

13. CHAIR'S STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022

Ransomes Pension Scheme

CONTRACTED OUT MONEY PURCHASE BENEFITS (COMP) SECTION AND ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) ARRANGEMENTS

**Annual governance statement by the Chair of Trustee for the year ended
31 December 2022**

Introduction

Defined contribution governance standards apply to defined contribution (DC) pension arrangements. These are designed to help members achieve a good outcome from their retirement savings. As Chair of the Trustee of the Ransomes Pension Scheme, I have to provide you with a yearly statement which explains what steps the Trustee (with guidance from our professional advisers) has taken to meet these standards. The information included in my statement is set out in law and regulation. This statement will be published on a publicly available website.

Although the Scheme is predominantly a defined benefit arrangement, it has the following DC elements:

- The Contracted Out Money Purchase Benefits Section, or COMPS – this section was available for defined benefit members to use until 5 April 2003 if they wished to contract out of the State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P) via a contracted-out money purchase section of the main Scheme. It is, therefore, closed to new entrants and future contributions. This section is administered by Aviva and offers investment funds managed by Aviva.
- AVCs with Aegon – these are legacy money-purchase AVC arrangements that have been replaced by Fidelity for future contributions since May 2021.
- AVCs with Fidelity – these are the Scheme's current money-purchase AVC arrangements with Fidelity Pensions Management (Fidelity).

Other than the AVC arrangements with Fidelity, all arrangements no longer accept future contributions.

Following the implementation of Fidelity as the AVC provider for ongoing contributions, the Trustee has discussed the potential options for the historic AVC and COMPS funds held with Aegon and Aviva given that members use these funds for their pension commencement lump sum. The Trustee will continue to review the position during 2023.

I welcome this opportunity to explain what the Trustee does to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do let us know.

Signed for and on behalf of the Trustee of the Ransomes Pension Scheme by Matthew Schatten, Chair of the Trustee

M.Schatten
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Date 31 July 2023

INVESTMENT CHOICES, INCLUDING DEFAULT ARRANGEMENTS

The Trustee is responsible for investment governance. This includes having a good working knowledge of investment matters relating to the Scheme and ensuring an appropriate choice of funds for the members with DC elements within the Scheme.

We take professional advice from regulated investment advisers and have appointed fund managers to manage any DC investments.

Further details of the basis on which the Trustee invests members' assets within the Scheme are recorded in the Statement of Investment Principles ("SIP"). The Trustee reviews the SIP annually; there were minor changes made in March 2023 which included updates to the DB Section following investment with Man Group. A copy is included in the appendix.

Reviewing the investment choices

Trustees are typically expected to review the strategy and objectives of any default investment strategy regularly, at least once every three years and take into account the needs of the membership when designing it.

None of the investment options for members with DC elements within the Scheme are a default arrangement for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, because none are used as a qualifying scheme for automatic enrolment purposes.

As a result, no default investment strategy review was undertaken during the Scheme year and there is no planned future date for such a review.

The Trustee has previously reviewed the arrangements with Aviva and Aegon and appointed Fidelity as the provider for future contributions. The Trustee has discussed the potential options for the historic AVC and COMPS funds held with Aegon and Aviva given that members use these funds for their pension commencement lump sum. The Trustee will continue to review the position during 2023. From May 2021, ongoing AVC contributions that were previously paid to Aegon are paid to Fidelity.

Self-select investment choices

The Trustee allows members to self-select from the following range of funds:

COMPS with Aviva	Aviva Pension Secure Growth Aviva Pension BlackRock UK Equity FP Aviva Pension Baillie Gifford Managed FP
AVCs with Fidelity	Fidelity Balanced Fund Fidelity BlackRock Global Equity 50/50 Fund Fidelity BlackRock UK Equity Index Fund Fidelity Cash Pension Fund Fidelity Life Long Bond Fund Fidelity Sterling Corporate Bond Fund
AVCs with Aegon	Members can choose from over 300 funds that are available. The funds used by members over the Scheme year included: <ul style="list-style-type: none"> • Aegon Global Equity Tracker Fund • Aegon Long Gilt Fund • Aegon External Balanced Collection • Aegon Cash Fund • Aegon Mixed Fund • Aegon UK Fixed Interest Fund • Aegon Global Equity Tracker Lifestyle Fund • Aegon Global Equity Tracker Lifestyle 2023 Fund

Members may wish to take independent financial advice before choosing funds.

CHARGES AND TRANSACTION COSTS PAID BY MEMBERS

The Trustee is required to explain the charges and transaction costs (i.e. the costs of buying and selling investments) in the Scheme that are paid by members rather than the employer.

The investment management and transaction costs can be explained as follows:

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

It would be impractical (and potentially confusing to members) if the Trustee sourced and listed the charges and transaction costs for all of the funds potentially available to members with DC elements within the Scheme, particularly the 300+ funds available for the AVCs held with Aegon.

As a result, the Trustee has focused on requesting that the fund managers provide the level of charges and transaction costs applicable to the funds being used as at 31 December 2022 in the different sections.

The level of ongoing charges and transaction costs applicable to the different sections during the last Scheme year were confirmed by the managers and detailed on the next page.

**RANSOMES PENSION SCHEME
CHAIR'S STATEMENT (continued)**

	Total charges		Transaction costs for the period 1 January 2022 to 31 December 2022	
	% p.a. per the amount invested	£ p.a. per £1,000 invested	% p.a. per the amount invested	£ p.a. per £1,000 invested
COMPS with Aviva				
Aviva Pension Baillie Gifford Managed FP	1.20%	£12.00	0.19%	£1.90
Aviva Pension BlackRock UK Equity FP	1.21%	£12.10	0.13%	£1.30
Aviva Pension Secure Growth FP	0.98%	£9.80	0.01%	£0.10
AVCs with Fidelity				
Scheme-specific Balanced Fund	0.79%	£7.90	0.14%	£1.40
Fidelity BlackRock Global Equity 50/50 Fund	0.65%	£6.50	0.03%	£0.30
Fidelity BlackRock UK Equity Index Fund	0.60%	£6.00	0.07%	£0.70
Fidelity Life Long Bond Fund	0.60%	£6.00	0.00%	£0.00
Fidelity Cash Pension Fund	0.31%	£3.10	0.00%	£0.00
Fidelity Sterling Corporate Bond Fund	0.74%	£7.40	0.00%	£0.00
AVCs with AEGON				
Aegon Global Equity Tracker Fund	0.77%	£7.70	0.10%	£1.00
Aegon Long Gilt Fund	0.75%	£7.50	0.08%	£0.80
Aegon External Balanced Collection	1.05%	£10.50	0.17%	£1.70%
Aegon Cash Fund	0.75%	£7.50	0.00%	£0.00
Aegon Mixed Fund	0.76%	£7.60	0.21%	£2.10
Aegon Global Equity Tracker Lifestyle 2023 Fund	0.75%	£7.50	0.07%	£0.70
Aegon Global Equity Tracker Lifestyle Fund	0.77%	£7.70	0.10%	£1.00

Completeness of charges and 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.

We were not provided with transaction costs prior to 1 January 2018 for any of the funds. As the reporting of transaction costs is a statutory requirement, not obtaining full transaction cost data is a difficulty faced by many pension schemes. It should be noted that the transaction costs are likely to vary from fund to fund and from year to year.

**RANSOMES PENSION SCHEME
CHAIR'S STATEMENT (continued)**

Further explanation of the With-Profit AVC arrangements

Some members with Aviva funds are invested in the Aviva Secure Growth Fund, which has no annual management charge, but Aviva allows for a charge of 0.98% p.a. when declaring With Profits bonus rates.

The Trustee takes a proportionate approach to reviewing these investments based on the size of the funds invested compared to the overall value of benefits that the members hold within the Scheme. In addition, the Trustee notes that Aviva has a With Profits Committee for their Secure Growth Fund, who consider matters affecting the interests of the policyholders within each fund, including fair pay-outs.

The Trustee periodically reviews these arrangements to ensure they continue to be fit for purpose and will continue to write directly to members who have such investments if there is anything of significance to make members aware of.

Examples of the impact of costs and charges

We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on members' savings.

Aviva has prepared the following standard illustrations and has confirmed these comply with the statutory guidance issued by the Department for Work and Pensions.

Aviva has confirmed the tables show how different costs and charges can impact the pension pot over certain periods, based on a selection of investment funds. Table 1 shows typical funds for the Scheme. Table 2 shows funds with different growth rate assumptions and charges. Under each investment fund, there are two columns. The first shows the projected pension values assuming no charges are taken. The second shows the projected pension values after costs and charges are taken. By comparing the two it can be seen how much the charges over the years will impact an individual's pension fund. So, for example, if an individual started their pension at age 30 and expected to retire at 65, the figures at the end of year 35 would give an idea of the individual's pension fund.

Table 1

Illustration of effect of cost and charges for typical funds within your scheme – RANSOMES PLC Retirement and Death Benefits Scheme										
	Av Secure Growth-FPSECG_P		Av Baillie Gifford Managed-FPBMAN_P		Av BlackRock UK Equity-FPLUKEQ_P		Av Pre-retirement Fixed Interest-FPANNP_P		Av Cash-FPCASH_P	
	Assumed growth rate 5.6%		Assumed growth rate 5.6%		Assumed growth rate 6.5%		Assumed growth rate 3.5%		Assumed growth rate 2.5%	
	Assumed costs and charges 0.99%		Assumed costs and charges 1.38%		Assumed costs and charges 1.44%		Assumed costs and charges 1.03%		Assumed costs and charges 0.98%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£13,700	£13,600	£13,700	£13,500	£13,800	£13,600	£13,400	£13,300	£13,300	£13,200
2	£14,100	£13,800	£14,100	£13,700	£14,400	£14,000	£13,600	£13,300	£13,300	£13,000
3	£14,500	£14,100	£14,500	£14,000	£14,900	£14,300	£13,700	£13,300	£13,300	£12,900
4	£15,000	£14,400	£15,000	£14,200	£15,500	£14,600	£13,800	£13,300	£13,300	£12,800
5	£15,400	£14,700	£15,400	£14,400	£16,100	£15,000	£14,000	£13,300	£13,300	£12,700
6	£15,900	£15,000	£15,900	£14,600	£16,700	£15,400	£14,100	£13,300	£13,300	£12,500
7	£16,400	£15,300	£16,400	£14,900	£17,400	£15,700	£14,200	£13,200	£13,300	£12,400
8	£16,900	£15,600	£16,900	£15,100	£18,100	£16,100	£14,400	£13,200	£13,300	£12,300
9	£17,400	£15,900	£17,400	£15,400	£18,800	£16,500	£14,500	£13,200	£13,300	£12,200

Source: Aviva

**RANSOMES PENSION SCHEME
CHAIR'S STATEMENT (continued)**

Table 2

Illustration of effect of costs and charges for funds with different growth rates and charges within your scheme – RANSOMES PLC Retirement and Death Benefits Scheme								
	Av Pre-retirement Fixed Interest- FPANNP_P		Av Cash-FPCASH_P		Av BlackRock (60:40) Global Equity Index Tracker-FPWIT_P		Av BlackRock UK Equity-FPUKEQ_P	
	Assumed growth rate 3.5%		Assumed growth rate 2.5%		Assumed growth rate 6.5%		Assumed growth rate 6.5%	
	Assumed costs and charges 1.03%		Assumed costs and charges 0.98%		Assumed costs and charges 1.05%		Assumed costs and charges 1.44%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£13,400	£13,300	£13,300	£13,200	£13,800	£13,700	£13,800	£13,600
2	£13,600	£13,300	£13,300	£13,000	£14,400	£14,100	£14,400	£14,000
3	£13,700	£13,300	£13,300	£12,900	£14,900	£14,500	£14,900	£14,300
4	£13,800	£13,300	£13,300	£12,800	£15,500	£14,900	£15,500	£14,600
5	£14,000	£13,300	£13,300	£12,700	£16,100	£15,300	£16,100	£15,000
6	£14,100	£13,300	£13,300	£12,500	£16,700	£15,700	£16,700	£15,400
7	£14,200	£13,200	£13,300	£12,400	£17,400	£16,200	£17,400	£15,700
8	£14,400	£13,200	£13,300	£12,300	£18,100	£16,600	£18,100	£16,100
9	£14,500	£13,200	£13,300	£12,200	£18,800	£17,100	£18,800	£16,500

Source: Aviva

For these illustrations, Aviva has assumed:

1. The starting age is 56.
2. The retirement age is 65 for all.
3. No future contributions are made.
4. The starting pension fund value in the first year is £13,300.
5. The figures illustrate the pension pot value in 'today's money' which means they take inflation into account by reducing values at 2.5% a year. Seeing the figures in this way shows what they could be worth today. It is important to note inflation reduces the worth of all savings and investments. The effect of this is shown in the illustration and could mean the fund may reduce as well as grow in 'today's money'.
6. Transaction costs may not have been included where data was not available from fund managers.

Finally, Aviva has confirmed that schemes will offer other funds to those illustrated, with different growth potential and different charges, and may also offer some form of lifestyling investment approach. As the individual funds used in a lifestyling approach have different growth potential and different charges, the overall growth rate and overall charge will change over time. For these reasons, Aviva has shown a range of funds with a range of charges which are available, and which could apply to an individual's pension pot during the life of a plan. Aviva has confirmed that the illustrations should not be used to make investment decisions and may not be relevant to an individual's personal circumstances as monies may be invested in different funds, for example.

Aegon has also prepared the following example for deferred members as at 31 December 2022, having taken account of the statutory guidance issued by the Department of Work and Pensions¹. Ongoing contributions are not made to the AVC arrangement with Aegon. From May 2021 the regular contribution of active members who make AVCs were made to Fidelity.

¹ <https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes>

RANSOMES PENSION SCHEME CHAIR'S STATEMENT (continued)

The table below shows the projected pension savings in today's money for a representative member of the AVC arrangement with Aegon using:

- The median pot size of the arrangement by type of member.
- An average of the transaction costs over the period for which they are available. Initially, Aegon will be averaging a period of transaction costs which are less than five years. Where Aegon have transaction costs for five or more years they will average the previous five years transaction costs.
- The 'Before charges' column shows the projected pension fund without any transaction costs, or charges and rebates being applied. The 'After all charges' column shows the projected pension fund after transaction costs, charges and rebates have been applied.

'Typical' deferred member of the AVC arrangement with Aegon

Years	Mixed		Equity		UKFixedInterest		Cash		ExtBalCollection	
	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	5,288	5,239	5,326	5,276	5,136	5,097	5,098	5,062	5,276	5,213
3	5,470	5,320	5,589	5,434	5,012	4,897	4,901	4,799	5,431	5,240
5	5,659	5,401	5,865	5,595	4,890	4,705	4,712	4,549	5,591	5,267
10	6,159	5,611	6,616	6,021	4,599	4,258	4,270	3,980	6,013	5,335
15	6,703	5,829	7,464	6,480	4,325	3,853	3,869	3,482	6,466	5,404
16	6,817	5,873	7,646	6,576	4,273	3,777	3,794	3,390	6,560	5,418

Source: Aegon

Notes

For this illustration, Aegon has assumed:

1. The starting age is 49.
2. The retirement age is 65 for all.
3. No future contributions are made.
4. Projected pension fund values are shown in today's terms, and do not need to be reduced further for inflation. Inflation is assumed to be 2.5%, each year.
5. The starting pension fund value in the first year is £5,199.57
6. The illustration has been produced on the basis that this is the only fund invested in and that all transaction costs and scheme charges are deducted from that fund.
7. The following growth rates, charges and transaction costs have been assumed:

	Growth rate	Total charges	Transaction costs
Aegon Mixed Fund	4.25%	0.76%	0.22%
Aegon Equity Fund	5.00%	0.75%	0.24%
Aegon Fixed Interest Fund	1.25%	0.76%	0.06%
Aegon Cash Fund	0.50%	0.75%	0.00%
Aegon External Balanced Collection Fund	4.00%	1.05%	0.20%

8. If the growth rate used is the same as the rate of inflation, this reduces the growth rate, after making an allowance for inflation, to 0%. If the growth rate is less than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.

Finally, Aegon has confirmed that the tables are not personal illustrations, they are based on the assumptions detailed in this section and the purpose of the example illustration is to show how fund-related costs and scheme charges can affect the overall value of the funds the scheme invests in over time.

**RANSOMES PENSION SCHEME
CHAIR'S STATEMENT (continued)**

Past performance of the investment funds

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

The net returns to the year ending 31 December 2022 are shown in the table 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.

Aviva has prepared the following table, in line with the requirements of the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 and accompanying statutory guidance.

Annualised net returns (%) for the self-select funds over periods to the scheme year ending 31 December 2022.

Annualised returns net of charges for a single investment of £10,000 in the Scheme					
Duration	1 Year (annualised)	5 years (annualised)	10 Years (annualised)	15 years (annualised)	20 years (annualised)
Time period (start – end date)	31/12/2021 – 31/12/2022	31/12/2017 – 31/12/2022	31/12/2012 – 31/12/2022	31/12/2007 – 31/12/2022	31/12/2002 – 31/12/2022
Aviva Pension Baillie Gifford Managed FP	-24.80%	3.69%	7.20%	6.49%	7.83%
Aviva Pension BlackRock UK Equity FP	-5.99%	3.06%	6.98%	5.62%	8.30%
Aviva Pension Secure Growth	0.98%	2.18%	6.69%	6.02%	Data unavailable

Source: Aviva

Notes:

For the above table, Aviva has assumed:

1. The charges are those currently applicable to a single contribution of £10,000 paid into the Scheme at the beginning of the reporting period.
2. Returns are annualised geometric means over the time periods displayed. For example, if a net fund return over a 5 year period was 15.9% this would be shown as 3% p.a. in the '5 year' column.
3. Returns are net of all costs and charges borne by members, including platform or product administration charges, fund management charges, additional fund expenses and transaction costs.
4. The net returns reflect the current charge arrangement. These charges could vary in the future.

CORE FINANCIAL TRANSACTIONS

The Trustee is 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 that are paid in by members.
- Transferring assets relating to members.
- Transferring assets between different investments.
- Making payments to, or on behalf of, members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the COMPS and AVC administrators.

During the Scheme year, administration of the COMPS was delivered by Aviva, while administration of the AVC holdings was delivered by Aegon and Fidelity. This administration service included key financial tasks such as keeping track of changes in members' circumstances and arranging switching and disinvestments of designated investments.

These AVC managers are required to carry out services in accordance with good industry practice. The administration service is required to ensure transactions are carried out in a timely and effective manner. Aviva aim for 95% of the majority of client demands to be completed within five working days.

Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

Overall, we are confident that the processes and controls in place with the administrators 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 Trustee Directors 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 Trustee Directors are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the SIP and the documents setting out the Trustee's current policies. They 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 Trustee Directors do this by regularly reviewing the relevant Scheme documents via the Scheme's online portal.

The Pensions Regulator issued a code of practice for trustees of pension schemes providing money purchase benefits (the DC code) and the Trustee Directors continue to consider the code requirements in their activities.

All of the Trustee Directors have completed The Pensions Regulator's online trustee toolkit. New Trustee Directors are required to complete the toolkit within six months of becoming a Trustee Director. Trustee Directors must review the toolkit on an ongoing basis to ensure their knowledge remains up to date.

Relevant advisers are in attendance at meetings and in frequent contact with the Trustee Directors to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.

During the Scheme year, training and development in the following areas took place:

- The training log was reviewed at each Trustee's meeting.
- The Trustee Directors received "on the job" training. This means that as new topics arise professional advisers attending the Trustee meetings will provide training, so the Trustee Directors may engage in an informed manner. Items over the year included: Russia/Ukraine checklist for trustees and employers, pension dashboards, high inflation and the impact on pension schemes, new DWP regulations for Investment Consultant objectives, gilt yield shock checklist, DWP draft regulations for scheme funding, corporate accounting, Transfer Incentives and the new transfer regulations, Lifetime Allowance and scheme pays, actuarial factor reviews, employer covenant review, and actuarial valuations.

RANSOMES PENSION SCHEME CHAIR'S STATEMENT (continued)

We take our training and development responsibilities seriously and each year hold a "Blue Sky" day (in addition to the regular Scheme meetings), which includes training sessions and speakers from a variety of specialisms. The Trustee keeps a record of the training completed by each member of the Trustee Board. The training log is kept up to date and regularly reviewed to identify any gaps in the knowledge and understanding across the Trustee Board as a whole.

The Trustee meet all the knowledge and understanding requirements and understand the Scheme and its documents.

Because of the training activities which have been completed by the Trustee Board individually and collectively and considering the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Trustee enables us to properly exercise our functions as Trustee Directors.

ASSESSING VALUE FOR MEMBERS

As part of our assessment of the charges and transaction costs, the Trustee is required to consider the extent to which member-borne costs and charges within the COMPS and AVC arrangements within the Scheme represent good value for members when this is compared to other options available in the market.

This section sets out the approach that the Trustee has taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

Categorising costs/charges

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

In line with our legal duties and guidance issued by The Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Principal Employer.

The charges paid by COMPS members or AVC members comprise not only fund management charges and transaction costs for the investment funds used but also cover the costs of the services provided to members by Aviva, Fidelity and Aegon including services such as:

- The costs of reviewing and updating funds available to members on their platforms.
- Administration costs for the providers (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, etc).
- Member communications (e.g. the costs of producing and issuing annual benefit statements, etc).

However, for all other Scheme costs and charges, the Principal Employer bears the full cost, covering such areas as:

- Wider investment support and governance (e.g. the costs of reviewing the AVC providers, etc).
- Administration of the COMPS and AVC arrangements of the Scheme (e.g. the costs of updating and maintaining overall member records, dealing with member queries, etc).
- Member communications (e.g. the costs of producing and issuing member booklets, etc).
- The management and governance of the Scheme (e.g. the expenses of the Trustee, the costs of legal/actuarial advisers and annual audit, etc).

For the COMPS and AVC arrangements, the Trustee has applied a proportionate approach to assessing value for members given the low value of their DC holdings relative to their overall benefits in the Scheme, including any accrued defined benefits, given that the Scheme is predominantly defined benefit and these arrangements are not stand-alone DC sections.

Our overall approach

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

1. We have collated information on services that members receive and the total costs that members pay (including transaction costs where available).
2. We have assessed the scope and quality of the services that members receive from the COMPS and AVC arrangements.
3. We have compared the value that members receive from the services against the cost of those services, on the 'value for member' basis required by legislation (i.e. ignoring the wider elements of value that members receive as a result of costs paid by the participating employers).
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

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

In attempting to compare these against other options available in the market, the Trustee has found that there are limited industry-wide benchmarks for each service area and so the Trustee has relied on the market knowledge of its advisers.

Overall, the Trustee has determined that the COMPS and AVC arrangements with Aviva and Aegon do not offer 'value for members' over the Scheme year to 31 December 2022 when measured against the definition required by legislation, primarily due to their charges being high (although not untypical for similar-sized AVC arrangements).

As a result, in 2023, the Trustee will review the options available regarding historic AVC and COMPS funds held with Aegon and Aviva.

Preparation for the assessment

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

In particular, the size of the COMPS and AVC fund holdings relative to the quantum of defined benefits savings for the members, meant that a 'high level' assessment would be used, which would be of a smaller scale than if any of the arrangements had been a standalone DC section.

Process followed for the assessment, including key factors considered

The Trustee, assisted by our advisers, performed a high level review of these arrangements against other AVC arrangements available in the market (including some comparison against personal pensions).

In particular, the Trustee considered factors like the following:

- The ways that members can access their AVC savings at retirement and how this compares to other options available in the market.
- The level of charges paid on AVC savings.

Explanation of the results

Our conclusion that the COMPS with Aviva and the AVC arrangements with Aegon do not offer value for members over the year to 31 December 2022 is based on factors such as:

- The charges involved, particularly as they do not compare favourably to Fidelity for comparable funds and previous attempts to negotiate lower charges with Aviva had not been successful in producing rebates to member charges.
- The services provided by Fidelity give members with AVC fund access to a more modern platform, with online access that enables members to view and manage their own funds.
- Monies held in any of the with-profits funds were thought to represent poor value to members due to, amongst other factors:
 - The lack of transparency / influence on how the with-profits funds are run.
 - The fact that the with-profits investment strategies (and therefore any future bonuses) are dependent upon the financial strength and continued solvency of Aviva.

Steps taken to improve value for members during the Scheme year

During the Scheme year, the Trustee took the following steps to improve value for members:

- Continued to facilitate the payment of ongoing AVC contributions into the Scheme's current money purchase arrangements with Fidelity.
- Discussed the potential options for the historic funds held with Aviva in respect of the COMPS and Aegon for the AVC funds.
- Preparing an engagement policy implementation statement, in line with statutory regulations, that describes how the Trustee has followed certain policies (including those relating to stewardship) in the Statement of Investment Principles and the Trustee's voting behaviour during the Scheme year.

Follow-on actions and investigations

Over the year to 31 December 2023, the Trustee plans the following:

- Review the historic AVC and COMPS funds held with Aegon and Aviva against the market providers and continue to consider potential options particularly in light of the fact that members can use these funds for their pension commencement lump sums.
- Continue to review funds and monitor performance.
- Discuss the value for member analysis with the employer to obtain their views.