

THE SCONE ESTATES RETIREMENT BENEFITS SCHEME (THE "SCHEME")
ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 5 APRIL 2021
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 and there are no Defined Contribution AVC funds.

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 (broadly agreed to be 55% of funds invested in matching assets and the remaining 45% invested in return seeking assets).
- ▶ Ensure there is sufficient liquidity to meet any liabilities as they arise.

The default investment strategy was amended during the scheme year following advice from Argyle Consulting Limited ("Argyle"). The review work was documented in a series of reports, the final one of which was produced in November 2019. The original strategy had consisted of two pooled funds accessed through the Phoenix Wealth platform and managed by Mercer Marsh Benefits. The Annual Governance Statement for the year ending 5th April 2020 confirmed that a review of the default strategy had been carried out by Argyle, which highlighted various areas for consideration (including asset allocation, diversification and underperformance). Having considered the points raised by the review, the Trustee implemented a new default investment strategy recommended by Argyle which aims to address the various points raised in the review. The revised default strategy currently consists of a diversified portfolio of seven funds which are held within a General Investment Account on the Transact platform. The funds were transferred to Transact on 8th March 2021 and the amendments to the default investment strategy were completed on 9th April 2021.

The Trustee will review the performance of the default arrangement regularly with assistance from Argyle, who will provide quarterly valuations and a review of the default portfolio strategy and performance on a six monthly basis.

Any amendments to the default strategy will be detailed in the Annual Governance Statements.

2. CORE FINANCIAL TRANSACTIONS

There were some delays in the scheme administrator providing member information however all core financial transactions have been processed promptly and accurately and therefore the Trustee can confirm that the requirements of regulation 24 of the Regulations have been met.

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 requests for disinvestment of member funds at retirement. The Trustee regularly reviews the movement of funds 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 Transact portfolio may be made if necessary. Argyle provide advice in relation to which assets to disinvest and arrange for these to be processed online on receipt of Trustee authorisation. All disinvestments from the Transact portfolio are paid to the trustee bank account.
- ▶ 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 Transact portfolio 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

As at 5th April 2021, the Defined Contribution (“DC”) assets were held in a Transact portfolio which currently consists of seven funds. The charges for this strategy are made up of a platform charge, fund management charges specific to each investment fund and an adviser charge. The charges currently applicable are detailed in the table below.

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.

Annual Fund Management Charges			
	Fund Charge	Transaction Charge	Total Annual Charge
Lyxor iBoxx GBP Liquid Corporate Long Dated ETF	0.09%	N/A	0.09%
Ruffer Total Return	1.50%	0.02%	1.52%
Royal London Sustainable Diversified Trust	0.75%	0.02%	0.77%
Vanguard Global Equity	0.48%	N/A	0.48%
Capital Gearing GC Trust	0.45%	0.12%	0.58%
BMO Universal MAP Cautious	0.25%	N/A	0.25%
Baillie Gifford Positive Change	0.50%	0.03%	0.53%
Total Weighted Average Fund Charge	0.42%		
Annual Platform Charge			
Transact Platform	0.18%		
Annual Adviser Charge			
Argyle Consulting Limited	0.70%		
Total Annual Charge	1.30%		

The annual charges noted above were provided by Transact (who were unable to provide charging information averaged over a 5 year period).

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.

When assessing value for money, the Trustee has considered various factors such as form of investment management, investment performance, charges, design of default and Scheme administration. Following the review work prepared by Argyle Consulting Ltd, the Trustee concluded that the strategy should be amended in line with the recommendation and this completed in April 2021. The revised strategy facilitates the following:

- ▶ Extensive range of investment options and strategies
- ▶ Competitive charging structure
- ▶ Quality support services including Trustee online access and the ability to process fund switches and disinvestments online (all disinvestments must be paid to the Trustee Bank Account)

The Trustee will continue to monitor value for money for members, including performance and charges, and will confirm the outcome of the further analysis in the Annual Governance Statement for the Scheme year ending 5 April 2022.

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 (age 54)		
	Default Strategy	
Years from now	Before charges	After charges deducted
1	£31,800	£31,400
3	£33,600	£32,400
5	£35,600	£33,500
11 (retirement)	£42,400	£37,000
Illustrations for the youngest member (age 39)		
	Default Strategy	
Years from now	Before charges	After charges deducted
1	£31,800	£31,400
2	£33,600	£32,400
5	£35,600	£33,500
10	£41,200	£36,400
15	£47,600	£39,600
20	£55,000	£43,000
26 (retirement)	£65,400	£47,500
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. The illustrative funds are rounded to three significant figures.		
Age	54 years (<i>approx. average age of deferred scheme members</i>) 39 years (<i>age of youngest deferred scheme member</i>)	
Scheme Retirement Age	65	
Starting Pot Size	£30,900 (<i>approx. average pot size of the scheme's membership</i>)	
Inflation	2.5% p.a.	
Estimated future nominal returns on investment:		
Default Strategy	5.5% 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 charges 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 the portfolio constituents 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 this in the Annual Governance Statements.

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.

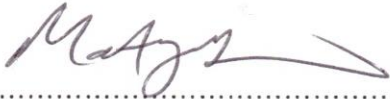
6. GOVERNANCE STATEMENT

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:



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Chair of Trustee

Martyn Shaw (Director, MacRoberts Trustees Limited)

~~as director of Mansfield Estates Pension Trustees Limited~~, as Trustee

Name

Date 5 November 2021