

THE SCONE ESTATES RETIREMENT BENEFITS SCHEME (THE "SCHEME")
ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 5 APRIL 2020
PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION
SCHEMES (SCHEME ADMINISTRATION) REGULATIONS 1996 (THE "REGULATIONS")

1. DEFAULT ARRANGEMENT

The Trustee has prepared a formal default arrangement Statement of Investment Principles, a copy of which is attached. Members of this Scheme may also have deferred Defined Benefit entitlement. All members are invested within the Scheme's default portfolio. The Scheme is not used as a Qualifying Scheme for auto-enrolment.

The aims and objectives of the default arrangement are noted below (with further details outlined in the Statement of Investment Principles).

- ▶ To maximise the return on the assets at an acceptable level of risk.
- ▶ Having an asset allocation aligned to the agreed risk profile.
- ▶ Ensure there is sufficient liquidity to meet any liabilities as they arise.

The strategy consists of two pooled funds accessed through the Phoenix Wealth platform and managed by Mercer Marsh Benefits (formerly Jardine Lloyd Thompson) ("**Mercer**"). The two pooled funds are the TEAMS Active Diversified Growth fund and the TEAMS Active UK Long Corporate Bond fund. The Diversified Growth portfolio consists of two Diversified Growth Funds provided by Baillie Gifford and Schroders. Kames Capital is the investment manager of the Active UK Long Corporate Bond fund. The investment manager selection of both funds is overseen by Mercer.

The Trustee will review the performance of the default arrangements regularly and during the Scheme year instructed a third-party advisory firm (Argyle Consulting Limited ("**Argyle**")) to complete a further review of the Scheme's default investments. The results of the review were outlined in a report of August 2019. The review highlighted some areas for further consideration:

- ▶ The individual components of the Diversified Growth portfolio had underperformed against their respective sectors.
- ▶ The asset allocation of the Diversified Growth funds was heavily weighted towards Fixed Interest, with the inclusion of the TEAMS Active UK Corporate Bond holdings, Fixed Interest holdings within the default portfolio amounted to 73%.
- ▶ There was a noted lack of diversification across the asset classes within the default portfolio.

Having considered the points raised in the investment review, the Trustee instructed Argyle to prepare a recommendation for an alternative investment strategy for the default portfolio. The recommendation was outlined in a report of November 2019. The Trustee subsequently accepted this recommendation and changes to the default portfolio will now be made.

Going forward, Argyle will provide the Trustee with a review of the default portfolio strategy and performance on a six monthly basis.

The revised strategy will be confirmed in the Annual Governance Statement for the Scheme year ending 5 April 2021.

2. CORE FINANCIAL TRANSACTIONS

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately.

The Trustee appoints a third-party scheme administrator, Mercer, to process core financial transactions including investment of member contributions, rebalancing member allocations, transfers out of the Scheme and disinvestment of member funds at retirement. The Trustee regularly reviews the movement of units within the Scheme and also reviews any significant disinvestments made from the Scheme to ensure transactions are processed timely and accurately.

Core financial transactions have been completed in a timely manner, accurately and within the parameters of the service level agreement ("**SLA**") which is in place. The SLA sets out timescales for processing core financial transactions, including the following:

- Setup of a member's pension: 10 working days from receipt of completed instructions.
- Payment of a cash sum: 7 working days from receipt of completed instructions.
- Payment of contribution refund upon death of active member: 10 working days from notification of death and confirmation of recipient.
- Set up of dependants' pensions: 15 working days from receipt of completed instructions.
- Payment of contribution refund upon death of deferred member: 15 working days from notification of death and confirmation of recipient.
- Payment of balance of pension instalments as a cash lump sum: 10 working days from notification of death and confirmation of recipient.
- Payment of contribution refund for leavers: 15 working days from the later of (i) receipt of notification of leaving or (ii) actual date of leaving.
- Payment of transfer value (including for divorce purposes): 15 days from the receipt of notification.

The Trustee maintains a cash management policy and receives administration reports on a regular basis, in order to monitor the core financial transactions and ensure no issues arise. The cash management policy includes the following provisions:

- The Scheme bank account balance is reviewed at the beginning of each quarter. The target balance of the account is no less than £10,000 at any given time. If the account balance is below that figure, a disinvestment from the Scheme assets may be made if necessary.
- Pensioner payments are made on the first day of each month (or on the last business day prior to the first).
- Contributions payable under the Schedule of Contributions agreed between the Scheme employer and the Trustee every three years (the "**Schedule of Contributions**") are payable no later than the 19th of the following month.
- Mercer is authorised to manage all payments on the Trustee's behalf to and from the Scheme bank account. Disinvestments from the Trustee's long-term assets require Trustee authorisation.
- The policy also sets out other events which can occur and which may require further cash flow management, namely normal retirements, early retirements, transfer values and deaths of members.

In light of the above, the Trustee considers that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

3. CHARGES AND TRANSACTION COSTS

The Defined Contribution ("**DC**") assets are held in two single priced unitised funds where the total Annual Management charges ("**AMCs**") are 0.65% and 1.05%. Across Scheme assets this equates to a weighted AMC of 0.81%. The funds are actively managed by all fund managers (Baillie Gifford, Schroder & Kames Capital). In addition, Mercer Marsh Benefits provide investment management consultancy services for an annual charge of 0.15%, for which they will conduct regular rebalancing, monitor performance and replace the underlying fund managers (should changes be required). With the inclusion of the investment advisory fee, the overall weighted AMC is 0.96%. The Scheme is not subject to the statutory AMC cap of 0.75%, as no contributions were made to the Scheme on or after 6 April 2015.

The charges are summarised in the table below.

Fund	Annual Charge
TEAMS Diversified Growth Strategy	1.05%
TEAMS Active UK Long Corporate Bond Fund	0.65%
Weighted Average	0.81%
Marsh Mercer Benefits Consultancy Service Charge	0.15%
Total Weighted Average	0.96%

There are no explicit transaction costs, as all costs are built into the single-priced units, which have AMCs payable as detailed above.

A significant proportion of the DC funds held by the Trustee in respect of members are also underpinned by a guarantee of defined benefit entitlements, as defined in the governing documentation of the Scheme. The Trustee selected funds primarily with a view to meeting that target.

The review work which the Trustee instructed Argyle to complete indicated that the existing costs are reasonable and in line with other trust-based schemes.

When assessing value for money, the Trustee has considered various factors such as form of investment management, investment performance, design of default and Scheme administration. The Trustee has concluded that the strategy should be amended in line with the recommendations of Argyle. These amendments are being made in the year ending 5 April 2021. The Trustee will continue to monitor value for money for members and will confirm the outcome of the further analysis in the Annual Governance Statement for the Scheme year ending 5 April 2021.

4. CUMULATIVE EFFECT OF CHARGES

The compounding effect of charges that are taken out of a member's fund over a period of time can reduce the amount available to the member at retirement. The Trustee has set out below illustrations of the impact of charges.

Illustrations for an "Average" member		
	Default Strategy	
Years from now	Before charges	After charges deducted
1	£25,146	£24,913
3	£25,442	£24,740
5	£25,740	£24,568
10 (retirement)	£26,503	£24,144
Assumptions		
As each member has a different amount of savings within the Scheme and the amount of any future investments returns and charges cannot be known in advance, the Trustee had to make some assumptions about what these might be. The above illustrations have been produced for an "average" member of the Scheme based broadly on the Scheme's membership data. The "Default Strategy" illustration assumes the member's asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member's assets are invested in those funds up to the Scheme retirement age. The results are presented in real terms, i.e. in today's money, to help members have a better understanding of what their pension pot could buy in today's terms, should the funds be invested as shown.		
Age	55 years (approx. average age of scheme's membership)	
Scheme Retirement Age	65	
Starting Pot Size	£25,000 (approx. average pot size of the scheme's membership)	
Inflation	2.5% p.a.	
Estimated future nominal returns on investment:		
Default Strategy		
o TEAMS Diversified Growth Fund	4.0% p.a.	
o TEAMS Active UK Long Corporate Bond Fund	2.5% p.a.	

The “Before charges” figures represent the savings projection assuming an investment return with no deduction of charges. The “After charges deducted” figures represent the savings projection using the same assumed investment return but after deducting charges. The illustration is based on the default portfolio. Values shown are estimates and are not guaranteed.

The Trustee will continue to review the suitability of the illustration assumptions with regard to the duration, pot size and estimated returns to ensure that these are reflective of the scheme demographics and default portfolio.

Although no formal value for money assessment has been carried out over the reporting period, the Trustee has a good understanding of the membership demographics of the Scheme and as such has a view as to what good member outcomes should look like for the Scheme’s members in aggregate. We understand that value for money does not necessarily mean selecting the cheapest offer and in our ongoing reviews of value for money we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds. With this in mind, the Trustee has assessed the fees disclosed above and we are satisfied that we have negotiated a good deal for members and that the stated explicit charges for the Scheme’s funds represent good value for money in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile.

The Trustee will continue to review value for money and will report on the revised costs, services and performance of the new default portfolio in the Annual Governance Statement for the Scheme year ending 5 April 2021.

The Trustee has liaised with the principal employer to set up processes to publish relevant information on the costs and charges of the default arrangement and will notify members about this in their annual benefit statements.

5. TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trustee is mindful of developing the required level of knowledge and understanding introduced in the Pensions Act 2004. The Trustee receives advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance and selecting new advisors.

The Trustee directors have significant experience of sitting on the Trustee Board for the Scheme and, together with the advice provided by advisers and service providers, that enables them to properly exercise their functions as directors of the Trustee of the Scheme. The Trustee directors have a good working knowledge of the Trust Deed and Rules of the Scheme, and a sufficient level of knowledge and understanding of the law relating to pensions and trusts: in particular, the Scheme’s professional trustee, MacRoberts Trustees Limited, is comprised of personnel of the Scottish law firm MacRoberts LLP, including pension law specialists. Those specialists regularly stay up to date on legal developments in the course of their work and undertake verifiable training on a regular basis, including attending CPD seminars arranged by the Association of Pension Lawyers, each completing The Pensions Regulator’s Trustee Toolkit, and each obtaining the Pensions Management Institute’s Award in Pension Trusteeship. Hugh Younger also has extensive experience in the administration of trusts.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustee directors consider that they can properly exercise their functions as Trustee directors of the Scheme.

6. GOVERNANCE STATEMENT

As Trustee of the Scheme we have reviewed and assessed our systems, processes and controls across key governance functions, and we are satisfied that these are consistent with those set out in The Pensions Regulator’s “Code of Practice 13. Governance and administration of occupational defined contribution trust-based schemes and regulatory guidance for defined contribution schemes”.

They are underpinned by the DC quality features set out by The Pensions Regulator.

Based on our assessment, we believe that we have adopted the standards of practice set out in the DC Code of Practice 13 and associated DC regulatory guidance.

This Annual Governance Statement regarding DC governance was approved by:



(Martyn Shaw, Director)

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Chair of Trustee

MacRoberts Trustees Limited

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Name

27 October 2020

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Date