Chair's Statement

for inclusion in the 31 Dec 2022 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 these governance standards. This Chair's statement for the Gega Lotz Limited Pension and Life Assurance Scheme ('the Scheme') covers the period from 1 January 2022 to 31 December 2022.

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 three distinct elements to the scheme:
    1. Pensioners: pensions are paid directly from the Scheme
    2. Deferred members: with pre 97 benefits – DC with DB 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

<u>DC section</u>

- 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

<u>DB Section</u>

- 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
- The Triennial actuarial valuation is currently underway; this has an effective date of 31 December 2022

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 conducted a review of the investment strategy and this was implemented in 2021 in respect of sections 1 and 2 (above). This resulted in the transfer of monies from Novia to Legal and General Investment Management ('LGIM') on 10 August 2021. These monies are now invested in three separate LGIM policies:
    - policy 37349/001 Gega Lotz Ltd - Pre 97 assets
    - policy 37349/000 Gega Lotz (DB Section)
    - policy 37349/001 Gega Lotz Ltd AVC
- There are some other small AVCs with Phoenix Life in policies 22069 and 22017
- The Trustee has not been able to implement a new DC strategy due to limitations of the administration function and complexities concerning members with various pension protections
- At the time of writing, the DC section remains with Scottish Widows with 100% of monies invested in a cash fund via a Scottish Widows Institutional Investment Bond ('IIB'). Scottish Widows are restricting such investments going forward and have requested that the Trustee moves the funds elsewhere
- From February 2023, the Trustee has appointed Mercer Direct as the administrator.
- Currently the administration is carried out by Mercer under an outsourcing arrangement with Scottish Widows that requires the use of a Scottish Widows investment platform and investments via the Scottish Widows Institutional Investment Bond. Appointing Mercer Direct breaks this link with Scottish Widows. Part of the Trustee's rationale for this appointment is that Mercer now employ the former Scottish Widows team – under the outsourcing agreement – and have some existing knowledge of how the scheme has been administered
- At the time of writing discussions are ongoing regarding the transition to the new administration service which is currently scheduled for Summer 2023
- The Trustee is consulting with their investment adviser – XPS Investment Limited – regarding the ongoing investment of DC section monies and possible alternative options
- Requirements were 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"). These require the Trustee to conduct a holistic assessment of how their scheme delivers value for members. In accordance with legislation, the Trustee has undertaken this holistic review in relation to the year ending 31 December 2022

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
- One issue arose during the year whereby member AVC monies in the DB section were swept up in a review of the DB investment strategy. This resulted in them being invested in line with the new DB investment strategy. The error was identified by the Trustee and members were reinstated with the correct unit holdings for their AVC investments at no cost to the members

Charge levels

- The effect of scheme charges is different for each part of the Scheme.

Fund Name	Charge p.a.	
Scottish Widows Cash Pension Fund	1% *See notes 1 and 2*	
LGIM Funds	Multi-Asset Fund Dynamic Diversified Fund All Stocks Gilts Over 15 Year Gilts All Stocks Index-Linked Gilts 5 to 15 Year Index-Linked Gilts See notes 3 & 4	0.25% 0.5% 0.1% 0.1% 0.1% 0.1%

- *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 0.021% being added to members' unit holdings each month.*
- *Note 3: All LGIM fees are borne by the scheme and not by members. At outset, the funds were invested 50/50 in two funds giving an effective charge of 0.375% - this will vary as the fund values change. In addition, the scheme bears a £1,500 flat charge from LGIM*
- *Note 4: The DB section underwent a strategy review during the year and all DB funds were moved from the Multi Asset Fund and the Dynamic Diversified Fund into 4 Gilt funds*

<u>DB Section</u>

- All DB section funds are now with LGIM
- The costs of investing in LGIM funds are borne by the Scheme

<u>DC Section</u>

- Post 1997 funds are invested in the Scottish Widows Cash Pension Fund and are subject to a member borne charge of 0.75% per annum

Transaction costs

DB Section

- All transaction costs are borne by the Scheme
- The pre 97 funds held by the scheme, whilst described as being in the DB section, are technically DC funds with a DB underpin. This section is treated as a DB scheme and all investment costs are borne by the Scheme. The Trustee has taken the pragmatic approach that these costs are therefore immaterial to members' DC benefits. In the opinion of the Trustee, these costs will remain immaterial even in the unlikely event that the DB underpin did not bite, as the investment costs of the underlying DC funds have been borne by the Scheme and not by the member

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%.

Value for money

- The Trustee does not believe that the current arrangements for pure DC benefits represent good value for members
- All monies are invested in the Scottish Widows Institutional Investment Bond ('IIB') – the only option is the Cash fund
- The IIB has an effective management charge of 0.75% pa. The underlying fund charge is 1.0% but Scottish Widows apply a 0.25% rebate meaning that the effective charge is 0.75% pa
- The return to members is therefore the sum of:
    - the initial investment + plus any investment return - charges
- As investment returns are driven largely by short term interest rates these have been less than the charges, resulting in a decreasing fund value
- Examples of investment returns are shown in Appendix 1 and a worked example using actual fund values in Appendix 2

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 beyond those shown in Appendix 1
- In practice, the practical implications of the current investment in the IIB are that, until such time short term interest rates generate sufficient investment return to negate the effect of charges, members funds will go down year-on-year
- As at the time of writing, Scottish Widows have requested that the Trustee disinvest from this investment vehicle
- The Trustees are in the process of taking advice from their investment consultant on the investment of DC monies
- 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. In practice we expect this only to be possible if investments are moved away from the IIB

Trustee response to the value for money assessment

- As stated above, the Trustee does not believe that the current arrangements for pure DC benefits represent good value for members

- This position has persisted for several years. The Trustee is aware of this and has been looking at various options to improve value for members
- One of the key issues is that the Scheme is very small and it is difficult to see how any internal restructure of the Scheme will produce a sustainable scheme that offers members the sort of value they could obtain in a modern well run scheme that offers the benefits of scale
- The current Scheme has the additional issue that it does not provide members with access to the pension flexibilities introduced by the pension freedoms in 2015
- The obvious option is therefore to look to transfer DC benefits out of the Scheme into a pension arrangement that provides better value for money and better member options
- However, this is not straightforward as the Trustee believes that a transfer may have potential issues for some of the members. This is because it would:
  - Disrupt their ability to take their whole scheme Pension Commencement Lump Sum (‘PCLS’) from their DC fund: this is a valuable option that is extremely efficient for members with DC funds (nearly all members)
  - Potentially, reduce the overall amount of tax free PCLS that the member can draw from the Scheme
  - Negate protected PCLS sums that are greater than 25% of total benefits (available to some members)
- The value of these options is significant and their loss could well have a greater impact on the members’ retirement outcomes than the opportunity cost of being invested in the IIB. This is particularly true for those close to retirement who would in all probability be invested conservatively and not seeking significant investment returns from their DC funds
- The Trustee has been actively considering these issues and has been investigating the option of transferring the DC funds to an authorised DC MasterTrust. This would give members access to a wide range of well governed funds, a default arrangement and the ability to use the pension freedoms to draw benefits
- Some Master Trusts will allow members to transfer back their DC funds at the point of retirement, so they can use these to fund their PCLS. This is a particularly useful option and gets round one of the problems listed above
- There is however no precedent as regards whether this ‘transfer back’ option will allow members to retain their pension protections. The Trustee has been discussing this with the Scheme’s lawyers and is investigating possible solutions to these problems
- The Trustee is however also aware that there are members approaching retirement who they expect will be using the current available flexibilities and have concluded that they should not proceed with changes that could be detrimental to these retiring members given the current levels of uncertainty as to how the retirement process would operate for the remaining deferred members
- It is the Trustee’s intention to pursue this issue and, given the current advice, it looks likely that a transfer of the DC benefits to an authorised Master Trust may well be the most appropriate integrated approach
- The issue is further complicated by the status of the DB section. The funding level of this part of the Scheme has improved and it is possible that a buy-out of DB liabilities could be achieved. The Trustee has raised this with the employer
- A buy out of DB liabilities would be attractive in that it would secure member pensions both deferred and in payment with an insurance company – this would improve the overall security of member benefits

- However, a buy-out would have implications for the DC section which would now, on a standalone basis, make the Scheme uneconomic to manage as a standalone trust. This would have to be resolved
- The Trustee and the Employer have effected a rule amendment that will allow fees to be paid by the Scheme. Once the preliminary results of the 31 December 2022 actuarial valuation are known the Trustee will be able to discuss with the employer a revised plan for funding benefits and meeting fees

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:
    - 2019 57 Hours including 44 hours of structured CPD
    - 2020 46 Hours including 29 hours of structured CPD
    - 2021 43 Hours including 20 hours of structured CPD
    - 2022 40 Hours including 23 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
Crowe	DC: delivering value and consolidation
WTW	Buy out market
L&G	Ukraine conflict
Incisive media	Engaging members with their pensions
Hymans Robertson	Master Trust default strategies
Insight	The impact of rising yields
XPS	Investment focus on buyout
Hymans Robertson	Risk transfer market
TPR	Combatting pension scams
Cartwright	The mini budget

- 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), adhering to the continuous professional development requirements of Capital Cranfield Pension Trustees Ltd and the APPT.
- 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

For and on behalf of Capital Cranfield Pension Trustees Limited

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

18 July 2023

Appendix 1

(Illustration only)

1% GROWTH

YEAR	TOTAL CONTS TO DATE	FUND VALUE (1) + INVEST 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	**£977.97**	0.75%
5	£5,000.00	£4,784.75	£104.18	£1.39	**£4,679.18**	2.18%
10	£10,000.00	£9,229.52	£353.66	£10.53	**£8,865.34**	3.83%
15	£15,000.00	£13,358.44	£714.97	£33.12	**£12,610.35**	5.35%
20	£20,000.00	£17,193.91	£1,160.29	£72.93	**£15,960.69**	6.75%
25	£25,000.00	£20,756.86	£1,666.59	£132.26	**£18,958.00**	8.03%
30	£30,000.00	£24,066.65	£2,214.92	£212.24	**£21,639.48**	9.20%

2.5% GROWTH

YEAR	TOTAL CONTS TO DATE	FUND VALUE (1) + INVEST 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	**£992.50**	0.75%
5	£5,000.00	£5,000.03	£107.81	£3.58	**£4,888.63**	2.16%
10	£10,000.00	£10,000.09	£375.03	£28.33	**£9,596.73**	3.75%
15	£15,000.00	£15,000.13	£776.79	£92.47	**£14,130.87**	5.18%
20	£20,000.00	£20,000.13	£1,291.36	£211.29	**£18,497.48**	6.46%
25	£25,000.00	£25,000.16	£1,899.74	£397.62	**£22,702.79**	7.60%
30	£30,000.00	£30,000.21	£2,585.36	£662.07	**£26,752.78**	8.62%

4% GROWTH

YEAR	TOTAL CONTS TO DATE	FUND VALUE (1) + INVEST 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	**£1,007.02**	0.75%
5	£5,000.00	£5,223.86	£111.56	£5.92	**£5,106.38**	2.14%
10	£10,000.00	£10,841.35	£397.89	£48.78	**£10,394.69**	3.67%
15	£15,000.00	£16,882.06	£845.36	£165.35	**£15,871.35**	5.01%
20	£20,000.00	£23,377.87	£1,442.21	£392.64	**£21,543.03**	6.17%
25	£25,000.00	£30,363.13	£2,178.25	£768.13	**£27,416.75**	7.17%
30	£30,000.00	£37,874.70	£3,044.73	£1,330.27	**£33,499.71**	8.04%

All Figures Above Are Expressed In Today's Monetary Values Assuming Inflation At 2.5%	
FUND VALUE (1)	This shows the value of the fund assuming no charges are applied.
INVESTMENT RETURN LOSS	This shows the investment growth that would have been achieved on the charges applied.
CLOSING FUND VALUE	This shows the actual fund value after all charges are applied.
CONTRIBUTIONS	The annual contribution of £1,000 is assumed to increase each year by inflation.

Appendix 2

The Trustee conducted a review of the available data and was able to compare net fund values between 11 December 2020 and 11 December 2021.

No additional monies were added to the individual pots during this time. Therefore, the change in the value is attributable entirely to the investment return minus the charges levied on the fund.

The following figures are derived from actual fund values.

	FUND VALUE 11/12/20 £	FUND VALUE 11/12/21 £	NET RETURN
Example 1	21435.18	21284.62	-0.72%
Example 2	12752.89	12663.38	-0.72%
Example 3	8054.74	7998.18	-0.72%

Note: The Trustee has not been provided with the necessary data to compare values between December 2021 and December 2022.