Annual governance statement by the Chair of Trustees for the year ending 5 April 2022

Introduction

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

As Chair of the Trustees of the Roll Group Pension Scheme ('the 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 within the Scheme. The information included in my statement is set out in law and regulation.

This statement covers the period from 6 April 2021 to 5 April 2022. This year, for the first time, the law requires me to show information about the return on investments within the statement (after the deduction of any charges and transaction costs paid for by members). These are included to help you, as members, understand how your investments are performing.

The Trustees are committed to having high governance standards and we hold regular meetings to monitor the controls and processes in place in connection with the Scheme's investments and administration.

Russia's invasion of Ukraine occurred during the Scheme year. The Trustees had discussions on the ongoing impact on the world economy and investment markets during the Trustees' meeting in July 2022. No immediate action has been taken for the Scheme, but the matter will be kept under review by the Trustees and any further investigations and actions taken by the Trustees will be covered in next year's annual governance statement.

In the meantime, assisted by our advisers and through hosting virtual meetings, we are continuing to monitor the impacts of both the conflict in Ukraine (and its global ramifications) and the COVID-19 pandemic on the Scheme, particularly on ongoing investment returns, administration standards, member support service levels and the ability of Union Electric Steel Limited ('the Principal Employer') to pay contributions on time and fulfil other financial obligations.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be.

Summary of the annual governance statement by the Chair of Trustees

For the Scheme year to 5 April 2022, the Trustees of the Scheme have reviewed the following areas and our main conclusions are as follows:

The default investment strategy and self-select fund range	After completing the last review in September 2019, the Trustees made changes to the Scheme's default investment strategy and self-select fund range in the summer of 2020, namely: • implementing a new default investment approach and alternative lifestyles; and • introducing a new self-select range. Members affected by the changes were communicated with and offered the option to switch to the new default fund or other fund options. We believe the default investment strategy and self-select fund range remain appropriate but are currently undertaking a formal investment review.
Charges and transaction costs	The total ongoing charges that members pay to have their benefits administered and invested in the funds in the Scheme range from 0.36% to 0.64% per annum. The transaction costs ranged from 0.01% to 0.15% over the year. The Principal Employer pays for all other costs and charges.
Performance of the investment options	For the first time this year, tables showing information about the net return on investments (i.e. after the deduction of any charges and transaction costs paid for by Scheme members) have been included. This information is included to help Scheme members understand how their investments are performing.
Value for members	The Trustees have carried out a detailed assessment of value for members on a new prescribed basis applicable to smaller pension arrangements, which differs in its approach compared to the assessment we have undertaken in the past. We're pleased to say that our assessment concluded that the Scheme represents good value for members in relation to charges and transaction costs, net investment returns, and governance and administration when considered over the 1 year period to 5 April 2022. Please note, though, that the value for members assessment may vary from year to year, as it is heavily influenced by investment performance, which can go down as well as up.
Core financial transactions	Overall, the Trustees are confident that the processes and controls in place within Buck, the Scheme administrator, are robust and will ensure that the financial transactions which are important to members are dealt with properly. We will, however, continue working with Buck to review the Service Level Agreements, monitor the investment of monthly contributions and continue to receive reporting on core financial transaction processing.
Trustee knowledge and understanding	The Scheme has a training programme to ensure that Trustees meet legal knowledge and understanding requirements and understand the Scheme and its documents. For instance, the recently appointed professional trustee meets the Continuing Professional Development requirements of ITS Limited (the recently appointed professional trustee) and the Association of Professional Pension Trustees. I am confident that the combined knowledge and understanding of the Trustees enables us to properly exercise our functions as Trustees to the Scheme. As possible improvements, the Trustees will consider evaluating the effectiveness of the Board at least annually and also consider formal quarterly Trustees' meetings.

Further information

Full explanations of each of the above can be found in the annual governance statement by the Chair of Trustees for the year ending 5 April 2022, which can be found at www.rollgrouppension.co.uk.

Default investment strategies

A default investment arrangement is set up by the Trustees and provided for members who do not choose an investment option for their contributions. Members can also choose to invest in this default investment arrangement.

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

Setting an appropriate investment strategy

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the Statement of Investment Principles (SIP). A copy of the latest Statement of Investment Principles, dated November 2020, is attached to this statement. The Trustees' evidence that the Scheme continues to follow and act on the principles outlined in the SIP is contained within a document called an Implementation Statement. A copy of this statement can be found online at www.rollgrouppension.co.uk.

We continue to use the Flexible Lifestyle Strategy as the default strategy.

The Flexible Lifestyle Strategy 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 Flexible Lifestyle Strategy are gradually switched to less volatile investments which aim to protect members' potential income in retirement and targets leaving the Retirement Account invested and making periodic withdrawals over a longer period of time.

The Flexible Lifestyle Strategy uses a 10-year glide-path to phase a member's investments between individual funds as they approach retirement. When members are more than 10 years from retirement, they are invested in a mix of global equities, real estate equities, infrastructure and credit. Approaching retirement investments are gradually switched out of these funds into pre-retirement, retirement income multi-asset and cash funds, although a holding of global equities is also retained.

The Flexible Lifestyle Strategy is currently broadly meeting its objectives to reduce volatility as members approach retirement, whilst still achieving investment growth.

Lifestyle strategies targeting a cash lump sum and annuity purchase at retirement are also offered to members. These lifestyles share a common growth phase with the Flexible Lifestyle Strategy, only deviating to their respective retirement targets from five years to retirement.

Given the wide range of salaries of members within the Scheme, the Trustees believe that the Flexible Lifestyle Strategy provides the greatest flexibility as a default option.

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 Scheme membership when designing it. The Trustees review the investment objectives and the performance of the default investment arrangement on an annual basis, taking advice from the Trustees' investment consultant and the investment manager.

The Trustees last formally reviewed the default investment arrangement in September 2019 and have commissioned a review of investment strategy to be completed during the current Scheme year. The last review considered at a high level the membership profile of the Scheme, along with the risk profile and number of investment funds offered to members.

As a result of the September 2019 default investment arrangement review, a new lifestyle investment approach, alternative lifestyles and self-select range of funds were made available to members in the summer of 2020.

Self-select investment choices

In addition to the default lifestyle arrangement (the Flexible Lifestyle Strategy) and the two alternative lifestyle arrangements (the Lifestyle Option for Annuities and the Lifestyle Option for Cash Lump Sums) – all of which hold similar investments until 5 years before retirement, there is a Lower Risk Lifestyle Strategy and the Trustees allow members to self-select from a range of funds.

At the start of the Scheme year, the self-select funds were:

- Global Equity Fixed Weights 50/50 – GBP Currency Hedged
- UK Equity Index Fund
- Aquila Connect Emerging Markets Fund
- Ethical Global Equity Index Fund
- Retirement Income Multi-Asset Fund
- Pre-retirement Fund
- Cash Fund

Members are expected to take independent financial advice before choosing between funds. Free impartial guidance is also available from MoneyHelper – their website can be found at https://www.moneyhelper.org.uk/en/pensions-and-retirement/ and they can provide guidance through live webchat or over the telephone on 0800 0111 3797 (Mon-Fri, 9am to 5pm).

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 Scheme that are paid by members rather than the employer. Apart from bank charges and the total administration and fund management charges paid by members, the employer pays all the other costs of running the Scheme (i.e. governance costs). The investment management and transaction costs can be explained like so:

- The total ongoing charges figure is the total cost of investing in any fund or strategy and includes administration charges, the Annual Management Charge (direct investment charges) and any additional fund expenses (indirect charges). The ongoing charges figure for the default investment strategy is 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 or strategy. 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 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. It should be noted that the transaction costs are likely to vary from fund to fund and from year to year.
- In addition, there can be switching costs incurred 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 between investment funds) 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 ongoing charges applicable to the Scheme's default investment arrangement and self-select investment choices during the last Scheme year were:

Fund	Member Charges
Flexible Lifestyle Strategy	0.49% up to 10 years before retirement, rising to 0.57% at 5 years before retirement before reducing to 0.50% at retirement*
Cash-target Lifestyle Strategy	0.38% to 0.57%*
Annuity purchase Lifestyle Strategy	0.39% to 0.57%*
Lower Risk Lifestyle Strategy	0.49% to 0.57%*
Global Equity Fixed Weights 50/50 GBP Curr Hedged Fund	0.41%
UK Equity Index Fund	0.36%

Aquila Connect Emerging Markets Fund	0.55%
Ethical Global Equity Index Fund	0.63%
Retirement Income Multi-Asset Fund	0.64%
Pre-retirement Fund	0.39%
Cash Fund	0.38%

* Lifestyle charges change as members approach retirement and the mix of funds is automatically adjusted.

The transaction costs applicable to the default investment arrangements and self-select investment choices were confirmed as being:

Fund	Transaction Costs
Lifestyle Strategies (including the default)	0.01% to 0.15% for the underlying funds
Global Equity Fixed Weights 50/50 GBP Curr Hedged Fund	0.01%
UK Equity Index Fund	Not used by members
Aquila Connect Emerging Markets Fund	Not used by members
Ethical Global Equity Index Fund	Not used by members
Retirement Income Multi-Asset Fund	0.01%
Pre-retirement Fund	0.06%
Cash Fund	0.02%

N.B. A charge or cost figure in (brackets) is effectively a negative cost i.e. it boosts net return, rather than detracting from it.

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.

Mobius Life have confirmed the following:

- transaction costs are provided for the period 1 January 2021 to 31 December 2021 (rather than the Scheme year to 5 April 2022 or the quarter end prior to this at 31 March 2022);
- Finally, the Trustees were not provided with transaction costs prior the inception of the new investment approaches on the Mobius Life platform (14 July 2020).

The Trustees are disappointed with the decreased availability of charges information for the Scheme year. We will continue to review our processes for monitoring transaction costs provided by Mobius Life and will continue discussions with the managers on their ability to provide complete and historic information for these funds in future.

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 members' savings.

We have prepared examples that can be found in Appendix A, having taken account of the updated statutory guidance effective from 1 October 2021 issued by the Department of Work and Pensions[1] in preparing this section of our statement.

Past performance of the investment options

We have calculated the return on investments after the deduction of any charges and transaction costs paid for by the members. We have done this for the default investment arrangement and for each self-select fund which members are now able, or were previously able, to select and in which Scheme members have been invested during the Scheme year.

The net returns to 31 March 2022 are shown in the tables below and have been included to help members understand how their investments are performing. Please note that past performance is no indicator of future performance. We have prepared the following tables, having taken account of the statutory guidance issued by the Department of Work and Pensions[2].

Annualised net returns (%) for the default investment arrangement (the Flexible Lifestyle Strategy) over periods to 31 March 2022 (and Lifestyle Option for Annuities and the Lifestyle Option for Cash Lump Sums)

Age of member at the start of the period*	5 years (2017-2022)	1 year (2022)
Age 25	7.1	11.6
Age 45	7.1	11.6
Age 55	7.1	11.6

*As the default investment arrangement is a lifestyle strategy made up of different investment funds, the returns may vary with the age of the member, so we have shown the returns at three example ages in line with regulatory guidance. In reality, all ages are when members are in the growth phase of the default, hence the same performance figures being shown.

Annualised net returns (%) for the self-select funds over periods to 31 March 2022

Investment Fund	5 years (2017-2022)	1 year (2022)

Lower Risk Lifestyle Strategy (growth phase)	5.9	8.5
Global Equity Fixed Weights 50/50 GBP Curr Hedged Fund	7.4	10.4
UK Equity Index Fund	4.7	13.1
Aquila Connect Emerging Markets Fund	4.5	-7.7
Ethical Global Equity Index Fund	11.9	16.8
Retirement Income Multi-Asset Fund	4.6	3.6
Pre-retirement Fund	1.4	-6.6
Cash Fund	0.3	0.0

Notes for both tables:

1. Figures have been collected for the periods to 31 March 2022 rather than to the Scheme year end of 5 April 2022 as this facilitates comparison with the quarter-end data provided by the three comparison schemes – see Appendix B.
2. Figures shown for the default lifestyle strategy are calculated based on changes to unit prices, given the unit prices incorporate all fees and charges, as well as the impact of price swings and hence switching costs. Please note that this is a different methodology from that used for the self-select fund range and hence there will be some differences between the figures shown here and those shown for the underlying self-select funds.
3. Composite performance figures for the lifestyle strategy assume allocations are in line with the switching matrix at each quarter end. We have not allowed for deviations due to market movements in the preceding period.
4. The Scheme updated its investment strategy in 2020. The figures shown reflect the historic performance of the current investment strategy (where available) as this is deemed to be of more relevance for making intra-scheme comparisons.
5. Net investment return figures for 10, 15 and 20 years to 31 March 2022 were not available.
6. Figures shown for the self-select investment options are calculated based on underlying investment manager performance. No Scheme members have been invested in the UK Equity Index Fund, Aquila Connect Emerging Markets Fund and Ethical Global Equity Index Fund during the Scheme year.

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 Scheme;
- transferring assets relating to members into and out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to, or on behalf of, members.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme's administrator, Buck. 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.

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. Where no specific service level agreement has been agreed, Buck adheres to its standard in-house service levels. Buck is also 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.

In order to monitor this service, the Trustees receive regular reports confirming the payment and allocation of contributions, as well as information on events such as cash management and pension payroll. The Trustees also monitor transactions made via the Trustees' bank account on a regular basis.

As administrator, Buck prepares a regular report (AAF 01/06) setting out its internal controls in respect of pensions administration which is independently audited.

As administrator, Buck provides the Trustees with a regular administration report that sets out the general Service Level Agreements for the efficient processing of scheme events and the Trustees discuss these reports at Trustee meetings, noting any specific issues that have arisen with the administration services provided (covering core financial transactions and member processing). The Trustees noted that 100% of the core financial transactions were paid accurately and in line with legal requirements.

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. The Trustees are satisfied that, over the period covered by this statement, all core financial transactions have been processed promptly and accurately.

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

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.
Over the Scheme year a professional trustee, ITS Limited (represented by Graham Bryant), has been appointed to the Trustee Board. The Trustees meet all the knowledge and understanding requirements and understand the Scheme and its documents. The Trustees are aware that we 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.
The Trustees are also aware that we 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 and seeking advice from the Scheme's legal advisers. During the Scheme year, the Trustees have sought advice on matters such as the draft data protection policy.
The Trustees have assessed the Scheme 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 and have established an action plan to ensure we can demonstrate that we are offering a quality scheme.
The Trustees take their training and development responsibilities seriously and the Trustees keep a record of the training completed by each Trustee. The training log is reviewed at each Trustee meeting to identify any gaps in the knowledge and understanding across the Trustee Board as a whole.
All Trustees have completed the essential modules within 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 also receive "on-the-job" training. This means that as new topics arise, our 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.
Relevant advisers attend Trustee meetings and are in frequent contact with the Trustees to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.
During the Scheme year, training and development on the following topics took place:

- Options for at-retirement support for Scheme members
- New holistic value for money assessments for schemes with assets less than £100m

As a result of the training activities which have been completed by the Trustees, 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 of the Scheme.

Assessing value for members

Introduction and main conclusions

As part of our assessment of the charges and transaction costs, the Trustees are required to consider the extent to which costs and charges within the Scheme represent good value for members when compared to other options available in the market.
The Trustees have conducted three tests in assessing value for members for the Scheme year to 5 April 2022:

1. a comparison of our reported **costs and charges** with the three comparison schemes;
2. a comparison of our reported **net investment returns** with the three comparison schemes; and
3. a consideration of the Scheme against key **governance and administration** criteria.

Based on our assessment, we conclude that the Scheme offered good value for members over the year to 5 April 2022, when measured against the definition required by legislation, using the three comparison schemes selected by the Trustees and using our interpretation of the updated statutory guidance on "Completing the annual Value for Members assessment and Reporting of Net Investment Returns".
Appendix B sets out the approach that the Trustees have taken, the conclusions reached and an explanation of how and why we have reached those conclusions.

Follow-on actions and investigations

Over the year to 5 April 2023, the Trustees plan to continue:

- monitoring the impact of the conflict in Ukraine (and its global ramifications for inflation), particularly on ongoing investment returns;
- liaising with the fund managers to ensure that complete and accurate disclosure of transaction costs is provided, in line with FCA rules. The Trustees will also continue to review the default fund transaction costs versus similar funds in the market;
- complete the three yearly investment review;
- as the Trustees work through their Effective Systems of Governance analysis of the Scheme, they will finalise the Trustees' Risk Register, consider whether to evaluate the effectiveness of the Board at least annually and whether to introduce formal quarterly Trustees' meetings;
- reviewing the at-retirement tools / guidance / advice provided to members, including implementing an at retirement advice service;
- considering which investigations to conduct to improve the Trustees' understanding of the characteristics / attitudes of members and how these feed into Trustee decision-making;
- liaising with Buck to discuss actions that could be taken to improve the Scheme-specific data scores.

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. The Trustees will also discuss this analysis with the Principal Employer to obtain their views.

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Signed for and on behalf of the Trustees of the Roll Group Pension Scheme by Graham Bryant, Chair of the Trustees.

Appendix A – examples of the impact of costs and charges

Approved by the Trustees on ……………………………………………..

Each table in this section shows the projected pension savings (or 'retirement pot') in today's money for a different representative member, using median statistics as at 5 April 2022 and using the Statutory Money Purchase Illustration ('SMPI') assumptions as at 5 April 2022 that will feature in the Scheme's 2022 annual benefit statements.

The only difference between the assumptions used for these projections and those used for the projections within the 2022 annual benefit statements is the average of the annual transaction costs over the period 14 July 2020 to 31 December 2021 being taken into account in the enclosed tables, when transaction costs are ignored within SMPI statements.

Please note that, within each table, there may be instances where the projected fund at age 65 is lower than the starting fund value. This arises when the projected return (before or after charges are deducted) is lower than the projected levels of inflation, as all values are shown in today's terms.

	Fund choice							
	Flexible Lifestyle Strategy		LGIM Global Equity 50:50 Index Fund		Pre-retirement Fund		Cash Fund	
	The funds used change based on the term to retirement		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout	
Years	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
1	23,493	23,385	23,576	23,490	22,896	22,776	22,749	22,667
3	30,645	30,264	30,939	30,632	28,582	28,181	28,092	27,820
5	38,023	37,289	38,592	37,998	34,131	33,395	33,233	32,740
10	57,502	55,514	59,070	57,433	47,420	45,641	45,255	44,089
15	78,554	74,727	81,625	78,421	59,919	56,836	56,176	54,199
20	101,307	94,982	106,468	101,085	71,674	67,071	66,097	63,206
25	125,898	116,333	133,832	125,560	82,730	76,428	75,109	71,229
30	152,476	138,842	163,971	151,989	93,128	84,982	83,296	78,377
35	181,200	162,571	197,168	180,529	102,907	92,802	90,733	84,744
40	208,395	183,595	233,732	211,349	112,104	99,951	97,490	90,416
45	228,216	197,468	274,006	244,631	120,754	106,487	103,627	95,469

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. Values shown are estimated and are not guaranteed, the actual fund values could be higher or lower.
2. Inflation is assumed to be 2.5% each year.
3. For active members, future contributions are assumed to be paid from assumed age to 65 and increase in line with assumed earnings inflation of 2.5% each year.
4. Total contribution rates and pensionable salaries for the active member illustrations in the Scheme are assumed to be 8% and £40,000 respectively.
5. The starting pot sizes are assumed to be £20,000.
6. Starting ages within the Scheme are assumed to be 20.
7. The projected growth rate for each fund (before total expense ratio and transaction costs over the year to 5 April 2022 are deducted), projected total ongoing charges and projected transaction costs are as follows:

Fund	Projected growth rate	Projected total ongoing charges	Projected transaction costs
Default – Flexible Lifestyle (growth phase)	1.57% above inflation	0.49% per annum	0.03% per annum
LGIM Global Equity 50:50 Index Fund	1.95%% above inflation	0.41% per annum	0.00% per annum
Pre-retirement Fund	1.22% below inflation	0.39% per annum	0.18% per annum
Cash Fund	1.90% below inflation	0.38% per annum	0.01% per annum

8. The projected transaction costs are the average of the annual transaction costs over the period 14 July 2020 to 31 December 2021. Negative average transaction costs have been treated as zero, in line with how the FCA treats transaction costs for contract-based pension schemes.

Appendix B – assessing value for members

The Trustees have carried out the new detailed value for members assessment which now applies to the Scheme, as a result of the Scheme holding total assets under £100 million as at the Scheme year-end.

It should be noted that the approach taken this year is different to the approach taken in previous years, as a result of changes to the statutory guidance on assessing 'value for members' for occupational DC pension schemes with total assets under £100 million.

In carrying out the assessment, the Trustees have had regard to the Department for Work and Pensions' updated statutory guidance on "Completing the annual Value for Members assessment and Reporting of Net Investment Returns"[3].

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.

Our approach

Assisted by our advisers and in line with the statutory guidance, we have taken the following approach:

1. We have collated information on costs and charges and net investment returns within the Scheme, as well as key governance and administration criteria within the Scheme;
2. We have collated information on costs and charges and net investment returns within three comparison schemes, selected using clear rationale agreed by the Trustees;
3. We have assessed the value that Scheme members receive by comparing the Scheme's costs and charges and net investment returns relative to the comparison schemes and assessing the key governance and administration criteria on an absolute basis, having due regard to the updated statutory guidance; and
4. We have reflected on our key findings, before deciding whether the Scheme provides overall value for members and agreeing any actions that are required following the assessment.

For the avoidance of doubt, under the updated statutory guidance, trustees of occupational DC pension schemes who are not able to demonstrate that their pension scheme delivers value for members on all three areas (costs and charges; net investment returns; administration and governance) are expected to conclude that their pension scheme does not provide good value for members.

Such trustees should look to wind up their pension scheme and transfer the rights of their members into a larger pension scheme, or set out the immediate action they will take to make improvements to the existing scheme (if the improvements identified are not made within a reasonable period, for example within the next scheme year, then those trustees would be expected to wind up and transfer members' benefits to another pension scheme).

Preparations for the assessment

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

A number of key decisions were made as part of these preparations, in two main areas:

1. Selecting the three comparison schemes
2. Interpreting the updated statutory guidance

<u>1. Selecting the three comparison schemes</u>

In order to carry out the value for members assessment, the Trustees' first step was to select three comparison schemes.

We took advice from our pension advisers in this regard to ensure that we conducted an appropriate selection process, as our pension advisers have the relevant market knowledge of defined contribution pension arrangements.

In line with the statutory guidance, the comparison schemes selected were all greater than £100 million in size and of a different structure to the Scheme, to ensure that a meaningful comparison was made with a larger pension arrangement.

As Trustees, we were required to set clear rationale for the schemes that we would select as comparators. On top of the statutory guidance requirements above, the Trustees selected the following criteria for the comparison schemes:

- The comparison schemes would all be Master Trusts, as these are schemes that differ in structure to the Scheme (a trust-based occupational pension scheme) and would be able to accept a bulk transfer of members' assets without consent;
- The comparison schemes would support in-scheme drawdown (i.e. the ability for individuals to flexibly access their savings without changing pension schemes);
- The comparison schemes would represent a broad cross-section of Master Trusts available in the market i.e. covering the range of master trusts available from insurers, employee benefit consultancies and large auto-enrolment schemes;
- The comparison schemes would be likely to offer terms to receive a bulk transfer of the assets and membership of the Scheme as part of a wind-up and bulk transfer;
- Finally, the comparison schemes would be able to provide the net investment return, charges and transaction costs required by the Trustees. From a practical point of view, the Trustees selected from a long-list of Master Trusts who have engaged with the 2021 round of our adviser's annual provider market data gathering exercise (i.e. the Trustees implicitly assumed that providers who did not engage with their advisers would not be able or willing to provide the data required).

By applying this clear rationale within the comparison scheme selection process, the Trustees selected the following comparison schemes:

- L&G Worksave Master Trust;
- Aon Master Trust; and
- B&CE The People's Pension Master Trust.

The updated statutory guidance states that "Trustees of specified schemes are of course at liberty to choose their own comparison schemes, each time they conduct the value for members assessment".

As a result, the Trustees reserve the right to select different clear rationale and choose different comparison schemes for future Scheme years.

<u>2. Interpreting the updated statutory guidance</u>

This year was the first year in which the new value for member assessment was being rolled out across all occupational DC pension schemes with assets under £100 million.

As a result, no established practice or case studies exist at this stage that the Trustees could rely upon to inform their approach. As a result, a number of key decisions were made as part of the Trustees' preparations, primarily around interpreting the updated statutory guidance.

The Trustees made the following key decisions for this Scheme year (where this relates to a particular paragraph of the updated statutory guidance, the relevant paragraph number is shown in [square brackets]):

- The Trustees note that charges and transaction costs will only vary by age for Scheme members in the ten years prior to normal retirement date for the default investment arrangement. As the updated statutory guidance suggests that charges and costs are shown at 10-year intervals, no difference would be demonstrated if the Trustees followed this suggestion. As a result, the

Trustees have shown a single figure for the charges and transaction costs relating to the period prior to ten years before normal retirement date [57];
- The Trustees have relied entirely on the data supplied by the providers of the comparison schemes [58/69];
- The Trustees have requested comparison data as at 31 March 2022 (as quarter-end data was more readily provided) and have compared this against Scheme data also calculated as at 31 March 2022;
- The Trustees have agreed that the charges and transaction costs over the year to 31 March 2022 are not unusually high for a reason that is unlikely to be repeated; therefore, the Trustees have used one-year data rather than an average of the last five years [61];
- Where the Trustees have performed comparisons using the Scheme's default investment arrangement, we have compared them against the default arrangement put forward by each comparison scheme, where these schemes have different options for default arrangements [62/72];
- In the absence of a clear definition in the updated statutory guidance, the Trustees have defined self-select funds as "popular" or "frequently invested" if more than 5% of members are invested in the self-select funds [63/73/76/77];
- The Trustees have given the total charges and transaction costs and net investment returns in the default lifestyle arrangement a weighting of 100%, given that no self-select fund in the Scheme has sufficient members investing in it to be considered "popular" or "frequently invested" under the above definition [64/74];
- The Trustees have assumed that funds being compared that have charges and transaction costs with an absolute difference within 0.05% or that have net investment returns with an absolute difference within 0.5% are considered to be "closely comparable" [65/75];
- The Trustees consider that default investment arrangements or self-select funds that also have higher, not just "broadly comparable", average investment returns over a five-year period when compared to the nearest comparable default arrangements or funds respectively, are good value from a costs and charges perspective, even if the charges in the Scheme are higher than the same comparable default arrangements or funds respectively [65];
- The Trustees have placed more weight on the net investment returns over charges and transaction costs by weighting net investment returns by 80% and charges and transaction costs by 20% when assessing value for members [67];
- The Trustees have only been able to source and use five-year net investment returns to assess longer-term investment performance (10-year and 15-year data was not consistently provided) and have also placed more weight on the longer-term performance by weighting five-year net investment returns by 80% and short-term one-year returns by 20% [68];
- The Trustees were not provided with sufficient data by the comparison schemes to assess whether the demographic profile of the Scheme differed sufficiently to those of the comparison schemes to support a "clear strategic choice" that explains differences in performance [77];
- When assessing the value delivered by their governance and administration offering within the Scheme, the Trustees have considered and assessed the Scheme against the seven key metrics of Administration and Governance set out in the updated statutory guidance and note that the guidance also sets out an expectation that all [seven] of the metrics for administration and governance are satisfied for a pension scheme to be able to demonstrate satisfactory value for members [111/112]. In making this assessment, the Trustees have assumed the following:
  - I. When assessing the **promptness and accuracy of core financial transactions**, the Trustees have considered the proportion of member transactions that have been completed accurately and within required timeframes set in legislation as well as the proportion of member transactions that have been completed according to any service level agreements (SLA) when assessing whether the Scheme would represent "satisfactory value" for members in this area [81-85];
  - II. When assessing the **quality of record keeping**, the Trustees have assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area. The Trustees have also assumed that the lack of any regulatory action by The Pensions Regulator in light of the data scores for common and scheme-specific data reported in the Scheme's historic annual scheme returns indicates that the Scheme's data scores are "satisfactory value" for members [86-96];
  - III. When assessing the **appropriateness of the default investment strategy**, the Trustees have considered all of the points within the updated statutory guidance and assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [97-99];
  - IV. When assessing the **quality of investment governance**, the Trustees have considered all of the points within the updated statutory guidance and assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [100-101];
  - V. When assessing the **level of trustee knowledge, understanding and skills to operate the Scheme effectively**, the Trustees have assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [102-104];
  - VI. When assessing the **quality of communication with Scheme members**, the Trustees have assumed that concluding that they have met their statutory obligations and have also achieved satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [105-107];
  - VII. When assessing the **effectiveness of management of conflicts of interest**, the Trustees have assumed that having all four of the controls set out in the updated statutory guidance in place and being able to show how these have been followed and are effective in practice would represent "satisfactory value" for members in this area [108-110];

The Trustees also agreed to revisit these decisions in future Scheme years, allowing for emerging industry-wide practices or case studies, particularly around the approach that The Pensions Regulator ends up taking when assessing how trustees carried out the new detailed value for member assessments.

Process followed for the assessment, including key factors considered

The Trustees requested the required information from each of the comparison schemes in order to undertake the relative assessment of costs and charges and net investment returns against the Scheme. The Trustees also requested the assistance of advisers to assist in assessing the Scheme against the criteria set out in the updated statutory guidance.

The assessment then involved three tests:

1. a comparison of our reported **costs and charges** with the three comparison schemes;
2. a comparison of our reported **net investment returns** with the three comparison schemes; and
3. a consideration of the Scheme against key **governance and administration** criteria.

The Trustees have also had discussions with at least one of the comparison schemes about a transfer of the members' rights if the Scheme should ever be wound up (please note that this is a requirement of the statutory guidance, rather than a reflection of the future ambitions of either the Trustees or the sponsoring employers of the Scheme).

The outcomes from our assessment

Test 1: costs and charges

The Trustees have identified the costs and charges that members pay for directly, as well as the costs and charges that are paid for by the Principal Employer.

It is the current policy of the Trustees and the Principal Employer that the only costs and charges that are paid by members are administration & fund management charges and transaction costs for the investment funds used within the Scheme.

For all other costs and charges, the Principal Employer 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 Scheme (e.g. the expenses of the Trustees, the costs of legal/actuarial advisers and annual audit, etc).

The Trustees have gathered information about costs and charges from the three comparison schemes and compared them with the costs and charges paid by the members directly in the Scheme.

As mentioned earlier in this section:

- The charges and transaction costs for the year to 31 March 2022 have been gathered for the analysis, rather than for the year to 5 April 2022, as quarter-end data was more readily provided by the comparison schemes; and
- The Trustees have agreed that the charges and transaction costs over the year to 31 March 2022 are not unusually high for a reason that is unlikely to be repeated; therefore, the Trustees have used one-year data rather than an average of the last five years.

Given that no self-select fund in the Scheme has sufficient members investing in it to be considered "popular" or "frequently invested" under the definition set out earlier in this section, we have compared our default investment arrangement with the default investment arrangement in the three comparison schemes.

A summary of the comparison is shown in the table below.

For the year to 31 December 2021	Ongoing charges figures	Transaction costs	Total of ongoing charges figures and transaction costs
The Scheme			
Our default investment arrangement (before ten years prior to normal retirement date*)	0.49%	0.03%	0.52%
Default investment arrangements proposed for the comparison schemes			
L&G Worksave Master Trust	0.34%	0.02%	0.36%
Aon Master Trust	0.35%	0.04%	0.39%
B&CE The People's Pension Master Trust	0.33%	0.05%	0.38%
Average of the three comparison schemes	*0.34%*	*0.04%*	*0.38%*

* The charges for the Scheme's default investment arrangement are at their lowest in the period prior to ten years before normal retirement date and do not change at any point during the period prior to ten years before normal retirement date.

The Trustees have given greater weight in the comparison to the total charges and transaction costs in the default arrangement than self-select funds in which smaller numbers of members are invested. We have weighted 100% of the comparison to the default investment arrangement since no self-select fund in the Scheme has sufficient members investing in it to be considered "popular" or "frequently invested" under the definition set out earlier in this section.

Our conclusion on costs and charges is that the majority of the total charges and transaction costs are higher than the average for the comparator schemes, but this is justified by higher investment returns (as shown in the next section), so it is reasonable to assume that the Scheme as a whole represents good value for members from the standpoint of costs and charges.

Test 2: Investment returns (fund performance)

The Trustees have gathered past performance of the investment options within the Scheme and included this in the earlier section entitled "Past performance of the investment options".

The Trustees have also gathered information about investment returns (after the deduction of any charges and transaction costs) for the investment options of the three comparison schemes and compared them with the net investment returns in the Scheme.

The Trustees have given greater weight in the comparison to the net investment returns in the default investment arrangement than self-select funds in which smaller numbers of members are invested. We have weighted 100% of the comparison to the default investment arrangement since no self-select fund in the Scheme has sufficient members investing in it to be considered "popular" or "frequently invested" under the definition set out earlier in this section.

We have, therefore, compared our default investment arrangement with the default investment arrangement proposed for each of the three comparison schemes.

The Trustees have compared net investment returns:

- in the short term (i.e. over a one-year period to the year ending 31 March 2022) to give an immediate indication of performance trend; and
- over a longer, more sustained, period for which broadly comparable data could be found (i.e. over a five-year period to the year ending 31 March 2022).

The Trustees plan to include longer-term performance (e.g. over 10 years and over 15 years) when this data is available.

A summary of the comparison is shown in the table below.

For the period to 31 December 2021	One-year net investment return (annualised)	Five-year net investment return (annualised)
The Scheme		
Our default investment arrangement (before ten years prior to normal retirement date*)	11.60%	7.10%
Default investment arrangements proposed for the comparison schemes		
L&G Worksave Master Trust	3.89%	4.99%
Aon Master Trust	12.60%	11.00%
B&CE The People's Pension Master Trust	6.87%	6.99%
Average of the three comparison schemes	*7.79%*	*7.66%*

Notes:

1. Figures have been collected for the periods to 31 March 2022 rather than to the Scheme year end of 5 April 2022 as this facilitates comparison with the quarter-end data provided by the comparison schemes.
2. Figures have been shown for the following strategies for each of the three comparison schemes:
   - L&G Worksave Master Trust: LGIM 2040-2045 Target Date Fund
   - Aon Master Trust: Aon Managed Retirement Pathway Funds
   - B&CE The People's Pension Master Trust: Balanced Investment Profile

Both the one-year and five-year net return figures for our default investment arrangement are either better than or broadly 'closely comparable' to the average of the comparator default investment arrangements, using the definition set out earlier in this section.

As a result of these, and after applying the weightings set out in the "Interpreting the updated statutory guidance" section, our conclusion on net investment performance is that the net investment returns across a majority of the funds offered by the Scheme in which members are frequently invested are closely comparable to the comparator schemes, so it would be reasonable to assume that the Scheme as a whole represents good value for members from an investment returns perspective.

Test 3: Governance and administration

The Trustees have assessed the value delivered by our governance and administration offering as the third and final part of our assessment of value for members.

Effective scheme governance is essential for the operational and financial sustainability of the Scheme, for good outcomes from investment, and for the trust and confidence of our members.

Our assessment for governance and administration is based on seven key metrics as prescribed by legislation. Unlike the assessments for costs and charges and for net investment returns, this assessment does not involve a comparison with other schemes. We have, however, taken advice from our pensions advisers as a reference for "best practice" and used this to explain our interpretation earlier in this section of the requirements set out in paragraphs 78 to 110 of the updated statutory guidance.

A summary of the comparison is shown in the following table.

Metric	Description	Rating	Main reason
1.	Promptness and accuracy of core financial transactions	Metric satisfied	The Trustees believe that the requirements of this metric have been met
2.	Quality of record keeping	Metric satisfied but steps to be taken to strengthen	The Trustees should finalise their Risk Register and continue with any plans to improve the Scheme-specific data scores
3.	Appropriateness of the default investment strategy	Metric satisfied	The Trustees believe that the requirements of this metric have been met
4.	Quality of investment governance	Metric satisfied	The Trustees believe that the requirements of this metric have been met
5.	Level of trustee knowledge, understanding and skills to operate the pension scheme effectively	Metric satisfied but steps to be taken to strengthen	The Trustees should consider evaluating the effectiveness of the Board at least annually and also consider formal quarterly Trustees' meetings
6.	Quality of communication with scheme members	Metric satisfied	The Trustees believe that the requirements of this metric have been met
7.	Effectiveness of management of conflicts of interest	Metric satisfied	The Trustees believe that the requirements of this metric have been met

Having considered all seven metrics within the theme of governance and administration, the Trustees have concluded that the overall governance and administration of the Scheme provides good value for members.

Final conclusions and points to note

The Trustees have concluded that the Scheme offered good value for members over the year to 5 April 2022, as set out in detail in this section.

It should be noted, though, that the value for members assessment under the new detailed framework may vary from year to year, as it is heavily determined by short-term and long-term assessments of relative costs and charges and relative net investment returns, which in themselves are heavily influenced by the choice of the three comparison schemes.

As a reminder, should the Trustees feel in any future year that we are not able to demonstrate that the Scheme delivers value for members on **all** three areas (costs and charges; net investment returns; administration and governance), then the updated statutory guidance – and The Pensions Regulator – would expect the Trustees to conclude that the Scheme does not provide good value for members under the updated statutory guidance.

If the Trustees were to conclude that the Scheme does not provide good value for members at any Scheme year end in the future, the updated statutory guidance – and The Pensions Regulator – would expect that the Trustees look to either:

- wind up the Scheme and transfer the rights of the Scheme members into a larger pension scheme; or
- set out the immediate action the Trustees will take to make improvements to the Scheme (if the improvements identified are not made within a reasonable period, for example within the next Scheme year, then the Trustees would be expected to wind up and transfer Scheme members' benefits to a larger pension scheme).

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[1] https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes/reporting-of-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-schemes-effective-from-1-october-2021

[2]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994897/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns.pdf

[3]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994897/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns.pdf