Appendix A: Annual governance statement for the year ended 5 April 2021

The Gates UK Pension Scheme
– Defined Contribution Section
– Defined Contribution (Gripperrods) Section

Annual governance statement by the Chair of Trustee for the year ending 5 April 2021

For the purposes of this annual governance statement, the representatives of Capital Cranfield Trustees Limited, Christopher Clayton and Steve Godson, are referred to as 'the Trustees'.

Introduction

Governance standards apply to defined contribution pension arrangements. These standards are designed to help members achieve a good outcome from their pension savings.

As a professional trustee at Capital Cranfield Trustees Limited, the Independent Trustee of 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 Defined Contribution Section and the Defined Contribution (Gripperrods) Section. The information included in my statement is set out in law and regulation.

The Trustees are committed to having high governance standards and the Trustees meet regularly to monitor the controls and processes in place in connection with the Scheme investments and administration.

The worldwide spread of Coronavirus, or COVID-19, occurred during the Scheme year. The Trustees would like to reassure members that:

- 100% of the Buck administration team are equipped for home-working and able to access in-office phone and computer systems and have been since Monday, 23 March 2020; and
- Prudential has also reacted to Covid-19, with all of Prudential's UK offices closing to all but essential workers in mid-March 2020 and Prudential staff working from home have had access to the full set of support systems and necessary equipment to do their jobs and continue making payments, managing investments and looking after all plans and policies for their customers.

Now that the UK is coming out of lockdown, Buck and Prudential have both confirmed that they are following Government advice and that their administration teams are mostly continuing to work from home. Buck and Prudential also note that they are experiencing significantly higher volumes of calls and online queries, meaning that some calls or queries may experience longer delays than previously experienced. Finally, both Buck and Prudential are encouraging members to use their online services in the first instance if members wish to get information about their benefits.

Assisted by our advisers and through hosting virtual meetings, we are continuing to monitor the impact of the pandemic on the Scheme, particularly on ongoing investment returns, administration standards, member support service levels and the ability of the Company to pay contributions on time and fulfil other financial obligations.

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

Default investment strategies

The Trustees are responsible for investment governance. This includes having a good working knowledge of investment matters relating to the Scheme and setting and monitoring any default investment strategies within the two sections. We take professional advice from regulated investment advisers and have appointed fund managers to manage any DC investments.

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

However, there was also one other default arrangement during the Scheme year applicable to a small number of members as a consequence of the effect of COVID-19 on the LGIM Managed Property Fund, which temporarily closed to all trading in 2020 due to uncertainties caused by COVID-19. All LGIM Managed Property Fund contributions paid over from March 2020 to September 2020 were redirected into the LGIM Cash Fund, unless members selected an alternate arrangement. This made the LGIM Cash Fund a default arrangement for the Scheme under legislation during this period and therefore the LGIM Cash Fund was also subject to certain additional legal requirements over the same period (i.e. comparing against the 0.75% charge cap and including it in reviews of the default investment arrangements). With the lifting of the suspension in October 2020, contributions made from October 2020 onwards, as well as any contributions temporarily invested in the LGIM Cash Fund, have since been redirected back into the LGIM Managed Property Fund, unless the Trustees were directed otherwise by the members.

There is no default investment strategy for the Defined Contribution (Gripperrods) Section, as this section is not being used as the relevant qualifying scheme for any members for the purposes of automatic enrolment, although the vast majority of members have all of their Gripperrods funds invested in the Prudential With Profit Fund.

The Prudential UK Property Fund was also temporarily closed to all trading due to uncertainties caused by COVID-19, although no Defined Contribution (Gripperrods) Section members held any savings in this fund. The Prudential UK Property Fund and a number of other funds were also closed on 1 February 2021, although Defined Contribution (Gripperrods) Section members were unaffected.

Setting an appropriate investment strategy

At the time of writing this statement, we have chosen to replace the Lifestyle Option for Annuities with a new Options Open Lifestyle Profile as the default strategy for the Defined Contribution Section. We have chosen this new lifestyle option as the default strategy for the Defined Contribution Section because we anticipate that more members of this section will wish to access the additional flexibilities offered at retirement via the Freedom and Choice legislation and not just purchase an annuity for life or take a single cash lump sum at retirement.

The Options Open Lifestyle Profile has the aim of reducing the volatility of returns and protecting some part of the capital value, whilst keeping options open for members who will likely not know until very close to retirement how they intend to take their benefits.

When deciding on the Options Open Lifestyle Profile as the default investment strategy, the Trustees recognised that the majority of members do not take active investment decisions and instead invest in the default option. Therefore, the Trustees' primary objective in deciding on an investment strategy is to ensure that the strategy is appropriate for the Defined Contribution Section's membership profile, taking into account factors such as the age, planned retirement date and projected pot size at retirement for a typical member.

When choosing the default strategy, it is the Trustees' policy to consider a range of asset classes, together with their expected returns (and the expected volatility of those returns), the suitability of styles of investment management and the need for diversification. The Trustees also recognise that there are various investment and operational risks and so gives qualitative and quantitative considerations to such risks.

Further details of the strategy and objectives of the default investment arrangement are recorded in a document called the Statement of Investment Principles. A copy of the latest Statement of Investment Principles is attached to this statement.

Reviewing the default investment strategy

The Trustees are expected to review the strategy, objectives and performance of the Defined Contribution Section default investment strategy regularly – at least once every three years – and take into account the needs of the Defined Contribution Section's membership when designing it.

The last review of the default investment strategy for the Defined Contribution Section was undertaken in October 2020. This review was in line with the three-yearly cycle for reviewing the default investment strategy and the Trustee also used the review to consider the current at-retirement allocation of the default investment strategy and also consider whether to introduce a new responsible investment fund for members to self-select.

This review has resulted in changes that will apply from 1 October 2021 that include:

- The introduction of the new lifestyle strategy, the Options Open Lifestyle Profile;
- The replacement of the Lifestyle Option for Annuities as the default investment strategy by the Options Open Lifestyle Profile, with the Lifestyle Option for Annuities and the Lifestyle Option for Cash Lump Sums being retained as alternative lifestyle strategies that members can select; and
- The introduction of one additional self-select fund – the LGIM Future World Multi-Asset Fund.

These decisions involved taking advice from the Trustees' investment consultant. The Trustees considered the membership profile of the Scheme, the risk profile and the number of investment funds offered to members.

The Trustees continue to review the investment objectives and the performance of the Defined Contribution Section's default investment strategy on a regular basis, taking advice from the Trustees' investment consultant. The objective of the new default investment strategy is to provide investment growth by investing in return seeking assets in the LGIM Diversified Growth Fund with a moderate risk profile, with a gradual switching of assets over the seven years before the member's expected retirement date, towards a final position of 50% in the LGIM Diversified Fund, 25% in the LGIM Pre-Retirement Fund and 25% in the LGIM Cash Fund.

In addition to the three-yearly strategy review, the Trustees receive quarterly reports from LGIM on the performance of the default funds (including those that form part of the default investment strategy) and compares this against the fund's performance objective and benchmark. While the new default investment strategy has not been introduced yet, the Trustees are satisfied overall that the previous default investment strategy and overall investment strategy met their aims and objectives. Both the growth phase and the consolidation phase of the previous default investment strategy consistently met objectives appropriate for the relevant stages of the lifestyle. The Trustees have been monitoring – and will continue to monitor – members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

Self-select investment choices

In addition to the default lifestyle profile and the two alternative lifestyle profiles available to Defined Contribution Section members from 1 October 2021, the Trustees also allow these members to self-select from the following range of LGIM funds:

- the LGIM Managed Property Fund;
- the LGIM Global Equity Fixed Weights (60:40) Index Fund;
- the LGIM Diversified Fund;
- the LGIM Pre-Retirement Fund;
- the LGIM Future World Multi-Asset Fund; and
- the LGIM Cash Fund.

Members of the Defined Contribution (Gripperrods) Section of the Scheme self-selected the following range of Prudential funds over the Scheme year:

- Prudential With-Profits Fund;
- Prudential Discretionary Fund; and
- Prudential UK Equity Fund.

The following funds were closed to new monies by Prudential on 1 February 2021:

- Prudential Cash Fund;
- Prudential Fixed Interest Fund;
- Prudential Global Equity Fund;
- Prudential Index-Linked Fund;
- Prudential International Equity Fund;
- Prudential UK Property Fund;
- Prudential Discretionary Fund (although Defined Contribution (Gripperrods) Section members were unaffected as no further contributions are being made); and
- Prudential UK Equity Fund (although Defined Contribution (Gripperrods) Section members were unaffected as no further contributions are being made).

Members are expected to take independent financial advice before choosing between these funds. Any members considering switching funds should consider the risk involved and take any advice they feel is necessary. Free impartial guidance is available from MoneyHelper, the Government's free and impartial financial guidance service. Visit their website at https://www.moneyhelper.org.uk.

Charges and transaction costs paid by members

The Trustees are required to explain the charges that are paid by Defined Contribution Section and Defined Contribution (Gripperrods) Section members, as well as the transaction costs.

In the Scheme, Defined Contribution Section and Defined Contribution (Gripperrods) Section members typically pay for investment management and investment transactions, while the employer pays all the other costs of running the Scheme, such as administration and governance.

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 the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges). The charges for the default investment strategy are compared against the 0.75% charge cap set by legislation.

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

- Finally, the Trustees would also like to note the presence of indirect property expenses for the Managed Property Fund and the Diversified Fund. These are expenses incurred indirectly when part of the portfolio is invested in one or more pooled funds with direct property exposure. These are also implicit costs which are not typically visible to members and are not compared against the 0.75% charge cap set by legislation – instead, the reported performance of the fund is also typically net of these costs.

Defined Contribution Section
The level of charges and transaction costs applicable to the funds within the Defined Contribution Section's default investment strategy during the Scheme year (i.e. whilst the Lifestyle Option for Annuities remained the default investment strategy) were confirmed by LGIM as being:

	Direct charges	Indirect charges	Total ongoing charges	Transaction costs[1]	Indirect property expenses
Diversified Fund	0.30%	0.02%	0.32%	-	0.03%
Pre-Retirement Fund	0.15%	-	0.15%	0.04%	-
Cash Fund	0.125%	-	0.125%	-	-

The level of charges and transaction costs applicable to the Defined Contribution Section's other investment funds during the Scheme year were confirmed by LGIM as being:

	Direct charges	Indirect charges	Total ongoing charges	Transaction costs[1]	Indirect property expenses
Managed Property Fund	0.74%	0.12%	0.86%	0.11%	0.70%
Global Equity Fund	0.16%	0.03%	0.19%	-	-

We will provide further information on the charges and transaction costs for the LGIM Future World Multi-Asset Fund in next year's annual governance statement.

Defined Contribution (Gripperrods) Section
The level of charges and transaction costs applicable to the funds used by members within the Defined Contribution (Gripperrods) Section during the Scheme year were confirmed by Prudential as being:

	Direct charges	Indirect charges	Total charges	Transaction costs[2]
With-Profits Fund	unknown[3]	unknown[3]	unknown[3]	0.10%
Discretionary Fund	0.75%	-	0.75%	0.06%
UK Equity Fund	0.75%	0.01%	0.76%	(0.03%)

Completeness of transaction cost information (both sections)

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. Following identification of some shortcomings in the data provided for the last Scheme year, the Trustees asked for LGIM and Prudential to improve the data they provided for this Scheme year or explain why improvements were not possible.

The Trustees are pleased to say that there have again been improvements in the quality and completeness of the costs and charges information provided this year compared to last year, although we provide some notes overleaf.

[1] A charge in (brackets) is effectively a negative cost i.e. it boosts net return, rather than detracting from it. A 0.00% transaction cost figures doesn't necessarily mean zero transaction costs but could mean that costs are exactly offset by negative costs.
[2] Prudential have provided the average transaction costs for as long a period as is available in the last 5 years
[3] The With-Profits Fund has no explicit annual management charge as the bonuses are paid net of any charges – see comments overleaf

Defined Contribution Section

- LGIM have not provided data for the Scheme year – instead, they have provided information for the period 1 April 2020 to 31 March 2021, although they did use the Cost Transparency Initiative's templates. LGIM have not provided transaction costs prior to 1 January 2018.

- LGIM have confirmed that transaction cost data was available for 100% of each fund under management, the first year that this has been achieved.

- In addition, LGIM also confirmed that where the arrival price was not available, the implicit cost was calculated as the difference between the price at which a deal was struck and the mid-market opening price on the day of the trade. Where the mid-market opening price was not available, the mid-market previous closing price was used. Where the previous mid-market closing price was not available, a fixed fee was used to estimate the implicit costs of each trade.

Defined Contribution (Gripperrods) Section

- Prudential have not provided data for the Scheme year – instead, they have provided information as at 22 March 2021. They did not use the Cost Transparency Initiative's standardised templates but instead provided a link to the following website https://www.pru.co.uk/trustees/search-schemes/#/W081, which also contained wider information about this section, including suggested example cost/charges illustrations (which Prudential had refused to provide to the Trustees for the last Scheme year), although we have not used these illustrations in this statement – see Appendix A.2 for more details.

- Prudential have not provided transaction costs prior to 1 January 2018 and were not able to provide figures or explanations for missing elements for their funds, unlike LGIM.

- Prudential again could not provide a figure for the implicit charges of the With Profits Fund over the Scheme year. However, the Trustees note that annual statements sent to members by Prudential as at 4 April 2021 contained a total ongoing charge of 1.00% over the year to 4 April 2021. In addition, Prudential's own cost/charges illustrations for 2021[4] allow for a total ongoing charge of 1.37% per annum. This appears to contradict a statement from the Chair's Governance Statement for the Prudential Corporate Pensions Trustee Limited for the period to 17 March 2021[5] that members should be charged no more than 1.25% per annum for the With-Profits Fund.

The Trustees are continuing to review our processes for monitoring transaction costs across LGIM and Prudential and will again be discussing with the managers their ability to provide complete and historic information for all of the funds in future.

Examples of the impact of costs and charges
Over a period of time, the charges and transaction costs that are taken out of a member's retirement savings can reduce the amount available to the member at retirement. 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.2, having taken account of the statutory guidance issued by the Department of Work and Pensions[6] in preparing this section of our statement.

[4] https://www.pru.co.uk/pdf/GENM891702_PSPNNC.pdf

[5] https://www.pru.co.uk/pdf/GENM443101.pdf

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

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, for the Defined Contribution Section and to Prudential for the Defined Contribution (Gripperrods) Section. 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. Buck is required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustees and in accordance with the Scheme's trust deed and rules. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

This administration service includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances. In order to monitor this service, the Trustees receive 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 (Buck monitors the bank account on behalf of the Trustees and checks it as a minimum on a twice-weekly 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.

Although Buck has targets in place within the Service Level Agreements around such items as the monitoring of bank accounts, investment and banking transactions, investment switches, etc, the Trustees identified last year that improvements could be made to the statistics provided on targets and timescales and the level of service provided in comparison to these targets and timescales.

Buck has taken on board our request, developed these improvements and has been recording 'core financial transaction' performance from the third quarter of 2020, with reporting in administration reports due to be introduced from Autumn 2021 onwards. Early indications are that around 90% of 'core financial transactions' within the Defined Contribution Section were completed within target over the period 1 July 2020 to 31 March 2021.

In the meantime, as administrator, Buck provide 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 this at each Trustee meeting for which the report is available, noting any specific issues that have arisen with the administration services provided (covering core financial transactions and member processing, including any that are historic and relate to prior Scheme years). The Trustees did note that the proportion of death cases processed within the 5-day target was lower than the SLA and also noted 16 breaches of statutory timescales. These were mainly as a result of delays in Buck receiving the necessary documentation to proceed – Buck will continue to monitor such delays and report them to the Trustees through regular administration reports.

Barring these cases, there were no material administration service issues discussed in the last Scheme year which need to be reported here by the Trustees. In advance of the specific reporting being introduced by Buck later this year, the Trustees are satisfied that, over the period covered by this statement, all core financial transactions were processed promptly and accurately and within a reasonable time.

Finally, the Trustees noted that Prudential upgraded their IT systems in November 2020, which caused some short-term processing issues as the Prudential staff became familiar with the new systems. However, the Trustees do not believe that these caused any material administration service issues for the Defined Contribution (Gripperrods) Section members over the last Scheme year. Overall, the Trustees are confident that the processes and controls in place with Buck and Prudential 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.

The Trustees, currently Christopher Clayton and Steve Godson, are professional trustees who meet all the knowledge and understanding requirements and understand the Scheme and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the statement of investment principles and the documents setting out the Trustees' current policies. The Trustees are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes.

The Trustees do this by regularly reviewing the relevant Scheme documents via the Scheme's online portal and seeking advice from the Scheme's lawyers on matters of interpretation.

The Trustees take their training and development responsibilities seriously and both keep a record of the training completed. The Scheme training log is reviewed at each Trustee meeting to identify any gaps in the knowledge and understanding across the Trustee Board as a whole. Both of the Trustees have completed the Pensions Regulator's on-line trustee toolkit. The Trustees must review the toolkit on an on-going basis to ensure their knowledge remains up to date.

There have not been any new Trustees in the course of the Scheme year, and Capital Cranfield has an induction process in place by which new Trustees are, for example, required to complete the toolkit within 6 months after joining.

Capital Cranfield Trustees Limited keeps a central log of the training completed by the Trustees and provides copies to Buck on an annual basis. Both of the Trustees are accredited members of the Association of Professional Pension Trustees ('APPT') and continue to meet the APPT requirement that all members undertake and record a minimum of 25 hours' Continuing Professional Development activity each year.

The Trustees receive "on-the-job" training. This means that as new topics arise, their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests as well as training during the meeting, so that the Trustees may engage on such topics in an informed manner. 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.

The Trustees also receive training relating to all aspects of pension trustee activities at training days organised within Capital Cranfield, as well as attending conferences organised by, for instance, advisers and fund managers. The performance and effectiveness of the Trustees is measured against the Scheme's business objectives by regular peer reviews.

During the Scheme year, specific training on the following topics took place:

- Statements of Investment Principles – regulatory update; and
- A review of the DC investment strategy for the Defined Contribution Section.

In addition, Buck supply the Trustees with regular DC Topical Digests and briefing notes at each Trustee meeting, which are read by the Trustees.

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 Trustee to 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 member-borne costs and charges within the Defined Contribution Section and the Defined Contribution (Gripperrods) Section represent good value for members when compared to other options available in the market.

Based on our assessment, we conclude that:

- the Defined Contribution Section offers satisfactory 'value for members' over the Scheme year to 5 April 2021, when measured against the definition required by legislation; and
- when we take into account wider elements of value that members receive as a result of costs paid by the Principal Employer, including the generosity of employer contributions, we have concluded that the Defined Contribution Section also offered satisfactory 'value for money' overall over the Scheme year.

There are areas where overall 'value for money' could be improved for members and the Trustees plan to perform further investigations into these areas and take action where appropriate, over the year to 5 April 2022.

However, as per last year, we have concluded that the Defined Contribution (Gripperrods) Section offers poor value for members, primarily due to the nature of the With-Profit Fund and the fact that the charges on the unitised funds are not competitive against the charges within the Defined Contribution Section.

Appendix A.3 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.

Follow-on actions and investigations

For the Defined Contribution Section, the Trustees' focus is on maintaining the value for members and identifying if further improvements can be made. Over the year to 5 April 2022, the Trustees will continue:

- Monitoring the impact of the COVID-19 pandemic on the Defined Contribution Section, particularly on ongoing investment returns, administration standards, member support service levels and the ability of the Company to pay contributions on time and fulfil other financial obligations;
- Reviewing the at-retirement tools/guidance/advice provided to members, as well as the options available within or outside the Scheme;
- Reviewing how analysis or understanding of Scheme members (and their views) feeds into Trustee decision-making;
- Using communication messages/approaches tailored to different segments of the membership and utilising alternative media, such as an online Member Portal;
- Implementing the new default investment strategy and additional self-select fund;
- Liaising with the fund managers to ensure that complete and accurate disclosure of transaction costs is provided, in line with FCA rules;
- Liaising with Buck to receive further regular reporting on service levels and processing of financial transactions; and
- Discussing this statement and any underlying analyses with the Company to obtain their views.

For the Defined Contribution (Gripperrods) Section, the Trustees will continue their exercise of assigning members' funds to the individual members themselves, accompanied by supporting communications to remind members of the features of this Section and the choices available. This will transfer legal ownership of the holdings from the Scheme to the individual by creating a policy for the individual. Over the year to 5 April 2022, the Trustees will continue the process of assignment until all members have had their funds assigned to them.

Feedback

If you have any questions about anything that is set out in this Statement, or any suggestions about what can be improved, please do let us know.

Signed for and on behalf of Capital Cranfield Trustees Limited by Christopher Clayton, Chair of the Trustee

Date: 15th September 2021

Appendix A.1 – further explanation of the Defined Contribution (Gripperrods) Section

The Defined Contribution (Gripperrods) Section is managed by Prudential. As this section is not being used as a qualifying scheme for automatic enrolment purposes in respect of any members, there is no default fund for members' investments and the Trustees have applied a proportionate approach to meeting the relevant governance standards for this section of the Scheme.

There was previously a wide range of funds available to Defined Contribution (Gripperrods) Section members but Prudential closed a high proportion of them on 1 February 2021. In addition, the majority of the DC savings held in this section are invested in the Prudential With-Profits Fund, which has no explicit annual management charge as the bonuses are paid net of any charges. Prudential did not provide a figure for the implicit charges for this fund, which limits the ability of the Trustees to report fully on this Section.

The Trustees take a proportionate approach to reviewing the investments based on:

- the relatively small numbers of members who are invested in these arrangements;
- the size of the funds invested, compared to the size of the funds invested in the Defined Contribution Section and the size of the benefits accrued in the Final Salary Section; and
- the fact that these funds are being assigned to the individual members themselves.

In addition, the Trustees note that Prudential has a With-Profits Committee for their With-Profits Fund, who consider matters affecting the interests of policyholders, including fair pay-outs. Having said that, the Trustees will periodically review these arrangements to ensure they continue to be fit for purpose and will periodically write directly to members who have such investments if there is anything of significance to make members aware of. For instance, the Trustees are continuing to write to individual members about the assignment exercise.

Appendix A.2 – Examples of the impact of costs and charges

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 2021 and using the SMPI assumptions as at 1 April 2021 that featured in the Scheme’s 2021 annual benefit statements.

The only difference between the assumptions used for these projections and those used for the projections within the annual benefit statements is the average of three years’ worth of transaction costs being taken into account in the enclosed tables, when these are ignored within SMPI statements.

'Typical' active Defined Contribution Section member

	Lifestyle Option for Annuities – The default strategy as at 5 April 2021		Managed Property Fund		Global Equity Fund		Diversified Fund		Pre-Retirement Fund		Cash Fund	
Age	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 £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
48	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
53	51,013	50,276	54,503	51,097	56,324	55,887	51,013	50,276	48,626	48,302	45,853	45,612
58	66,099	64,378	74,592	66,298	79,251	78,118	66,099	64,378	60,618	59,894	54,583	54,076
63	79,948	77,231	96,403	81,603	105,114	102,970	81,258	78,309	72,009	70,819	62,318	61,528
65	84,291	81,307	105,642	87,754	116,363	113,713	87,343	83,834	76,403	75,010	65,160	64,254

'Typical' deferred Defined Contribution Section member

	Lifestyle Option for Annuities – The default strategy as at 5 April 2021		Managed Property Fund		Global Equity Fund		Diversified Fund		Pre-Retirement Fund		Cash Fund	
Age	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 £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
52	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
57	6,029	5,927	6,514	6,041	6,768	6,707	6,029	5,927	5,699	5,654	5,316	5,283
62	5,997	5,805	7,073	6,082	7,635	7,498	6,059	5,855	5,413	5,328	4,711	4,652
65	5,848	5,623	7,431	6,107	8,207	8,016	6,077	5,813	5,248	5,142	4,381	4,310

'Typical youngest' active Defined Contribution Section member

	Lifestyle Option for Annuities – The default strategy as at 5 April 2021		Managed Property Fund		Global Equity Fund		Diversified Fund		Pre-Retirement Fund		Cash Fund	
Age	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 £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
21	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
26	13,369	13,248	13,933	13,383	14,224	14,154	13,369	13,248	12,977	12,923	12,515	12,474
31	25,798	25,348	27,975	25,850	29,140	28,859	25,798	25,348	24,353	24,159	22,717	22,578
36	38,288	37,301	43,220	38,403	45,967	45,297	38,288	37,301	35,158	34,747	31,758	31,474
41	50,839	49,108	59,772	51,041	64,949	63,672	50,839	49,108	45,420	44,725	39,768	39,308
46	63,451	60,773	77,743	63,767	86,361	84,214	63,451	60,773	55,168	54,127	46,866	46,206
51	76,125	72,296	97,255	76,579	110,515	107,177	76,125	72,296	64,427	62,988	53,155	52,280
56	88,861	83,679	118,440	89,479	137,761	132,847	88,861	83,679	73,221	71,338	58,727	57,629
61	101,158	94,532	141,440	102,468	168,497	161,543	101,659	94,924	81,574	79,206	63,665	62,338
65	107,926	100,610	161,252	112,923	195,895	186,917	111,943	103,821	87,953	85,173	67,206	65,697

'Typical youngest' deferred Defined Contribution Section member

	Lifestyle Option for Annuities The default strategy as at 5 April 2021		Managed Property Fund		Global Equity Fund		Diversified Fund		Pre-Retirement Fund		Cash Fund	
Age	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 £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
22	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
27	2,010	1,976	2,171	2,014	2,256	2,236	2,010	1,976	1,900	1,885	1,772	1,761
32	2,020	1,952	2,358	2,027	2,545	2,499	2,020	1,952	1,804	1,776	1,570	1,551
37	2,029	1,928	2,560	2,041	2,871	2,794	2,029	1,928	1,714	1,674	1,391	1,365
42	2,039	1,905	2,779	2,055	3,238	3,123	2,039	1,905	1,628	1,577	1,233	1,202
47	2,049	1,882	3,017	2,069	3,653	3,491	2,049	1,882	1,546	1,486	1,092	1,059
52	2,059	1,859	3,276	2,084	4,121	3,903	2,059	1,859	1,469	1,401	968	932
57	2,069	1,836	3,557	2,098	4,649	4,363	2,069	1,836	1,395	1,320	858	821
62	2,058	1,798	3,862	2,112	5,244	4,877	2,080	1,814	1,325	1,244	760	723
65	2,007	1,742	4,057	2,121	5,637	5,215	2,086	1,801	1,285	1,200	707	670

'Typical' deferred Defined Contribution (Gripperrods) Section member

	With profits fund	
Age	Before charges £	After all charges & costs deducted £
54	10,000	10,000
59	11,711	10,920
64	13,715	11,924
65	14,156	12,136

NB. As noted previously, Prudential produce their own version of the cost/charges illustrations, which for the Defined Contribution (Gripperrods) Section can be found here: https://www.pru.co.uk/pdf/GENM891702_PSPNNC.pdf
However, Prudential have stated that the illustrations:
- are as at November 2020, rather than 5 April 2021;
- are based on a pot size of £5,000, which is the average pot size for 'most of' their customers for the specific product used in the Defined Contribution (Gripperrods) Section – namely the Prudential Savings Plan – and so aren't based on the average pot size of £10,000 for the Defined Contribution (Gripperrods) Section;
- are from age 19, rather than the average age of 54 for Defined Contribution (Gripperrods) Section members; and
- feature funds chosen to cover a range of funds with different investment strategies, realistic potential growth rates and costs, some of which are not used by members of the Defined Contribution (Gripperrods) Section (for instance, the Prudential Dynamic Growth IV Lifestyle – Targeting Retirement Options).

As a result, the Trustees do not consider the Prudential cost/charges illustrations to meet the requirements of the statutory guidance issued by the Department of Work and Pensions[7] and have produced their own illustration, above left, of the impact of cost / charges, using the With Profit Fund, the median pot size of the Defined Contribution (Gripperrods) Section as at 5 April 2021 and Prudential's assumed growth rate from the hyperlinked illustrations above.

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

Notes

1. Values shown are estimates and are not guaranteed.

2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

3. Inflation is assumed to be 2.5% each year.

4. For active members only, 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.

5. Total contribution rates and pensionable salaries for the active member illustrations in the Defined Contribution Section are assumed to be 10% and £30,000 respectively for the 'typical' active member and 10% and £25,000 respectively for the 'typical youngest' active member.

6. The starting pot sizes within the Defined Contribution Section are assumed to be £36,000 for the 'typical' active member, £6,000 for the 'typical' deferred member, £1,000 for the 'typical youngest' active member and £2,000 for the 'typical youngest' deferred member. The starting pot size within the Defined Contribution (Gripperrods) Section is assumed to be £10,000 for the 'typical' deferred member.

7. Starting ages within the Defined Contribution Section are assumed to be 48 for the 'typical' active member, 52 for the 'typical' deferred member, 21 for the 'typical youngest' active member and 22 for the 'typical youngest' deferred member. Starting ages within the Defined Contribution (Gripperrods) Section are assumed to be 54 for the 'typical' deferred member.

8. The projected growth rate for each fund (before total charges and transaction costs are deducted), projected total charges figures and projected transaction costs are as follows. The projected transaction costs are the average of the transaction costs provided for the last two years:

Defined Contribution Section Fund	Projected growth rate	Projected total ongoing charges	Projected transaction costs[8]
Default lifestyle (growth phase)	0.10% above inflation	0.35% per annum	0.00% per annum
LGIM Managed Property Fund	1.66% above inflation	1.56% per annum	0.00% per annum
LGIM Global Equity Fixed Weights (60:40) Index Fund	2.44% above inflation	0.19% per annum	0.00% per annum
LGIM Diversified Fund	0.10% above inflation	0.35% per annum	0.00% per annum
LGIM Pre-Retirement Fund	1.02% below inflation	0.15% per annum	0.01% per annum
LGIM Cash Fund	2.39% below inflation	0.125% per annum	0.00% per annum

Defined Contribution (Gripperrods) Section Fund	Projected growth rate	Projected total ongoing charges	Projected transaction costs
With Profits Fund	3.21% above inflation	1.37% per annum	0.10% per annum

[8] Where the average transaction costs provided by LGIM are below 0.00%, we have used 0.00% for the projected transaction cost i.e. we have not allowed for a negative transaction cost over the long term (i.e. one that boosts net return, rather than detracting from it), even if the fund has experienced a negative transaction cost over the recent short-term.

Appendix A.3 – assessing value for member and wider value for money

Categorising costs/charges and how these impact on our assessment
There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the assessment of value to members.

In line with our legal duties and guidance issued by the Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Principal Employer. As indicated, the only costs that are paid by members are 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);
- administration of the Defined Contribution Section of the Scheme (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, producing annual financial statements, 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).

As a result, the Trustees have undertaken two analyses:
1. First, we have assessed the 'value for members' arising from the benefits that members receive from the charges and transaction costs that they directly pay – this assessment is required by legislation but, for the Scheme, is mainly limited to the performance and volatility of investment returns from funds within the Defined Contribution Section versus the charges members pay for holding those funds;
2. We have also assessed the overall 'value for money' offered to members of the Scheme, with the aim of capturing not only the value from member-borne costs but also the broader elements of value that members receive from the employer-financed costs, as well as wider factors such as the generosity of the employer contribution rates above the automatic enrolment minimum contribution levels.

Our approach
Assisted by our advisers and in line with the Pensions Regulator's guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay (including transaction costs where available) and the costs that the Principal Employer pays;

2. We have assessed the scope and quality of the services that members receive, in line with criteria agreed by the Trustees in advance;

3. We have compared the value that members receive from the services against the cost of those services, on both the 'value for member' basis required by legislation and the wider 'value for money' basis; and

4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that we are comparing the level of charges in each fund with the levels of return they have delivered to members, we are also comparing the *costs* of membership (i.e. the charges) against the *benefits* of membership (i.e. the services provided by the Scheme).

In attempting to compare these against other options available in the market, the Trustees have found that there are limited industry-wide benchmarks for each service area and so, in addition to experience available within Capital Cranfield Trustees Limited as a firm of professional trustees, the Trustees have also relied on the market knowledge of its advisers.

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

A number of key decisions were made as part of these preparations:

- The Trustees will use different approaches to the different sections, with the assessment for the Defined Contribution (Gripperrods) Section members being of a smaller scale than the Defined Contribution Section members, proportionate to the members' fund holdings relative to their overall benefits in the Scheme;

- For the Defined Contribution Section:

  - The Trustees will use a scoring system for each of the 'value for member' and 'value for money' assessment;

  - Individual elements of service were given scores by considering the scope and quality of the services under those areas;

  - Two overall weighted scores ranging from 0% to 100% were produced, one for 'value for member' and one for 'value for money';

  - The Trustees agreed that any score between 50% to 75% represented satisfactory value and a score of 75% or over represented good value; and

  - Scores will be compared from year to year from now on, with a view to measuring and monitoring changes to the 'value for members' and wider 'value for money'.

Process followed for the assessment, including key factors considered
The Trustees, assisted by their advisers, then considered the services provided by the Scheme in the areas where costs are borne (whether by members or by the employer), such as investment, communications, scheme management and governance, and administration. The scores for these areas were assessed by considering the scope and quality of the services in each area.

This assessment was performed separately for members in the Defined Contribution Section and members within the Defined Contribution (Gripperrods) Section.

For the Defined Contribution (Gripperrods) Section, the Trustees have performed a high-level review of these arrangements against other arrangements available in the market and similar funds available, for instance, within the Defined Contribution Section. In particular, the Trustees considered the following:

- the types of funds used by members, the methods that these funds generate returns and the recent performance of these funds;

- the level of charges paid for the funds; and

- the ways that members can access their savings at retirement and how this compares to other options available in the market.

For the Defined Contribution Section, for each of the 'value for member' and wider 'value for money' assessments, different weighting factors were applied to reflect the different services being assessed.

For the 'value for member' analysis, only the historic return and volatility of the default fund versus benchmark, and the charges and transaction costs of that fund versus benchmark have been assessed. 66% of the 'value for member' score has been allocated to the historic return and volatility of the default fund versus benchmark and 34% of the score allocated to the charges and transaction costs of that fund versus benchmark.

For the wider 'value for money' analysis, the assessment covers a larger set of services paid for by both members and the Principal Employer, including (but not limited to) the following:

Area	Examples
Investments / charges	The quality / governance of the default fund and alternative choices, the historic return and volatility of the default fund, charges and transaction costs versus benchmark, etc
Communications / member support	Whether bespoke/tailored or event-driven communications are used, at-retirement communications/guides/modellers/support, access to pension freedoms, etc
Scheme management and governance	Understanding of membership characteristics/attitudes/needs, compliance with the Pensions Regulator's Codes of Practice, Trustee Knowledge and Understanding practices, use of expert advisers, etc
Administration / online services	Online fund values/switching, use of service level agreements, core administration team/helpline, etc
Employer contribution to member funds	The generosity of the employer contributions over and above the automatic enrolment minimum.

While all of the factors above contribute to whether the Scheme is well run, the Trustees believe that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Scheme and the level of investment performance net of fees.

As a result, 30% of the overall 'value for money' score is allocated to the generosity of the employer contributions, 30% was allocated to the quality and governance of the investment options and 20% to the competitiveness of fees and transaction costs.

The remaining 20% was allocated to the other categories, which cover whether the communications support good savings behaviours, whether the governance and oversight identifies and prioritises member interests and whether efficient processes are in place to carry out member instructions or transactions to a suitable quality and timescale.

Explanation of the results of the assessment
Our conclusion that the Defined Contribution Section offers satisfactory value for members over the year to 5 April 2021 is based on aspects such as:

- The default investment strategy outperformed the benchmark being used for 'value for member/money' assessments over the 1 year to 31 March 2021 (but underperformed over the 3 years to 31 March 2021) and has had lower volatility of return over the same 1 year and 3 year periods;

- The default investment strategy has a maximum annual charge of 0.35%, which compares favourably to the 0.4% average charge for default funds within trust-based DC schemes that featured in the 2017 PLSA annual survey. In addition, the transaction costs within the default investment strategy compared favourably with the benchmark transaction costs used for this exercise.

Our conclusion that the Defined Contribution Section offers satisfactory value for money over the year to 5 April 2021, taking into account employer-borne costs, is based on aspects such as:

- The contribution structure is generous compared to the automatic enrolment minimum, with most members able to receive employer contributions that are at least double the minimum employee contributions paid in (i.e. 7% employer contributions for most members), which compares well to typical employer contribution rates into occupational DC schemes;

- The default investment strategy has its performance reviewed on a regular basis and was redesigned over the Scheme year with reference to the membership profile of the Scheme, with an additional ESG-focused fund due to be introduced as a result of the investment review;

- Members are able to receive a wide range of administration / online services (e.g. a dedicated helpline manned by a ring-fenced administration team, etc), which compares well to other options in the market. Members did not receive a wide range of online services as at 5 April 2021 that can be found in some occupational DC pension schemes (e.g. online fund values/switching, modellers around future investment strategies and contribution rates, etc), although the Trustees have plans to introduce a member Portal over the year to 5 April 2022;

- Members do not have access to tools/guidance/support or in-scheme flexibilities at retirement, which does not compare favourably to options available in the market;

- Members receive communications that aid member decision-making (including section-specific member booklets, a bespoke annual benefit statement, etc); and

- The Trustees meet around three times a year, discussing DC-related matters at each Trustee meeting, with a Trustee training plan in place and ad-hoc training received before major decisions, as well as clear contracts with external advisers, whose fees are reviewed regularly and benchmarked against the market.

It is not as easy to assess value for members for the Defined Contribution (Gripperrods) Section, particularly for the With-Profit Fund due to the lack of transparency / influence on how the With-Profits Fund is run. However, our conclusion that the Defined Contribution (Gripperrods) Section offers both poor value for members and poor value for money is based on aspects such as:

- For the With-Profit Fund:

  - the fact that the With-Profits Fund investment strategy (and therefore any future bonuses) is dependent upon the financial strength and continued solvency of Prudential;

  - the value that members may place on the smoothing of returns and any guarantees may differ from member to member and from year to year for each member, particularly when compared against the value they may receive from unitised funds, such as the funds within the Defined Contribution Section;

  - the recent investment returns have been modest (after implicit Annual Management Charges and other charges and expenses have been deducted);

  - the level of implicit charges would appear to be high, as Prudential assumes an annual future charge of 1.37% per annum in their cost/charges illustrations; and

  - members do not have the same level of flexibility around accessing or using with-profit funds as they would do in other unitised DC funds in the market (for instance, if funds are reduced by a Market Value Adjustment should savings be accessed before normal retirement date).

- For the unitised funds:

  - Their low usage within the Defined Contribution (Gripperrods) Section; and

  - The high charges relative to similar funds available, for instance, within the Defined Contribution Section.