Chair's Statement

for inclusion in the 31 Dec 2023 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 2023 to 31 December 2023.

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'.

Administration

- The scheme was originally an insured scheme. The most recent insurer was Scottish Widows.
- For several years Scottish Widows outsourced the administration of the scheme to Mercer.
- In 2023 the Trustees agreed to unbundle the insured arrangement and entered into an agreement with Mercer Direct to provide administration services.
- On 1 January 2024 Mercer administration was taken on by a new business – Aptia.

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.

DB Section

- The Actuarial Valuation of 31 December 2022 showed that the scheme was fully funded on a solvency basis with a small surplus of £79,000. This takes into account an expenses reserve of £415,000.
- A revised schedule of contributions was drawn up following the valuation. This allows for no further deficit reduction contributions. The employer is required to pay business as usual costs for running the scheme. Other 'project' costs can be met from the expenses reserve.

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

DC section

- The DC assets are held in a Scottish Widows Institutional Investment bond. This is an inflexible product that does not provide members with individual investment options.
- Scottish Widows have stated that they wish to close the bond. This means that the Trustee will have to move money from this investment.
- The Trustee is taking advice on the investment of DC assets.

DB Section

- As the scheme is now in surplus the Trustee conducted a further review of investment arrangements in 2023.
- This resulted in a change to the investment strategy for the DB section. Assets backing the DB liabilities are now invested in a portfolio of gilts of suitable duration to provide a strong match to the liabilities.
- The objective of the change in strategy was to try and protect the funding position.

DC AVCs

- Member AVCs remain invested in the LGIM Multi asset fund.

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.
- The employer paid recovery contributions up until February 2024 when a revised set of statutory funding documents was agreed; there are no ongoing deficit reduction contributions.
- The employer now only meets business as usual expenses for running the scheme. These costs are paid directly by the employer and do not enter the scheme.

- There are therefore no payments being made into the scheme and no regular investment need to be made.
- Money is paid out of the scheme to pay pensions, lump sums and transfers.
- The Trustee agreed with the employer that certain project expenses could be met from the expenses reserve. These costs can, with the agreement of the Trustee, be paid from scheme assets.
- All core financial transactions are monitored by the Trustee and Aptia in compliance with agreed Service Level Agreements (SLAs).
- Aptia'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.
- The Trustees are confident that all transactions are processed promptly and accurately.

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	0.25%
	Dynamic Diversified Fund	0.5%
	All Stocks Gilts	0.1%
	Over 15 Year Gilts	0.1%
	All Stocks Index-Linked Gilts	0.1%
	5 to 15 Year Index-Linked Gilts	0.1%
	See notes 3 & 4	

- *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. 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

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%.

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. These costs are billed quarterly by LGIM and paid directly by the employer.
- 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 employer on behalf of the Scheme and not by the member.

AVCs

- These assets are held in the DB section with LGIM. Costs are met by the employer as detailed above.

Value for money

- The Trustee does not believe that the current arrangements for the DC Section 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 by short term interest rates, if the returns are less than the charges, fund values can fall.
- 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.
- 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 on this matter.
- 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 DC Section 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 an option that can be efficient for members with DB benefits and DC funds.
    - 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 can be material in certain circumstances and their loss might have a greater impact on some 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 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 has been unable to find a solution to this problem.
- 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.
- Whilst no formal consultation requirement exists for this type of transaction, it is the intention of the Trustee to hold a consultation so as to allow members to take personal advice and act accordingly prior to any changes being made.
- The issue is further complicated by the status of the DB section. The funding level of this part of the Scheme has improved and the Trustees are actively pursuing the option of a full insurance buy-in with their advisers.
- A buy-in 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.
- If the buy-in became a buy-out, this would probably make the DC section uneconomic to manage as a standalone trust. This would have to be resolved.

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 5 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
  - 2023 53 Hours including 38 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**
Cartwright	General Code
XPS	Options for fully funded schemes
Aon	Supporting DC members
Hymans Roberston	Stewardship of smaller schemes
Pinsent Mason	Master Trust update
Aon	Equality, Diversity and Inclusion
DC summit	Value for Money
Scottish Widows	Retirement report 2023
WTW	DB surplus opportunities
Mercer	The bulk annuity market

- 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 08/07/2024

For and on behalf of Capital Cranfield Pension Trustees Limited

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

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 31 December 2021 and 31 December 2022

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 11/12/2021 £	FUND VALUE 11/12/22 £	NET RETURN
Example 1	29,413.46	29,483.96	0.24%
Example 2	16,240.66	16,279.56	0.24%
Example 3	6,216.79	6.231.74	0.24%