing members to drawdown their funds in retirement over a number of years;
- Review the communications that members receive to determine if any enhancements can be made.

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

- Consider further communications with members around reviewing their AVC funds to ensure that their investment fund choices remain appropriate for their circumstances.