

**Hugh Steeper Limited Money Purchase Scheme**  
**Chair's Statement on DC Governance from 1 December 2018 to 30 November 2019**

This Chair's Statement ('Statement') has been prepared by the Trustees of the Hugh Steeper Limited Money Purchase Scheme ('the Scheme') to demonstrate how the Scheme has complied with the DC governance standards introduced on 6 April 2015 under The Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This Statement relates to the period from 1 December 2018 to 30 November 2019 and covers the following key areas:

1. Scheme Management, including the Trustees compliance with the statutory Trustee Knowledge and Understanding ('TKU') requirements
2. Investment governance of the Scheme's default arrangement
3. Charges, transaction costs and value for members within with the Scheme
4. Illustrations of the cumulative effect of these costs and charges
5. Administration, including the processing of core Scheme financial transactions

## **1 Scheme Management**

### Trustee Knowledge and Understanding

Upon appointment, and subsequently, the Trustees are made aware that they are required to maintain appropriate levels of trustee knowledge and understanding, both individually and collectively. This requirement is managed in a number of ways including:

- Newly appointed trustees are provided with a copy of the Pension Regulator's 'A guide for new trustees', Code of Practice 7 relating to Trustee Knowledge and Understanding (TKU) and scope guidance relating to Defined Contribution Schemes.
- It is strongly recommended that all newly appointed trustees complete the Pensions Regulator's eLearning trustee toolkit within 6 months of becoming a trustee and details of how the toolkit can be accessed are provided to a new trustee once appointed. The two Trustees newly appointed during the year will be working through the modules in line with this recommendation. Both the established Trustees and the two Trustees who stepped down during the year, having duly completed the trustee toolkit.
- Trustee training is a regular agenda item at Trustee meetings, with training provided by the Trustees' advisers, as appropriate. Updates on key pension issues and legislation are provided at each Trustee meeting by the Trustees' advisers and outside of meetings, when required.
- The Trustees of the Scheme are encouraged to attend external pension related seminars and events run by the investment manager and the Scheme's other professional advisers.
- The Trustees have access to a document portal which contains the key Scheme documents that the Trustees should be familiar with. The previous portal has been superseded by a new Trustee Gateway document repository site, with the migration of all relevant documentation completed during 2019.

In addition to the knowledge and skills within the Trustee board itself, the Trustees have also appointed a number of professional advisers who provide specialist support and advice. This includes the Scheme's administrators and auditors.

Pooling all these resources together means that the Trustees are well equipped to exercise their duties and manage the Scheme effectively.

A training log of Trustee training is maintained, and any training needs are identified as and when required.

#### Conflicts of duty or interest and Risk Management

Conflicts of duty or interest is a regular agenda item at the start of each Trustees meeting and, should any conflicts of duty or interest be declared by any Trustee, the required action will be decided by those present at the meeting. Such action may be for the conflicted Trustee to be excluded from the meeting or excluded from the particular item causing the conflict.

A table of potential conflicts is maintained along with a register of conflicts declared.

The Trustees also maintain a Risk Register which is reviewed at least annually.

## **2 Investment governance and Scheme's default arrangement**

The Statement of Investment Principles (SIP) was reviewed during 2019, agreed by the Trustees and signed on 11 September 2019. A copy of the SIP is included in Appendix A.

The updated SIP incorporates the change to the objective and benchmark of the L&G Consensus Index Fund with effect from 30 June 2016 to replicate LGIM's Multi-Asset Fund. The name of the fund changed to L&G Multi-Asset (formerly Consensus) Fund and the fund charge increased to 0.25% pa with effect from 31 July 2017.

The agreed process is for the Trustees to review the SIP usually once a year or immediately after any significant change in investment policy.

The Trustees' main aims with regard to investments, as detailed in the SIP for the Scheme dated 11 September 2019, are to make sure that they can meet their obligations to the members of the Scheme. This is achieved by the following:

- Ensuring there are a sufficient number of appropriate investment options available to allow the member to plan for retirement.
- Providing general guidance to the member, as appropriate, as to the suitability of each investment option.
- Providing a Lifestyle Investment Programme as default investment option.
- Encouraging members to seek independent financial advice from an appropriate person in determining the profile of their own investment.
- The Trustees continually reviewing the suitability of the options provided and, from time to time, change managers or introduce additional investment portfolios as appropriate.

Members who do not make an active investment decision on joining the Scheme have their contributions invested in the Lifestyle Investment Programme, which is the default investment fund for the Scheme. The member's fund will initially be invested 100% in the L&G Multi-Asset (formerly Consensus) Fund until five years prior to the member's target retirement date, when the member's fund will start to be switched gradually from the L&G Multi-Asset (formerly Consensus) Fund to a combination of the L&G Cash Fund and L&G Pre Retirement Fund. This automatic change in the investment funds close to retirement is aimed at reducing the risk that a member's retirement benefits could be adversely affected by either change in stock market levels or annuity rates at the time of their retirement.

The target retirement date will be a member's 65<sup>th</sup> birthday unless a member elects otherwise in writing.

In addition to the default investment fund, the Trustees also provide four self-select funds for members who wish to make their own choices, as follows: -

- Multi-Asset (formerly Consensus) Fund
- Pre-Retirement Fund
- Cash Fund
- Global Equity Fixed Weights (60:40) Index Fund

Trustees continue to receive a copy of LGIM's quarterly investment reports which include information on the performance of the funds.

During June 2019 the Trustees undertook a member survey in order to both refresh the views of the membership around the current investment options, and ascertain members wider understanding of pension benefit provision. The Trustees noted the following key findings from the responses received:

- A below average level of knowledge in regard to the memberships general understanding of pension benefit provision.
- A below average level of understanding of the different types of investments available, with only a small number of the respondents confirming that they felt confident in their understanding of the different types of investments available.
- Most members felt that a range of between 5 and 10 different types of investment fund should be available.
- A marginally higher number of members felt the Employer should provide access to more information and education generally about pensions and retirement planning.
- A significantly low number of members communicated that they were willing to meet any additional costs in relation to the provision of advice in relation to retirement planning.
- A below average number of members had accessed the Scheme's online member portal.
- Most members were in favour of a professional trustee, or trustees with specialist pensions knowledge, overseeing the management and governance of the Scheme.
- The overwhelming majority of members communicated that they would like to receive regular information about the Scheme and pensions-related news.

The Trustees felt that the results of the survey were broadly in line with expectations and will be reviewing ways in which to address the issues raised.

### **3 Charges, transaction costs and value for money**

Transaction costs and charges borne by members may have a significant impact on their pension savings, so it is important the Trustees keep the levels of these deductions under review.

#### Member-borne costs and charges

Since 1 December 2007, an administration charge has been deducted from each member's fund of 0.04% per calendar month (pcm) (based on the value of their fund), which is subject to a maximum monthly cap which is increased annually in line with increases in the Retail Prices Index (RPI) over the previous year. The maximum monthly administration charge cap applicable with effect from 1 December 2018 was £85.19 per month.

In addition, the current annual management charges applicable to the default and self-select investment funds are as set out in the table below.

<b>Investment Fund</b>	<b>Annual Management Charge (AMC)</b>
Multi-Asset (formerly Consensus) Fund	0.25% of fund
Global Equity Fixed Weights (60:40) Index Fund	0.16% of fund
Pre-Retirement Fund	0.15% of fund
Cash Fund	0.125% of fund

These charges are reflected in the unit price quoted by the investment manager, rather than being explicitly deducted from each member's fund. The actual costs borne by individual members depend on the fund, or combination of funds, that the members are invested in.

For members invested in the default arrangement, the level of member charge (AMC) will vary between 0.25% and 0.14% per annum depending on where the member falls within the lifestyle profile. As noted, these figures do not include the administration charge.

All other costs associated with the services required to operate the Scheme and support members, such as audit and communications, are met by the Principal Employer.

As the Scheme is being used as a qualifying scheme for automatic enrolment, the charge controls on DC schemes do apply.

#### Transaction costs

The Trustees understand that they are required to assess and understand the different types and levels of transaction costs that are incurred by the Scheme's investment funds and assess the value these costs deliver to members.

For all investment funds, including the default, there are additional charges incurred by members when choosing to transact between different funds. These charges are included by the investment manager within the unit price offered to members and depend on whether members are buying into, or selling out of, a fund. The fund charges and the pricing basis for each fund are described in the member booklet which all members can obtain on joining the Scheme, as well as in the individual fund factsheets which are available to members on LGIM's client website or from Goddard Perry, the Scheme's consultants.

The table below provides an estimate of the total explicit dealing costs incurred by each of the pooled funds over the year, after allowing for the dealing costs received by the pooled fund through the bid/offer spread from the dealing in units.

<b>Fund name</b>	<b>Explicit dealing costs (% within fund)</b>
Multi-Asset (formerly Consensus) Fund	Less than 0.01%
Global Equity Fixed Weights (60:40) Index Fund	Less than 0.01%
Pre-Retirement Fund	Nil
Cash Fund	Less than 0.01%

### Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

The "before costs" figures represent the projected pensions savings assuming an investment return with no deduction of member borne fees or transaction costs. In comparison, the "after costs" figures represent the projected pension savings using the same assumed investment return after deducting the member borne fees (i.e. the AMC) and an allowance for transaction costs.

An illustration is shown for the default option, the Lifestyle Investment Programme, as most members of the Scheme are invested in the default, as well as two funds from the Scheme's self-select fund range. The two self-select funds used for the illustrations are: -

- The fund with the highest before costs expected return – this is the Global Equity Fixed Weights (60:40) Index Fund.
- The fund with the lowest before costs expected return – this is the Cash Fund.

### **Projected pension pot in today's money**

Years from now	Lifestyle (most popular)		Global Equity 60:40 (highest return)		Cash (lowest return)	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£16,000.00	£16,000.00	£16,000.00	£16,000.00	£16,000.00	£16,000.00
1	£18,587.40	£18,459.37	£18,891.60	£18,769.87	£17,862.00	£17,760.74
2	£21,238.67	£20,961.32	£21,909.72	£21,641.62	£19,685.16	£19,474.69
3	£23,955.42	£23,506.60	£25,059.94	£24,619.05	£21,470.27	£21,143.07
4	£26,739.30	£26,096.01	£28,348.13	£27,706.10	£23,218.09	£22,767.05
5	£29,592.01	£28,730.32	£31,780.37	£30,906.85	£24,929.37	£24,347.78
10	£44,950.28	£42,604.08	£51,335.58	£48,770.19	£32,962.97	£31,640.72
15	£62,309.07	£57,727.23	£75,577.62	£70,183.76	£40,187.48	£38,008.15
20	£81,933.74	£74,215.57	£105,638.81	£95,860.46	£46,681.21	£43,563.55
25	£104,124.82	£92,195.57	£142,924.96	£126,656.38	£52,514.90	£48,406.50
30	£129,222.66	£111,805.46	£189,181.52	£163,599.46	£57,752.44	£52,624.39
35	£157,612.76	£133,196.21	£246,575.57	£207,951.12	£62,451.55	£56,293.87
40	£189,731.74	£156,532.82	£317,797.67	£262,096.29	£66,664.38	£59,482.25
45	£212,430.54	£171,441.04	£406,188.35	£328,676.14	£70,438.02	£62,248.55

### **Notes to illustrations**

- Values shown are estimates and are not guaranteed.
- Projected pension pot values are shown in today's terms.
- Inflation is assumed to be 2.5% each year.
- The starting pot size is £16,000.
- The starting salary is assumed to be £28,000.
- The projections assume that salaries increase in line with inflation to allow for prudence in the projected values.
- Contributions are assumed to be 8% per year (employee plus employer contribution).

## Value for money

It is the Trustees' policy to consider all member borne charges on a regular basis and to ensure that members are obtaining value for money. The Trustees understand that value for money does not necessarily mean the lowest fees, and the overall quality of the service they receive has been taken into account in the value for money assessment.

Overall, the Trustees believe that members of the Scheme are receiving good value based on the following criteria: -

- the day to day administration has in general been managed efficiently;
- although only a small range of funds are available to members these have performed in line with their stated objectives;
- members are able to view their pension savings via an online portal provided by the Scheme's administrator.

As part of the process to update their assessment, the Trustees revisited the outstanding areas previously identified where greater value for members could be added. The Trustees have also considered the responses to the member survey carried out in June 2019 and have been liaising with the Employer around whether to take any actions to try and improve value for money for members in these remaining areas; consider whether a second default fund should be introduced for members of the AE section; to consider whether more investment funds should be made available to members; and to review member communication in general.

## **4 Administration**

### Processing core financial transactions

The Scheme is open to active members and both member and employer contributions are paid across to the Scheme by the Principal Employer each month and are processed by the Scheme's administrator, HS Admin, on behalf of the Trustees.

The processing of core financial transactions are regularly monitored by HS Admin who have documented internal control procedures that help to ensure that core financial transactions are processed promptly and accurately. These include controls and procedures to manage the receipt and timely investment of contributions, the accuracy of investment allocations, payments of benefits as well as individual transfers out and investment switches managed as part of the life-styling arrangement.

The Trustees receive monthly cashflow and financial information from HS Admin which allows them to monitor the processing of core financial transactions, such as the receipt of monthly contributions, the investment of those contributions and payments from the Scheme to, or in respect of, members.

The Scheme's administrator, HS Admin, provides the Trustees with a governance report on administration issues at quarterly intervals. The Trustees use this information to review HS Admin's administration processing, including core financial transactions and performance against agreed service levels.

Any exceptions or issues with administration or transaction processing identified through the quarterly reporting will be discussed with HS Admin to identify the root cause and they will be asked to confirm what measures are being taken to improve the Scheme's processes in order to minimise the likelihood of repeat issues occurring and ensure transaction processing is as efficient as possible.

The Trustees review the information provided by HS Admin and consider whether it allows them to determine whether scheme processing is timely and accurate, or whether further reporting would be helpful in future.

In addition, the Trustees can also review HS Admin's administration assurance reports (AAF 01/06) which sets out their controls and the results of independent testing of those controls. The report also includes details of HS Admin's disaster recovery and business continuity plan.

Over the period covered by this Statement, the Trustees are satisfied that:-

- There have been no material administration errors in relation to processing core financial transactions; and
- All core financial transactions have been processed within a reasonable timeframe.

#### Scheme data and record-keeping

The Trustees in liaison with HS Admin will consider whether appropriate data is held regarding members of the Scheme. This review will ensure that "Common" and "Conditional" data, as defined by tPR, will be assessed and an improvement plan will be put in place if required.

As part of this process, HS Admin issued an 'Update Your Details Form' with the annual benefit statements as at 1 December 2016 to ensure that the "Common" data held for members is correct and up to date and to also obtain additional data, such as email address.

Following this exercise, the Scheme's Common data score was measured as at October 2018 and was confirmed to be 96%. It has been identified that the data fails relate to missing addresses and postcodes and following a review of these by the Employer's HR department, a tracing exercise using a specialist tracing organisation is being considered by the Trustees.

Signed



**Emma Harvey-Kitching**

**Date:** 24 June 2020

*Signed by the Chair on behalf of the Trustees of the Hugh Steeper Limited Money Purchase Scheme*