Annual governance statement for the year ended 5 April 2022

The Gates UK Pension Scheme
– Defined Contribution Section

Annual governance statement by the Chair of Trustee for the year ending 5 April 2022

For the purposes of this annual governance statement, the representatives of Capital Cranfield Trustees Limited, Christopher Clayton and Tova Docherty, 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. The information included in my statement is set out in law and regulation.

This statement does not cover the Defined Contribution (Gripperrods) Section, as the Trustees have completed the exercise of assigning members' funds to the individual members themselves, which transferred legal ownership of the holdings from the Scheme to the individuals by creating a policy for each individual.

This statement covers the period from 6 April 2021 to 5 April 2022. This year, for the first time, the law requires me to show information about the return on investments within the statement (after the deduction of any charges and transaction costs paid for by members). These are included to help you, as members, understand how your investments are performing.

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.

Russia's invasion of Ukraine occurred towards the end of the Scheme year. At the meeting held on 24 March 2022, the Trustees discussed the immediate impact on the Scheme and plan to hold further discussions on the ongoing impact on the world economy and investment markets during future Trustees' meetings. No immediate action has been taken for the Scheme, but the matter will be kept under review by the Trustees and any further investigations and actions taken by the Trustees will be covered in next year's annual governance statement.

In the meantime, assisted by our advisers and through hosting virtual meetings, we are continuing to monitor the impacts of both the conflict in Ukraine (and its global ramifications) and the COVID-19 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.

Setting an appropriate investment strategy

The Trustees continue to use the Options Open Lifestyle Profile that was introduced on 1 October 2021 as the default investment strategy for the Defined Contribution Section.

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 (SIP). A copy of the latest Statement of Investment Principles, signed on 16 December 2021, is attached to this statement. The Trustees' evidence that the Scheme continues to follow and act on the principles outlined in the SIP is contained within a document called an Implementation 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, which resulted in the introduction of the Options Open Lifestyle Profile as the default investment strategy from 1 October 2021, as well as the introduction of one additional self-select fund – the LGIM Future World Multi-Asset Fund.

This review was in line with the three-yearly cycle for reviewing the default investment strategy and the self-select fund range. The 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.

Overall, the Trustees are satisfied that the current default investment strategy meets its aims and objectives. Both the growth phase and the consolidation phase of the default investment strategy are meeting 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, the Trustees also allow these members to self-select from a range of LGIM funds.

At the start of the Scheme year, the LGIM self-select funds were:

- 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 Cash Fund

As a result of the last investment review, the Trustees also introduced a new responsible investment fund to the self-select fund range from 1 October 2021:

- the LGIM Future World Multi-Asset Fund

Members received communications informing them of the change to the default investment strategy and the introduction of the new self-select fund, which also offered them the option to switch to another fund if they were being automatically switched to the Options Open Lifestyle Profile.

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. Their website can be found at https://www.moneyhelper.org.uk/en/pensions-and-retirement/ and they can provide guidance through live webchat or over the telephone on 0800 0111 3797 (Mon-Fri, 9am to 5pm)

Charges and transaction costs paid by members

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

In the Scheme, Defined Contribution 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 incurred 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 both of the Defined Contribution Section's default investment strategies during the Scheme year (i.e. the Lifestyle Option for Annuities pre- 1 October 2021 and the Options Open Lifestyle Profile from 1 October 2021 onwards) were confirmed by LGIM as being:

	Direct charges	Indirect charges	Total ongoing charges	Transaction costs[1]	Indirect property expenses
Diversified Fund	0.30%	0.03%	0.33%	(0.03%)	0.03%
Pre-Retirement Fund	0.15%	-	0.15%	(0.01%)	-
Cash Fund	0.125%	-	0.125%	0.02%	-

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%	0.35%	1.09%	(0.25%)	0.63%
Global Equity Fund	0.16%	0.05%	0.22% *	0.01%	-
Future World Multi-Asset Fund	0.26%	0.01%	0.27%	0.01%	-

* N.B. The reason that the numbers do not appear to add is due to rounding

Completeness of transaction cost information

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. LGIM have confirmed that transaction cost data was again available for 100% of each fund under management, the second year that this has been achieved. LGIM have also confirmed the following:

- LGIM have not provided data for the Scheme year – instead, they have provided information for the period 1 April 2021 to 31 March 2022, although they did use the Cost Transparency Initiative's templates. LGIM have not provided transaction costs prior to 1 January 2018.

- 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.

The Trustees will continue to review our processes for monitoring transaction costs and discuss 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.1, having taken account of the updated statutory guidance effective from 1 October 2021 issued by the Department of Work and Pensions[2] in preparing this section of our statement.

[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] https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes/reporting-of-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-schemes-effective-from-1-october-2021

Past performance of the investment options

We have calculated the return on investments after the deduction of any charges and transaction costs paid for by the members. We have done this for the current default investment arrangement and for each self-select fund which members are now able, or were previously able, to select and in which Scheme members have been invested during the Scheme year.

The net returns to 31 March 2022 are shown in the tables below and have been included to help members understand how their investments are performing. Please note that past performance is no indicator of future performance.

We have prepared the following tables, having taken account of the statutory guidance issued by the Department of Work and Pensions[3].

Annualised net returns (%) for the default investment arrangement (the Options Open Lifestyle Profile) over periods to 31 March 2022

Age of member at the start of the period*	20 years (2002-2022) [if available]	15 years (2007-2022) [if available]	10 years (2012-2022) [if available]	5 years (2017-2022)	1 year (2022)
Age 25				5.5%	5.8%
Age 45				5.5%	5.8%
Age 55				5.4%	5.8%

Annualised net returns (%) for the Lifestyle Option for Annuities over periods to 31 March 2022

Age of member at the start of the period*	20 years (2002-2022) [if available]	15 years (2007-2022) [if available]	10 years (2012-2022) [if available]	5 years (2017-2022)	1 year (2022)
Age 25				5.5%	5.8%
Age 45				5.5%	5.8%
Age 55				5.1%	5.8%

Annualised net returns (%) for the Lifestyle Option for Cash Lump Sums over periods to 31 March 2022

Age of member at the start of the period*	20 years (2002-2022) [if available]	15 years (2007-2022) [if available]	10 years (2012-2022) [if available]	5 years (2017-2022)	1 year (2022)
Age 25				5.5%	5.8%
Age 45				5.5%	5.8%
Age 55				5.3%	5.8%

*As the default and alternative investment arrangements are lifestyle strategies made up of different investment funds, the returns may vary with the age of the member, so we have shown the returns at three example ages for each lifestyle strategy in line with regulatory guidance.

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994897/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns.pdf

Annualised net returns (%) for the self-select funds over periods to 31 March 2022

Investment Fund	20 years (2002-2022) [if available]	15 years (2007-2022) [if available]	10 years (2012-2022) [if available]	5 years (2017-2022)	1 year (2022)
Diversified Fund				5.5%	5.8%
Pre-Retirement Fund				1.4%	(6.7%)
Cash Fund				0.2%	0.0%
Managed Property Fund				6.5%	22.0%
Global Equity Fund				6.6%	11.5%
Future World Multi-Asset Fund *				n/a	n/a

* N.B. the Future World Multi-Asset Fund was launched on 14 May 2021 and 1-year and 5-year net returns to 31 March 2022 are not available.

Notes for all tables in this section:

1. Figures have been collected for the periods to 31 March 2022 rather than to the Scheme year end of 5 April 2022 as this facilitates comparison with the quarter-end data provided by the three comparison schemes – see Appendix A.2.

2. Figures shown for the default lifestyle strategy are calculated based on changes to unit prices, given the unit prices incorporate all fees and charges, as well as the impact of price swings and hence switching costs. Please note that this is a different methodology from that used for the self-select fund range and hence there will be some differences between the figures shown here and those shown for the underlying self-select funds.

3. Composite performance figures for the lifestyle strategy assume allocations are in line with the switching matrix at each quarter end. We have not allowed for deviations due to market movements in the preceding period.

4. Net investment return figures for 10 years, 15 years and 20 years to 31 March 2022 were not available.

5. Figures shown for the self-select investment options are calculated based on underlying investment manager performance.

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.

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 have previously identified 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. Buck's original intention was to introduce this reporting in administration reports from Autumn 2021 onwards, although these are now likely to be introduced in the last quarter of 2022. Over the Scheme year, Buck did improve the administration reports by introducing a section that shows the current cases in respect to the monthly mortality screening exercise and a separate section that shows the usage by members of any at-retirement services put forward by the Trustees.

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 these reports at each Trustee meeting, 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 tasks meeting the SLAs dropped for the first half of the Scheme year and also noted several breaches of statutory timescales in relation to death cases. The breaches 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. In addition, the Trustees note that overall performance against SLAs improved in the second half of the Scheme year.

Barring the cases above, 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, 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.

Overall, the Trustees are confident that the processes and controls in place with Buck 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 Tova Docherty, 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. During the Scheme year, the Trustees have sought advice on matters such as the assignment of Gripperods policies to the members, the introduction of a benefit specification for the Scheme and on other projects.

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.

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:

- GMP Equalisation – specifically relating to data & information; and
- Value for members assessments – specifically the introduction of a new ‘holistic’ assessment for schemes with total assets under £100m.

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 costs and charges within the Defined Contribution Section represent good value for members when compared to other options available in the market.

The Trustees have conducted three tests in assessing value for members for the Scheme year to 5 April 2022:

1. A comparison of our reported **costs and charges** with the three comparison schemes;
2. A comparison of our reported **net investment returns** with the three comparison schemes; and
3. A consideration of the Scheme against key **governance and administration** criteria.

Based on our assessment, we conclude that the Scheme offered good value for members over the year to 5 April 2022, when measured against the definition required by legislation, using the three comparison schemes selected by the Trustees and using our interpretation of the updated statutory guidance on "Completing the annual Value for Members assessment and Reporting of Net Investment Returns".

Appendix A.2 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 2023, the Trustees will continue:

- Monitoring the impact of the conflict in Ukraine (and its global ramifications) and 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;
- 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;
- Considering whether to evaluate the effectiveness of the Board at least annually and whether to introduce formal quarterly Trustees' meetings; and
- Discussing this statement and any underlying analyses with the Company to obtain their views and working with the Company to explore the options for securing member's benefits outside the Scheme.

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 ……25 October 2022……………

Appendix A.1 – 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 2022 and using the Statutory Money Purchase Illustration ('SMPI') assumptions as at 1 April 2022 that featured in the Scheme's 2022 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 four years' worth of transaction costs being taken into account in the enclosed tables, when transaction costs are ignored within SMPI projections in annual benefit statements.

Please note that, within each table, there may be instances where the projected fund at age 65 is lower than the starting fund value. This arises when the projected return (before or after charges are deducted) is lower than the projected levels of inflation, as all values are shown in today's terms.

'Typical' active Defined Contribution Section member

	Options Open Lifestyle Profile		Managed Property Fund		Cash Fund	
	The default lifestyle profile		The highest-charging fund		The lowest-charging fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
47	37,000	37,000	37,000	37,000	37,000	37,000
52	54,845	54,024	55,072	51,277	47,105	46,847
57	73,713	71,711	74,272	65,228	56,036	55,494
62	93,016	89,508	94,673	78,860	63,929	63,087
65	102,563	98,238	107,520	86,890	68,219	67,191

'Typical' deferred Defined Contribution Section member

	Options Open Lifestyle Profile		Managed Property Fund		Cash Fund	
	The default lifestyle profile		The highest-charging fund		The lowest-charging fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
53	4,500	4,500	4,500	4,500	4,500	4,500
58	4,758	4,675	4,781	4,397	3,977	3,951
63	4,959	4,793	5,080	4,297	3,515	3,470
65	4,959	4,766	5,205	4,257	3,346	3,294

‘Typical youngest’ active Defined Contribution Section member

	Options Open Lifestyle Profile		Managed Property Fund		Cash Fund	
	The default lifestyle profile		The highest-charging fund		The lowest-charging fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
22	2,400	2,400	2,400	2,400	2,400	2,400
27	14,710	14,559	14,751	14,052	13,271	13,223
32	27,726	27,192	27,874	25,439	22,880	22,726
37	41,488	40,315	41,817	36,565	31,372	31,071
42	56,040	53,949	56,631	47,437	38,879	38,399
47	71,427	68,114	72,370	58,061	45,513	44,833
52	87,697	82,829	89,093	68,443	51,377	50,484
57	104,900	98,116	106,861	78,587	56,560	55,445
62	122,226	113,258	125,739	88,499	61,140	59,802
65	129,816	119,814	137,627	94,338	63,629	62,157

‘Typical youngest’ deferred Defined Contribution Section member

	Options Open Lifestyle Profile		Managed Property Fund		Cash Fund	
	The default lifestyle profile		The highest-charging fund		The lowest-charging fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
22	1,000	1,000	1,000	1,000	1,000	1,000
27	1,057	1,039	1,062	977	884	878
32	1,118	1,079	1,129	955	781	771
37	1,182	1,121	1,199	933	690	677
42	1,250	1,165	1,274	912	610	595
47	1,322	1,210	1,354	891	539	522
52	1,398	1,257	1,439	871	477	458
57	1,478	1,306	1,528	851	421	403
62	1,551	1,348	1,624	831	372	354
65	1,557	1,342	1,684	820	346	327

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 £31,000 respectively for the ‘typical’ active member and 10% and £24,000 respectively for the ‘typical youngest’ active member.

6. The starting pot sizes within the Defined Contribution Section are assumed to be £37,000 for the ‘typical’ active member, £4,500 for the ‘typical’ deferred member, £2,400 for the ‘typical youngest’ active member and £1,000 for the ‘typical youngest’ deferred member.

7. Starting ages within the Defined Contribution Section are assumed to be 47 for the ‘typical’ active member, 53 for the ‘typical’ deferred member, 22 for the ‘typical youngest’ active member and 22 for the ‘typical youngest’ 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:

Defined Contribution Section Fund	Projected growth rate	Projected total ongoing charges	Projected transaction costs[4]
Default lifestyle (growth phase)	1.12% above inflation	0.36% per annum	0.00% per annum
LGIM Managed Property Fund	1.22% above inflation	1.72% per annum	0.00% per annum
LGIM Cash Fund	2.44% below inflation	0.125% per annum	0.005% per annum

9. The projected transaction costs are the average of the transaction costs provided for the four years to 31 March 2022. Negative average transaction costs have been treated as zero, in line with how the FCA treats transaction costs for contract-based schemes.

[4] 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.2 – assessing value for member and wider value for money

The Trustees have carried out the new detailed value for members assessment which now applies to the Scheme, as a result of the Scheme holding total assets under £100 million as at the Scheme year-end.

It should be noted that the approach taken this year is different to the approach taken in previous years, as a result of changes to the statutory guidance on assessing 'value for members' for occupational DC pension schemes with total assets under £100 million.

In carrying out the assessment, the Trustees have had regard to the Department for Work and Pensions' updated statutory guidance on "Completing the annual Value for Members assessment and Reporting of Net Investment Returns"[5].

This section 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.

Our approach

Assisted by our advisers and in line with the statutory guidance, we have taken the following approach:

1. We have collated information on costs and charges and net investment returns within the Scheme, as well as key governance and administration criteria within the Scheme;

2. We have collated information on costs and charges and net investment returns within three comparison schemes, selected using clear rationale agreed by the Trustees;

3. We have assessed the value that Scheme members receive by comparing the Scheme's costs and charges and net investment returns relative to the comparison schemes and assessing the key governance and administration criteria on an absolute basis, having due regard to the updated statutory guidance; and

4. We have reflected on our key findings, before deciding whether the Scheme provides overall value for members and agreeing any actions that are required following the assessment.

For the avoidance of doubt, under the updated statutory guidance, trustees of occupational DC pension schemes who are not able to demonstrate that their pension scheme delivers value for members on all three areas (costs and charges; net investment returns; administration and governance) are expected to conclude that their pension scheme does not provide good value for members.

Such trustees should look to wind up their pension scheme and transfer the rights of their members into a larger pension scheme, or set out the immediate action they will take to make improvements to the existing scheme (if the improvements identified are not made within a reasonable period, for example within the next scheme year, then those trustees would be expected to wind up and transfer members' benefits to another pension scheme).

Preparations for the assessment

The Trustees received support from advisers around how to undertake the new detailed value for members assessment and also considered the updated statutory guidance.

A number of key decisions were made as part of these preparations, in two main areas:

1. Selecting the three comparison schemes
2. Interpreting the updated statutory guidance

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[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994897/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns.pdf

1. Selecting the three comparison schemes

In order to carry out the value for members assessment, the Trustees' first step was to select three comparison schemes.

The Trustees consulted the Company to discuss the additional governance requirements being rolled out across DC trust-based pension arrangements. As a result, the Company undertook a strategic review of its UK pension provision to assess whether the current arrangements met their needs (covering both the Scheme and a separate Stakeholder pension plan also supported by the Company) and to identify the best DC pension vehicle and provider to meet its objectives and the needs of its employees.

As part of this strategic review, the Company took advice from Buck to ensure that they understood the DC pension vehicle choices and to conduct an appropriate selection process, given that Buck have the relevant market knowledge of defined contribution pension arrangements. The existing team within Buck who advise the Trustees did not conduct this selection process for the Company, in order to manage potential conflicts of interest.

The main conclusions from the strategic review of UK pension provision were:

- The strategy questionnaire completed by the Company indicated an alignment to the characteristics of a Master Trust or a GPP where the costs of running the scheme are met by members, with Own Trust being the least suitable;
- The Company's questionnaire responses indicated preferences for a restricted range of investment options to make investment choice easier and for an ability of the Trustee of the Scheme to bulk transfer members' DC assets without consent. As a result of these criteria, the review process indicated a Master Trust would be the preferred pension vehicle for the Company;
- The strategy questionnaire completed by the Company also indicated certain preferences around investment options, member communications and engagement approaches and the level of bespoking within any new arrangement;
- Finally, the work undertaken by Buck included issuing a Request for Proposals with Scheme membership data attached, analysing the terms and propositions put forward by providers and providing a recommended shortlist of three Master Trusts for consideration, taking into account the Company's preferences, the terms and propositions put forward and the relative scale of each provider.

The Company accepted the recommended three Master Trusts that were put forward for consideration and arranged presentations by each of the shortlisted Master Trusts.

The Trustees are required to set clear rationale for the schemes that selected as comparators. The Trustees noted that the three Master Trusts being considered by the Company were all greater than £100 million in size and of a different structure to the Scheme. As a result, the three Master Trusts met the requirements of the statutory guidance and using them would ensure that a meaningful comparison was made with a larger pension arrangement.

In addition, the three Master Trusts being shortlisted by the Company would be able to provide the net investment return, charges and transaction costs required by the Trustees. From a practical point of view, utilising the same shortlisted Master Trusts as those shortlisted by the Company would also provide the Trustees with efficiencies in terms of the time and charges for selecting and engaging with the comparison schemes.

The Trustees felt that the reasons above presented them with a clear rationale for using the three Master Trusts shortlisted by the Company as the three comparison schemes within their value for members assessment. As a result, the Trustees selected the following comparison schemes:

- L&G Worksave Master Trust;
- Scottish Widows Master Trust; and
- Standard Life Master Trust.

The updated statutory guidance states that "Trustees of specified schemes are of course at liberty to choose their own comparison schemes, each time they conduct the value for members assessment". As a result, the Trustees reserve the right to select different clear rationale and choose different comparison schemes for future Scheme years.

2. Interpreting the updated statutory guidance

This year was the first year in which the new value for member assessment was being rolled out across all occupational DC pension schemes with assets under £100 million. No established practice or case studies exist at this stage that the Trustees could rely upon to inform their approach. As a result, a number of key decisions were made as part of the Trustees' preparations, primarily around interpreting the updated statutory guidance. The Trustees made the following key decisions for this Scheme year (where this relates to a particular paragraph of the updated statutory guidance, the relevant paragraph number is shown in [square brackets]):

- The Trustees have interpreted the provision of costs and charges based on Scheme membership, together with confirmation that the comparison scheme would accept a transfer of Scheme members' rights if the Scheme was wound up, as having satisfied the requirement that that the Trustees "have had discussions" with at least one of the comparator schemes [54];

- The Trustees note that charges and transaction costs will only vary by age for Scheme members in the seven years prior to normal retirement date for the default investment arrangement. As the updated statutory guidance suggests that charges and costs are shown at 10-year intervals, no difference would be demonstrated if the Trustees followed this suggestion. As a result, the Trustees have shown a single figure for the charges and transaction costs relating to the period prior to seven years before normal retirement date [57];

- The Trustees have relied entirely on the data supplied by the three comparison schemes and have requested comparison data as at 31 March 2022 (as quarter-end data was more readily provided) and compared this against Scheme data calculated as at 31 March 2022 [58/69];

- The Trustees have agreed that the charges and transaction costs over the year to 31 March 2022 are not unusually high for a reason that is unlikely to be repeated; therefore, the Trustees have used one-year data rather than an average of the last five years [61];

- Where the Trustees have performed comparisons using the Scheme's default investment arrangement, we have compared them against the default arrangement put forward by each comparison scheme, where these schemes have different options for default arrangements. However, for the Standard Life Master Trust, we have performed a comparison of the historic investment returns of the default investment arrangement that was in place at 31 March 2022, namely the Active Plus III Universal Strategic Lifestyle Profile. For the cost and charges comparison, we have used the Sustainable Multi Asset Universal Strategic Lifestyle Profile, as the basis on which charges and transaction costs were quoted by Standard Life assumed this strategy [62/72];

- In the absence of a clear definition in the updated statutory guidance, the Trustees have defined self-select funds as "popular" or "frequently invested" if more than 10% of members are invested in the self-select funds [63/73/76/77];

- The Trustees have given the total charges and transaction costs and net investment returns in the default lifestyle arrangement a weighting of 85% and the LGIM Pre-Retirement Fund a weighting of 15%, as this is the only self-select fund in the Scheme that has sufficient members investing in it to be considered "popular" or "frequently invested" under the above definition [64/74];

- The Trustees have assumed that funds being compared that have charges and transaction costs with an absolute difference within 0.05% or that have net investment returns with an absolute difference within 0.5% are considered to be "closely comparable" [65/75];

- The Trustees consider that default investment arrangements or self-select funds that also have higher, not just "broadly comparable", average investment returns over a five-year period when compared to the nearest comparable default arrangements or funds respectively, are good value from a costs and charges perspective, even if the charges in the Scheme are higher than the same comparable default arrangements or funds respectively [65];

- The Trustees have placed more weight on the net investment returns over charges and transaction costs by allowing for Scheme net investment return outperformance or broad comparability relative to the three comparison schemes to overcome poor Scheme charges and transaction costs relative to the three comparison schemes, but not vice versa, when assessing value for members [67];

- The Trustees have only been able to source and use five-year net investment returns to assess longer-term investment performance (10-year and 15-year data was not consistently provided) and have also placed more weight on the longer-term performance by weighting five-year net investment returns by 80% and short-term one-year returns by 20% [68];

- The Trustees were not provided with sufficient data by the comparison schemes to assess whether the demographic profile of the Scheme differed sufficiently to those of the comparison schemes to support a "clear strategic choice" that explains differences in performance [77];

- When assessing the value delivered by their governance and administration offering within the Scheme, the Trustees have considered and assessed the Scheme against the seven key metrics of Administration and Governance set out in the updated statutory guidance and note that the guidance also sets out an expectation that all [seven] of the metrics for administration and governance are satisfied for a pension scheme to be able to demonstrate satisfactory value for members [111/112]. In making this assessment, the Trustees have assumed the following:

    I. When assessing the **promptness and accuracy of core financial transactions**, the Trustees have placed greater weight on the proportion of member transactions that have been completed accurately and within required timeframes set in legislation compared to the proportion of member transactions that have been completed according to any service level agreements (SLA) when assessing whether the Scheme would represent "satisfactory value" for members in this area [81-85];
    II. When assessing the **quality of record keeping**, the Trustees have assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area. The Trustees have also assumed that the lack of any regulatory action by The Pensions Regulator in light of the data scores for common and scheme-specific data reported in the Scheme's historic annual scheme returns indicates that the Scheme's data scores are "satisfactory value" for members [86-96];
    III. When assessing the **appropriateness of the default investment strategy**, the Trustees have considered all of the points within the updated statutory guidance and assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [97-99];
    IV. When assessing the **quality of investment governance**, the Trustees have considered all of the points within the updated statutory guidance and assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [100-101];
    V. When assessing the **level of trustee knowledge, understanding and skills to operate the Scheme effectively**, the Trustees have assumed that satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [102-104];
    VI. When assessing the **quality of communication with Scheme members**, the Trustees have assumed that concluding that they have met their statutory obligations and have also achieved satisfactory assessments for the majority of criteria set out in the updated statutory guidance would represent "satisfactory value" for members in this area [105-107];
    VII. When assessing the **effectiveness of management of conflicts of interest**, the Trustees have assumed that having all four of the controls set out in the updated statutory guidance in place and being able to show how these have been followed and are effective in practice would represent "satisfactory value" for members in this area [108-110];

The Trustees also agreed to revisit these decisions in future Scheme years, allowing for emerging industry-wide practices or case studies, particularly around the approach that The Pensions Regulator ends up taking when assessing how trustees carried out the new detailed value for member assessments.

Process followed for the assessment, including key factors considered

The Trustees requested the required information from each of the comparison schemes in order to undertake the relative assessment of costs and charges and net investment returns against the Scheme. The Trustees also requested the assistance of advisers to assist in assessing the Scheme against the criteria set out in the updated statutory guidance.

The assessment then involved three tests:

1. a comparison of our reported **costs and charges** with the three comparison schemes;
2. a comparison of our reported **net investment returns** with the three comparison schemes; and
3. a consideration of the Scheme against key **governance and administration** criteria.

The Trustees have also ‘had discussions’ with at least one of the comparison schemes about a transfer of the members’ rights if the Scheme should ever be wound up, in line with the approach set out in the “Interpreting the updated statutory guidance” section (please note that the need to have ‘had discussions’ is a requirement of the statutory guidance, rather than a reflection of the future ambitions of either the Trustees or the sponsoring employers of the Scheme).

The outcomes from our assessment

<u>Test 1: costs and charges</u>

The Trustees have identified the costs and charges that members pay for directly, as well as the costs and charges that are paid for by the Principal Employer.

It is the current policy of the Trustees and the Principal Employer that the only costs and charges 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).

The Trustees have gathered information about costs and charges from the three comparison schemes and compared them with the costs and charges paid by the members directly in the Scheme.

As mentioned earlier in this section:

- The charges and transaction costs for the year to 31 March 2022 have been gathered for the analysis, rather than for the year to 5 April 2022, as quarter-end data was more readily provided by the comparison schemes; and
- The Trustees have agreed that the charges and transaction costs over the year to 31 March 2022 are not unusually high for a reason that is unlikely to be repeated; therefore, the Trustees have used one-year data rather than an average of the last five years.

The only self-select fund in the Scheme that has sufficient members investing in it to be considered “popular” or “frequently invested” under the definition set out earlier in this section is the Pre-Retirement Fund. As a result, we have compared our default investment arrangement with the default investment arrangement in the three comparison schemes and the Scheme’s Pre-Retirement Fund with a comparable fund in the three comparison schemes.

A summary of each comparison is shown in the tables below.

For the year to 31 March 2022	Ongoing charges figures	Transaction costs	Total of ongoing charges figures and transaction costs	Ongoing charges figures	Transaction costs	Total of ongoing charges figures and transaction costs
	Our default investment arrangement (before seven years prior to normal retirement date*)			Pre-Retirement Fund		
The Scheme	**0.36%**	**(0.03%)**	**0.33%**	**0.15%**	**(0.01%)**	**0.14%**
	Default investment arrangements proposed for the comparison schemes			Comparable fund selected for the comparison schemes		
L&G Worksave Master Trust	0.26%	0.02%	0.28%	0.23%	(0.01%)	0.22%
Scottish Widows Master Trust	0.28%	0.06%	0.34%	0.26%	0.01%	0.27%
Standard Life Master Trust	0.27%	0.05%	0.32%	0.29%	0.05%	0.34%
Average of the three comparison schemes	**0.27%**	**0.04%**	**0.31%**	**0.26%**	**0.01%**	**0.27%**

Notes:

- As noted earlier, the charges for the Scheme's default investment arrangement are at their highest in the period prior to seven years before normal retirement date and do not change at any point during the period prior to seven years before normal retirement date.
- The default investment arrangements proposed by the comparison schemes are as follows:
    - L&G Worksave Master Trust — LGIM 2040-2045 Target Date Fund
    - Scottish Widows Master Trust — Balanced PIA Targeting Flex
    - Standard Life Master Trust — Sustainable Multi-Asset Universal SLP
- As explained in the "Interpreting the updated statutory guidance" section, for the Standard Life Master Trust we have performed a comparison of the cost and charges using the Sustainable Multi Asset Universal SLP, as this was the strategy for which charges and transaction costs were quoted by Standard Life.
- The funds we have selected to compare against the Pre-Retirement Fund for each of the comparison schemes are as follows:
    - L&G Worksave Master Trust — LGIM Pre-Retirement Fund
    - Scottish Widows Master Trust — SW Dynamic Annuity Purchase Fund
    - Standard Life Master Trust — Standard Life Annuity Purchase (MT) Pension Fund

The Trustees have given greater weight in the comparison to the total charges and transaction costs in the default arrangement than self-select funds in which smaller numbers of members are invested. We have weighted 85% of the comparison to the default investment arrangement and 15% of the comparison to the Pre-Retirement Fund, as this was the only self-select fund in the Scheme that has sufficient members investing in it to be considered "popular" or "frequently invested" under the definition set out earlier in this section.

Our conclusion on costs and charges is that the majority of the total charges and transaction costs are 'closely comparable' to the average for the comparator schemes, using the definition set out earlier in this section, so it is reasonable to assume that the Scheme as a whole represents good value for members from the standpoint of costs and charges.

<u>Test 2: Investment returns (fund performance)</u>

The Trustees have gathered past performance of the investment options within the Scheme and included this in the earlier section entitled "Past performance of the investment options". The Trustees have also gathered information about investment returns (after the deduction of any charges and transaction costs) for the investment options of the three comparison schemes and compared them with the net investment returns in the Scheme.

As per Test 1, the only self-select fund in the Scheme that has sufficient members investing in it to be considered "popular" or "frequently invested" under the definition set out earlier in this section is the Pre-Retirement Fund. As a result, we have compared our default investment arrangement with the default investment arrangement in the three comparison schemes and the Scheme's Pre-Retirement Fund with a comparable fund in the three comparison schemes.

The Trustees have given greater weight in the comparison to the net investment returns in the default investment arrangement than self-select funds in which smaller numbers of members are invested. We have weighted 85% of the comparison to the default investment arrangement and 15% of the comparison to the Pre-Retirement Fund, as this was the only self-select fund in the Scheme that has sufficient members investing in it to be considered "popular" or "frequently invested" under the definition set out earlier in this section.

The Trustees have compared net investment returns:

- in the short term (i.e. over a one-year period to the year ending 31 March 2022) to give an immediate indication of performance trend; and
- over a longer, more sustained, period for which broadly comparable data could be found (i.e. over a five-year period to the year ending 31 March 2022).

The Trustees plan to include longer-term performance (e.g. over 10 years and over 15 years) when this data is available.

A summary of the comparison is shown in the table below.

For the period to 31 March 2022	One-year net investment return (annualised)	Five-year net investment return (annualised)	One-year net investment return (annualised)	Five-year net investment return (annualised)
	Our default investment arrangement (before seven years prior to normal retirement date*)		Pre-Retirement Fund	
The Scheme	**5.80%**	**5.50%**	**-6.70%**	**1.40%**
	Default investment arrangements proposed for the comparison schemes		Comparable fund selected for the comparison schemes	
L&G Worksave Master Trust	4.08%	5.18%	-7.13%	1.45%
Scottish Widows Master Trust	9.10%	6.83%	-5.60%	0.70%
Standard Life Master Trust	4.28%	4.35%	-6.88%	0.40%
Average of the three comparison schemes	**5.82%**	**5.45%**	**-6.54%**	**0.85%**

Notes:

- Figures have been collected for the periods to 31 March 2022 rather than to the Scheme year end of 5 April 2022 as this facilitates comparison with the quarter-end data provided by the comparison schemes.
- The default investment arrangements proposed by the comparison schemes are as follows:
  - L&G Worksave Master Trust — LGIM 2040-2045 Target Date Fund
  - Scottish Widows Master Trust — Balanced PIA Targeting Flex
  - Standard Life Master Trust — Active Plus III Universal SLP
- As explained in the "Interpreting the updated statutory guidance" section, for the Standard Life Master Trust we have performed a comparison of the historic investment returns of the default investment arrangement that was in place at 31 March 2022, namely the Active Plus III Universal Strategic Lifestyle Profile.
- The funds we have selected to compare against the Pre-Retirement Fund for each of the comparison schemes are as follows:
  - L&G Worksave Master Trust — LGIM Pre-Retirement Fund
  - Scottish Widows Master Trust — SW Dynamic Annuity Purchase Fund
  - Standard Life Master Trust — Standard Life Annuity Purchase (MT) Pension Fund

Both the one-year and five-year net return figures for our default investment arrangement are 'closely comparable' to the average of the comparator default investment arrangements, using the definition set out earlier in this section. In addition, the one-year net return figure for the Pre-Retirement Fund is 'closely comparable' to the one-year average of the comparator funds, while the five-year net return figure for the Pre-Retirement fund outperformed the five-year average of the comparator funds.

As a result of these, and after applying the weightings set out in the "Interpreting the updated statutory guidance" section, our conclusion on net investment performance is that the net investment returns across a majority of the funds offered by the Scheme in which members are frequently invested are closely comparable to the comparator schemes, so it would be reasonable to assume that the Scheme as a whole represents good value for members from an investment returns perspective.

Test 3: Governance and administration

The Trustees have assessed the value delivered by our governance and administration offering as the third and final part of our assessment of value for members.

Effective scheme governance is essential for the operational and financial sustainability of the Scheme, for good outcomes from investment, and for the trust and confidence of our members.

Our assessment for governance and administration is based on seven key metrics as prescribed by legislation. Unlike the assessments for costs and charges and for net investment returns, this assessment does not involve a comparison with other schemes.

We have, however, taken advice from our pensions advisers as a reference for "best practice" and used this to explain our interpretation earlier in this section of the requirements set out in paragraphs 78 to 110 of the updated statutory guidance.

A summary of the comparison is shown in the table below.

Metric	Description	Rating	Main reason
1.	Promptness and accuracy of core financial transactions	Metric satisfied but steps to be taken to strengthen	The Trustees should continue reviewing the SLAs with the assistance of improved reporting to be provided by the Scheme administrators, Buck
2.	Quality of record keeping	Metric satisfied but steps to be taken to strengthen	The Trustees should continue with any plans to improve the Scheme-specific data scores
3.	Appropriateness of the default investment strategy	Metric satisfied	The Trustees believe that the requirements of this metric have been met
4.	Quality of investment governance	Metric satisfied	The Trustees believe that the requirements of this metric have been met
5.	Level of trustee knowledge, understanding and skills to operate the pension scheme effectively	Metric satisfied but steps to be taken to strengthen	The Trustees should consider evaluating the effectiveness of the Board at least annually and also consider formal quarterly Trustees' meetings
6.	Quality of communication with scheme members	Metric satisfied	The Trustees believe that the requirements of this metric have been met
7.	Effectiveness of management of conflicts of interest	Metric satisfied	The Trustees believe that the requirements of this metric have been met

Having considered all seven metrics within the theme of governance and administration, the Trustees have concluded that the overall governance and administration of the Scheme provides good value for members.

Final conclusions and points to note

The Trustees have concluded that the Scheme offered good value for members over the year to 5 April 2022, as set out in detail in this section.

It should be noted, though, that the value for members assessment under the new detailed framework may vary from year to year, as it is heavily determined by short-term and long-term assessments of relative costs and charges and relative net investment returns, which in themselves are heavily influenced by the choice of the three comparison schemes.

As a reminder, should the Trustees feel in any future year that we are not able to demonstrate that the Scheme delivers value for members on **all** three areas (costs and charges; net investment returns; administration and governance), then the updated statutory guidance – and The Pensions Regulator – would expect the Trustees to conclude that the Scheme does not provide good value for members under the updated statutory guidance.

If the Trustees were to conclude that the Scheme does not provide good value for members at any Scheme year end in the future, the updated statutory guidance – and The Pensions Regulator – would expect that the Trustees:

- look to wind up the Scheme and transfer the rights of the Scheme members into a larger pension scheme; or

- set out the immediate action the Trustees will take to make improvements to the Scheme (if the improvements identified are not made within a reasonable period, for example within the next Scheme year, then the Trustees would be expected to wind up and transfer Scheme members' benefits to a larger pension scheme).