

## Chair's Statement

*for inclusion in the 31 Dec 2020 accounts*

A number of governance rules apply to defined contribution pension arrangements like the Gega Lotz Limited Pension and Life Assurance Scheme (the "Scheme"). These are designed to help members achieve a good outcome from their pension savings. The Trustee is required to provide a yearly statement which explains what steps have been taken by the Trustee, with help from its professional advisers, to meet the new governance standards. This Chair's statement for the Gega Lotz Limited Pension and Life Assurance Scheme ('the Scheme') covers the period from 1 January 2020 to 31 December 2020

### Background

- The scheme was set up by a deed of Trust on 17 June 1988
- It is a defined contribution ('DC') scheme
- Each individual member's fund was (until 5 April 1997) subject to a defined benefit underpin ('DB underpin')
- The underpin provided that - in respect of pre 5 April 1997 benefits - at retirement the member would receive a pension that was the greater of:
  - that purchased by their individual pot, and
  - the amount guaranteed by the DB underpin
- On 5 April 1997 the DB underpin was discontinued
- Members retained the DB underpin for all pre 1997 service
- The Scheme closed to new entrants on 5 April 2006
- The Scheme was closed to future contributions on 5 April 2006
- There are now 3 distinct elements to the scheme:
  1. Pensioners: pensions are paid directly from the Scheme
  2. Deferred members: with pre 97 benefits – DC with underpin
  3. Deferred members: with post 97 benefits – DC only
- Some deferred members have both pre and post 1997 benefits
- Due to the pensions being paid by the Scheme and the fact that the DB underpin is providing benefits greater than those that could be provided by individual DC pots, the first two elements (shown as 1 & 2 above) of the scheme are treated as a defined benefit ('DB') scheme. This is therefore referred to as the 'DB Section'. There is a small amount in the DB section that is made up of DC AVCs
- The third element (3) is a DC scheme and is referred to as the 'DC section'

### Contributions

#### DC section

- The scheme does not receive any DC contributions. It closed on 5 April 2006
- No money is being contributed to individual DC pots in the DC Section

#### DB Section

- A funding plan is in place that requires employer contributions of £95,000 per year being paid from 22 May 2018 to 31 December 2025. These contributions are required to fund the benefits provided by the underpin and pensions in payment

### **Auto enrolment**

- The scheme is not used for auto-enrolment and is not subject to the charge cap

### **Default Investment Strategy**

- The scheme does not have a default investments strategy (this is not a requirement as the Scheme has not received any member contributions since 6 April 2006 and is not used as the employer's auto enrolment scheme); as a consequence, it does not have a Statement of Investment Principles.

### **Review of Investment Arrangements**

- The Trustee has conducted a review of the investment strategy and has received advice from XPS (formerly Trigon Pensions)
- This strategy encompasses all aspects of the scheme: DC Section, DB Section and AVCs
- The Trustee is now able to implement changes to the DB section and the AVCs
- The Trustee had hoped to implement a new DC strategy that included a default option with lifestyling and a choice of self-select funds.
- However, the Trustee is not currently able to implement changes to the DC Section investment strategy due to limitations of the administration function
- A second review is now being carried out in order to investigate workable options
- This review references to forthcoming requirements to be introduced from 5 October 2021 that are set out in the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ("the 2021 Regulations") and require the Trustee to carry out a holistic assessment of how their scheme delivers value for members
- The DC section remains with Scottish Widows with 100% of monies invested in a Scottish Widows Cash bond.

### **Core financial transactions**

The Trustee is required to report about the processes and controls in place in relation to the "core financial transactions" (for example, transferring assets related to members out of the Scheme or making payments from the Scheme to or on behalf of members). The Trustee must ensure that these important financial transactions are processed promptly and accurately.

- The scheme is closed to future contributions; there are only a limited number of transactions:
  - The employer pays recovery contributions; these are used to provide the DB underpin and to fund pensions in payment. The payments are received from the employer into the Trustee Bank Account and are reconciled by the Trustee on a monthly basis
  - Pensions are paid by Mercer
  - Benefits are settled by Mercer either as retirement benefits or transfers out of the scheme
- All core financial transactions are monitored by the Trustee and Mercer in compliance with agreed Service Level Agreements (SLAs). Mercer's internal SLAs are:
  - Queries and general correspondence – 10 working days
  - Transactions involving payments – 5 working days
- All transactions are subject to audit by the Scheme Auditors.
- There were no issues during the year and the Trustee is of the opinion that core financial transactions are processed promptly and accurately

### Charge levels

- The effect of any member borne charges are different for each part of the fund.

#### DC Section

- Post 1997 funds are invested in the Scottish Widows Cash Pension Fund

Fund Name	Charge p.a.
Scottish Widows Cash Pension Fund	1% See notes 1 and 2
Other Scottish Widows Funds	0.75%
Novia Funds	0.75% See note 3

- *Note 1: This invests into the Aberdeen Standard Liquidity fund. Aberdeen Standard Investments calculate and provide the transaction costs for this fund.*
- *Note 2: The effective annual management charge on the cash fund is 0.75% p.a.; 1% p.a. is reflected in the daily unit prices, with a rebate of 0.25% being added to members' unit holdings each month.*
- *Note 3: The Novia platform holds a range of investment funds. The stated charge is 0.75% per annum. Some of the funds are structured products. These products have no ongoing fund charge as the costs are borne within the structure of the benefits offered. The trustee has been unable to find a way of accurately calculating a charge figure including these costs.*
- As noted above under 'Review of Investment Arrangements', the use of the Novia platform has been reviewed and it is anticipated that funds will no longer be held on this platform once the new investment structure has been implemented

#### DB Section

- Pre 1997 funds are invested in a portfolio via the Novia Investment platform.
- The platform annual management charge on the funds is 0.75% p.a.
- The charges for managing the DB Section are effectively employer borne as the employer must ensure that there are sufficient funds available to meet the underpin
- The use of this platform has been reviewed and, as above, it is anticipated funds will no longer be held on this platform once the new investment structure has been implemented

### Transaction costs

#### DC Section

- The Trustee requested details of transaction costs for the DC funds held in the Scottish Widows Cash Pension Fund. These were disclosed as 1 basis point (0.01%) per annum. A basis point is 1/100 of 1%.
- Some Pre 97 AVC funds held on the Novia Platform are subject to the transaction costs. The Trustee has been unable to collate sufficient information to determine the transaction costs in the Novia held funds. These costs are member borne. As these funds are likely to be moved from this platform this issue is expected to be resolved for next year's statement

#### DB Section

- Pre 1997 funds will be subject to transaction costs as there is a range of fund managers – including active managers – that are used to manage the portfolio. These transaction costs are effectively employer borne

### Member Value for money

- The Trustee does not believe that the current arrangements represent good value for members
- The Trustee has in the past been unable to act due to uncertainty over the benefit structure and the application of the DB underpin
- The trustee appointed new investment advisers (XPS) and received advice on implementing a new investment strategy across the scheme, including the DC Section
- The Trustee’s objective was to provide members with better value for money through introducing:
  - A default strategy: this is the name given to the investment strategy and the funds money is invested in if a member does not make an active investment choice
  - A small choice of self-select funds: these are funds that members can choose to invest in
  - Lower member borne charges
  - Clearer information on benefits and options
- As noted in the earlier section on the ‘Review of Investment Arrangements’, the Trustee has not yet been able to implement a new strategy for the DC Section due to limitations in the administration function.
- The Trustee is investigating other ways of providing members with value for money and is aware of the requirements to be introduced on 5 October 2021 by the 2021 Regulations
- A Statement of Investment Principles (SIP) will be prepared for the DC section if the new strategy requires one.

### Cumulative effect over time of the relevant costs and charges

- The Trustee has not been able to obtain illustrations of the cumulative effect of the relevant costs and charges.
- The Trustee will update the illustrative example of charges included in Appendix 1 further as and when more data becomes available and will make this available on a website.

### Trustee Knowledge and Understanding

- Capital Cranfield Pension Trustees Limited are professional trustees. Both the company and the lead client director – Jonathan Reynolds – are members of the Association of Professional Pension Trustees (‘APPT’) and adhere to the continuous professional development requirements of the Association of Professional Pension Trustees (‘APPT’). Jonathan Reynolds provides his CPD record to both Capital Cranfield Pension Trustees Limited and the APPT. His CPD hours over the past 3 years are as follows:
  - 2018            71 Hours including 36 hours of structured CPD
  - 2019            57 Hours including 44 hours of structured CPD
  - 2020            46 Hours including 29 hours of structured CPD

Jonathan’s CPD has included the following content that is relevant to Trusteeship in general and to both Defined Contribution and Defined Benefit Schemes:

Provider	Topic
BFinance	Competition on investment fees
XPS	Sustainable Investment
Aon	Responsible Investment – a member's vision
TPR	TPR guidance COVID 19 and DC
XPS	COVID-19 - Implications for DC Schemes
PASA	COVID 19 guidance for scheme administrators
Aon	COVID19 and DC

Gega Lotz Limited Pension and Life Assurance Scheme

Eversheds-Sutherland	The continuing rise of pension scams
CCPTL	Operating during Pandemic
Quiet Room	Communicating with members during pandemic
Eversheds-Sutherland	Cyber crime
ISIO	Implementation statement
SPB	Employee Consultation Before Making Changes to a Pension Plan
Epoch	"The Pandemic Accelerant: Digital Age Business Strategies"
SPB	Pension lessons for trustees: The lockdown year
Gowlings WLG	Trustee Risk Management
XPS	Impact of negative interest rates
TPR	Toolkit Module on Scams
Mercer	ESG
Mercer	Cyber security

- Tony Russell provides day-to-day client management
- Support and back up is provided by Tova Docherty. She is accredited by the APPT as a Professional Trustee and is an Associate of the Pensions Management Institute ('PMI'), adhering to the continuous professional development requirements of Capital Cranfield Pension Trustees Ltd, the APPT and the PMI.
- The Trustee has a working knowledge of the Trust Deed and Rules and key Scheme documentation; in particular these documents were extensively reviewed as part of the investigation into the extent of the DB underpin.
- The Trustee also has an extensive knowledge and understanding of the law relating to pensions and the principles relating to the investment of Scheme assets, which enables it to properly exercise their functions as Trustee of the Scheme.
- The scheme employs professional advisers and service providers as detailed at the top of page 2, and the Trustee seeks professional advice as required to assist with the correct running of the Scheme

Signed by Jonathan Reynolds - 24/08/2021

For and on behalf of Capital Cranfield Pension Trustees Limited

Sole Trustee of the Gega Lotz Limited Pension and Life Assurance Scheme

## Gega Lotz Limited Pension and Life Assurance Scheme

### Appendix 1

(Illustration only)

<b>1% GROWTH</b>						
YEAR	TOTAL CONTRIBUTIONS TO DATE	FUND VALUE (1) + INVESTMENT RETURN	CHARGES TO DATE	INVESTMENT RETURN LOSS	CLOSING FUND VALUE	CHARGES AS % OF FUND VALUE (1)
1	£1,000.00	£985.37	£7.40	£0.00	<b>£977.97</b>	0.75%
5	£5,000.00	£4,784.75	£104.18	£1.39	<b>£4,679.18</b>	2.18%
10	£10,000.00	£9,229.52	£353.66	£10.53	<b>£8,865.34</b>	3.83%
15	£15,000.00	£13,358.44	£714.97	£33.12	<b>£12,610.35</b>	5.35%
20	£20,000.00	£17,193.91	£1,160.29	£72.93	<b>£15,960.69</b>	6.75%
25	£25,000.00	£20,756.86	£1,666.59	£132.26	<b>£18,958.00</b>	8.03%
30	£30,000.00	£24,066.65	£2,214.92	£212.24	<b>£21,639.48</b>	9.20%
<b>2.5% GROWTH</b>						
YEAR	TOTAL CONTRIBUTIONS TO DATE	FUND VALUE (1) + INVESTMENT RETURN	CHARGES TO DATE	INVESTMENT RETURN LOSS	CLOSING FUND VALUE	CHARGES AS % OF FUND VALUE (1)
1	£1,000.00	£1,000.00	£7.50	£0.00	<b>£992.50</b>	0.75%
5	£5,000.00	£5,000.03	£107.81	£3.58	<b>£4,888.63</b>	2.16%
10	£10,000.00	£10,000.09	£375.03	£28.33	<b>£9,596.73</b>	3.75%
15	£15,000.00	£15,000.13	£776.79	£92.47	<b>£14,130.87</b>	5.18%
20	£20,000.00	£20,000.13	£1,291.36	£211.29	<b>£18,497.48</b>	6.46%
25	£25,000.00	£25,000.16	£1,899.74	£397.62	<b>£22,702.79</b>	7.60%
30	£30,000.00	£30,000.21	£2,585.36	£662.07	<b>£26,752.78</b>	8.62%
<b>4% GROWTH</b>						
YEAR	TOTAL CONTRIBUTIONS TO DATE	FUND VALUE (1) + INVESTMENT RETURN	CHARGES TO DATE	INVESTMENT RETURN LOSS	CLOSING FUND VALUE	CHARGES AS % OF FUND VALUE (1)
1	£1,000.00	£1,014.63	£7.61	£0.00	<b>£1,007.02</b>	0.75%
5	£5,000.00	£5,223.86	£111.56	£5.92	<b>£5,106.38</b>	2.14%
10	£10,000.00	£10,841.35	£397.89	£48.78	<b>£10,394.69</b>	3.67%
15	£15,000.00	£16,882.06	£845.36	£165.35	<b>£15,871.35</b>	5.01%
20	£20,000.00	£23,377.87	£1,442.21	£392.64	<b>£21,543.03</b>	6.17%
25	£25,000.00	£30,363.13	£2,178.25	£768.13	<b>£27,416.75</b>	7.17%
30	£30,000.00	£37,874.70	£3,044.73	£1,330.27	<b>£33,499.71</b>	8.04%
<b>All Figures Above Are Expressed In Today's Monetary Values Assuming Inflation At 2.5%</b>						
<b>FUND VALUE (1)</b>	This shows the value of the fund assuming no charges are applied.					
<b>INVESTMENT RETURN LOSS</b>	This shows the investment growth that would have been achieved on the charges applied.					
<b>CLOSING FUND VALUE</b>	This shows the actual fund value after all charges are applied.					
<b>CONTRIBUTIONS</b>	The annual contribution of £1,000 is assumed to increase each year by inflation.					