

## Annual Statement Regarding Governance

London United Busways Trustee Company No.3 Limited (the 'Trustee') is the trustee of the London United Busways Retirement Benefits Plan (the 'Plan').

Regulations effective from 6th April 2015 require the Trustee to prepare a statement showing how it has met certain minimum governance standards in relation to defined contribution (DC) benefits. These standards cover four principal areas relating to the Plan's DC benefits, namely:

- the default investment arrangement;
- core financial transactions;
- value from member borne deductions; and,
- the trustees' knowledge, understanding and resources.

This statement sets out the steps taken by the Trustee to meet the statutory governance standards for the period 1 January 2020 to 31 December 2020. It has been prepared in compliance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations').

The Trustee operates a DC Working Party that focuses on the management of the Plan's DC benefits. The DC Working Party is made up of a sub-group of Trustee Directors, RATP Dev London's (the 'Sponsoring Employer') Pensions Manager, and the Trustee's DC consultant (Mercer). The work of the DC Working Party is reported back to the Trustee.

Members have the following DC benefits in the Plan:

- Additional Voluntary Contributions ('AVCs') – no new AVCs were accepted after 30 June 2017.
- Benefits in the Pension Investment Plan ('PIP') – no contributions could be made to the PIP after 24 October 2013.

### Key terms

This statement uses some terms that you may not be familiar with, in particular:

- Some of the investment funds are 'with profits' and some are 'unit linked'. Broadly speaking, a unit linked fund is an investment vehicle that pools assets and gives investors a unit that entitles them to a share of the assets including their investment return or loss. A with profits fund is similar to a unit linked fund but seeks to smooth out the ups and downs of investment returns and provide guarantees.
- Transaction costs are the expenses incurred by asset managers when buying, selling, lending or borrowing investments.
- 'Smoothing' is a term relevant to with profit funds and is broadly speaking when profit in good years is held back to cover losses in bad years.
- A Market Value Reduction (only applicable to the Clerical Medical With Profits Fund) is a way of ensuring that members in a with profits fund do not lose out when another member in a with profits fund takes his or her savings out early.

## 1. Investment (including the default investment arrangement)

The Trustee is responsible for setting the Plan's investment strategy and for appointing investment managers to carry out that strategy. They must also establish a default investment arrangement. A default investment arrangement is an investment fund that is used for members who join pension arrangements but do not choose how their DC savings are invested.

There is no default option in relation to the AVCs. This is because members made an investment choice when opting to make AVCs.

However, from a review of the joining documentation for the PIP, the Trustee has received legal advice indicating that the Clerical Medical With Profits Fund is a default investment option for the PIP.

Details of the investment strategy (i.e. the Trustee's aims, objectives and policies for the default option) are set out in a document called the Statement of Investment Principles (the 'SIP'). The latest copy of the SIP for the default investment option is appended to this statement. It has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment Regulations) 2005. Part of the SIP's aim is to articulate the principles and policies that guide the Trustee's decisions when making investments including in relation to matters such as risk and diversification.

The objectives of the default arrangement are to achieve a stable and smoothed level of return over the medium to long term. The Trustee has selected a Clerical Medical With Profits Fund because its objectives are consistent with the Trustee's. The fund is invested in a range of assets including equities, government and corporate bonds, property and cash. The strategic investment mix is reviewed regularly by Clerical Medical and assets are chosen with a view to getting the best possible longterm performance and making sure the fund can meet its guarantees. It may provide bonuses in line with policies, and additionally guarantees at the discretion of Clerical Medical and depending on the investment performance of the fund's underlying assets.

The Trustee's DC Working Group conducts an annual review of the DC arrangements, including performance of the default, with help from professional advisers. This annual review, undertaken by the DC Working Group, includes reviewing a comprehensive monitoring report, which includes past performance.

The Trustee also carries out a more in-depth review of both the strategy and performance of the default option at least every three years (and more often if there are any significant changes in investment policy or the membership) as required by legislation.

The Trustee conducted an in-depth review of the default investment strategy and performance of the default investment option (as required by regulation 2A of the 2005 Investment Regulations) in 2020 on advice from Mercer. The review considered the performance of the Plan's investments and profile of members. This was discussed at the DC Working Party meeting on 10 November 2020. This review concluded:

- Performance of the unit linked funds has been mixed and should continue to be monitored by the Trustee;
- The Clerical Medical With Profits Fund has generally performed in third or fourth quartiles compared with our With Profits funds, based on the data available;
- Utmost offers a small fund range and limited online service for members; and,
- At a minimum, member communication was required to assist members with considering the suitability of the available investment options.

In relation to the default investment strategy, the Trustee is conscious to balance the performance of the Clerical Medical WithProfits Fund with potential loss of future terminal bonuses and application of market value adjustments should a change in the strategy be agreed. It has therefore asked Mercer to explore its options further in this regard and a review of these options will continue over 2021.

The Trustee also received regulated advice in relation to the transfer from Equitable Life to Utmost. This transfer happened on 1 January 2020 and included removal of the Equitable Life With Profits fund. To compensate members for the removal of future terminal bonuses from this fund, uplifts were paid into members' savings.

Members were initially transferred into the Utmost Secure Cash Fund which guaranteed no reduction in value of the initial investment for the six months to 30 June 2020. After this point, Utmost's default position was to gradually move members' funds into its 'Investing By Age Journey' over the six months from 1 July 2020. The Investing By Age Journey is a lifestyle fund, that is one which derisks the underlying investments as members get older.

The Trustee received regulated advice confirming the suitability of both the transfer from Equitable Life to Utmost and the Investing By Age Journey.

## **2. The processing of core financial transactions**

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. This section explains how it does that.

This includes the following actions so far as they relate to DC benefits:

- Investment of contributions paid to the Plan;
- Transfer of members' assets into and out of the Plan;
- Transfers of members' assets between different investment options available in the Plan; and □  
Payments from the Plan to, or in respect of, members.

Since the AVC and PIP arrangements no longer accept new contributions, the main transactions that occur are paying out of benefits and the switching of investment options (if any).

For 2020 these transactions were undertaken on the Trustee's behalf by Utmost, as the investment and administration provider during 2020 in respect of the Plan's DC benefits.

There were no service level agreements in place with Utmost. Utmost did not disclose the processes that they have in place to ensure that core financial transactions proceeded promptly and accurately. They provided the Trustee with annual transaction summaries, but these did not set out sufficient detail to enable the Trustee to assess the accuracy and timeliness of core financial transactions. Our advisers, Mercer, on behalf of all of their clients that held investments with Utmost, asked Utmost to provide this information to policyholders, but they declined. This affected all pension schemes with Utmost investments. Mercer continues to monitor this on behalf of the Trustee, in respect of Utmost's ongoing services.

Mercer, as the Plan administrator, also has a role in the processing of core financial transactions. Mercer will process the payment of member benefits out of the Plan and would receive any investment switching options (via the in-house Pensions Officer). Mercer then instruct Utmost to make the appropriate disinvestment or investment switch. The Trustee has service level agreements in place with Mercer that cover the accuracy and timeliness of this element of the financial transaction process.

Mercer records all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task.

Mercer's administration reports disclose performance against agreed timescales. These disclosures are considered by the Trustee at their meetings and are reviewed against the targets set. The Trustee requires additional disclosures in respect of

any transactions and benefit processing activity that has not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales are breached and the proposed remedial measures.

The Trustee also monitor the accuracy of the Plan’s data quarterly. A summary report is received from the Plan administrator.

As a wider review of the Plan administrator in general, the Trustee receives the Plan administrator’s assurance report on internal controls. For the Plan year, the report received was for the period 1 January 2019 to 31 December 2019 and noted the Independent Service Auditor’s opinion that, in all material aspects, its controls were suitably designed and those tested operated effectively.

During 2020, the Trustee did not identify any instances where core financial transactions were not processed promptly and accurately.

The Plan’s risk register details the risks to Plan members associated with a failure to process core financial transactions promptly and accurately and it is monitored and reviewed on at least an annual basis.

Matters that arise relating to the administration of DC benefits are discussed at regular DC Working Party meetings.

The Trustee is pleased that in the last scheme year there have been no material administration service issues which need to be reported here. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

### 3. Charges and transaction costs during 2020

The Trustees are required to report on the charges and transaction costs for the investments used in the default arrangement as well as the wider fund choice available and assess the extent to which the charges and costs represent good value for members. When preparing this statement, the Trustees have taken account of statutory guidance when producing this section.

The default investment option for PIP benefits, the Clerical Medical With Profits Fund, attracts an explicit annual management charge of 0.50% p.a. This was the annual management charge during 2020 and there is no anticipated change for 2021. (The level of transaction costs payable in relation to this fund is unknown as explained below.)

However, the total charges underlying a with profits investment are not clear. Pay outs on “surrender” and “maturity” (i.e. disinvestment) will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any increase for guaranteed terms and after the effect of ‘smoothing’. For example, if the guarantee impacts on the amount paid out, it could mean the underlying charges have been zero. This lack of clarity is relevant to the Clerical Medical With Profits Fund.

For other investments that are not with-profits investments and called ‘unit linked’ funds, the annual management charge (plus any relevant transaction charges – see below) are the only charges payable by members.

In addition to the PIP default investment option, the Trustee also makes available range of alternative investment options that may be chosen by members.

The annual management charges and transaction costs for the funds that make up the investment strategy for the alternative investment options are:

Fund	AMC during 2020 as % of assets under management	Other costs including transaction costs as % of assets under management	Total charges impact as % of assets under management
UK Government Bond	0.50%	0.05%	0.55%
Global Equity	0.75%	0.24%	0.99%
UK Equity	0.75%	0.39%	1.14%
Managed	0.75%	0.17%	0.92%
Money Market	0.50%	0.00%	0.50%
Clerical Medical With-Profits <sup>#</sup>	0.50%	Unknown*	Unknown*

\* Utmost has not confirmed the full costs for the Clerical Medical With-Profits Fund, albeit they have produced illustrations as to the impact of the cost and charges. This means the Trustee has not been able to obtain the level of transaction costs applicable to this fund. The Trustee will continue to liaise with Utmost to obtain confirmation of the full costs and Mercer will do so on its behalf (and on behalf of their other affected clients, as agreed).

<sup>#</sup> By its nature, the charging structure is not transparent – for example, investment returns are earned in the form of discretionary bonuses calculated by the provider. Additionally, amounts paid out are smoothed over a period and won’t specifically reflect the value of the underlying assets.

The annual management charge consists principally of the fund manager's annual charge for managing and operating a fund, but also includes the costs for other services paid for by the fund such as legal costs, registration fees and custodian fees. However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs and interest on borrowings. Utmost has confirmed that transaction costs are met out of members' funds in addition to the annual management charge.

*Transaction costs borne by members*

The charges referred to above include transaction costs. These are costs incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account by the fund managers when calculating the unit price for each of the funds. The transaction costs shown are calculated on a methodology known as 'slippage cost'. This compares the price of the stocks being traded when a transaction was executed with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be negative as well as positive.

To date transaction costs have been difficult to identify which is why the government and regulators have introduced requirements on asset managers to disclose this information. However, not all managers have done this yet.

The information disclosed by Utmost on transaction costs has been included in the table above. Utmost confirmed that no charges are applied to switch investments between funds (though a Market Value Reduction may apply in respect of the Clerical Medical With Profits Fund).

As noted above, the Trustee has been unable to obtain information about the level of transaction costs applicable to the Clerical Medical With Profits Fund (the PIP) default investment option. The Trustee continued to ask Mercer to liaise with Utmost to seek to obtain a complete set of transaction costs information.

*Illustration of the impact of costs and charges*

Using the charges and transaction cost data provided by Utmost and in accordance with regulation 23(1)(ca) of the Administration Regulations the Trustee, with Utmost's and Mercer's assistance, has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings.

The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical member's pension pot, we have provided an example below. This includes all member costs, including the Total Expense Ratio, transaction costs and inflation. The illustration covers all possible time periods. On average, a member has a total fund value of c. £6,000 as at 31 December 2020.

The Trustee has had regard to DWP's statutory guidance when preparing this example. However, to help members compare and contrast how the different cost and charges will impact the money invested in each fund in use, we have equally split the average total fund value of £6,000 between the 6 different funds that members were invested in. This means each fund is assumed to have a starting amount of £1,000. This is not necessarily reflective of the median amount that is invested in each fund. This is the only material way in which the below example deviate from the approaches suggested by the statutory guidance. The charges contained in the illustration are in pounds (£).

Term	Clerical Medical With-Profits		Managed	
	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted
1	1,010	1,000	1,010	1,002
3	1,030	999	1,031	1,006
5	1,050	998	1,052	1,010
10	1,102	995	1,107	1,020
15	1,157	993	1,165	1,030
20	1,214	990	1,226	1,041

<b>25</b>	1,275	988	1,290	1,051
<b>30</b>	1,338	985	1,358	1,061
<b>35</b>	1,405	983	1,429	1,072
<b>40</b>	1,475	981	1,503	1,083
<b>Term</b>	<b>UK Equity</b>		<b>Global Equity</b>	
	<b>Before Charges</b>	<b>After Costs and Charges Deducted</b>	<b>Before Charges</b>	<b>After Costs and Charges Deducted</b>
<b>1</b>	1,020	1,009	1,020	1,011
<b>3</b>	1,060	1,028	1,060	1,033
<b>5</b>	1,101	1,047	1,101	1,056
<b>10</b>	1,213	1,097	1,213	1,115
<b>15</b>	1,336	1,149	1,336	1,177
<b>20</b>	1,472	1,204	1,472	1,242
<b>25</b>	1,621	1,261	1,621	1,312
<b>30</b>	1,786	1,321	1,786	1,385
<b>35</b>	1,967	1,383	1,967	1,462
<b>40</b>	2,166	1,449	2,166	1,543
<b>Term</b>	<b>UK Government</b>		<b>Money Market</b>	
	<b>Before Charges</b>	<b>After Costs and Charges Deducted</b>	<b>Before Charges</b>	<b>After Costs and Charges Deducted</b>
<b>1</b>	985	979	980	976
<b>3</b>	957	940	943	928
<b>5</b>	929	901	906	883
<b>10</b>	863	812	821	781
<b>15</b>	802	732	744	690
<b>20</b>	745	660	674	609
<b>25</b>	692	595	611	538
<b>30</b>	643	536	554	476
<b>35</b>	597	483	502	420
<b>40</b>	554	436	455	371

Notes:

- 1) Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- 2) The starting investment amount in each Fund in use is assumed to be £1,000.
- 3) Inflation is assumed to be 2.5% p.a.
- 4) Values shown are estimates and are not guaranteed
- 5) The projected growth rate for each fund are as follows:  
With-Profits 3.5% p.a.  
Unit-Linked Equity 4.5% p.a. (Managed, UK Equity, Global Equity)

Unit-Linked Fixed Interest 1.00% p.a. (UK Government Bond)  
Unit-Linked Cash 0.5% p.a. (Money Market) *Source:*

### *Utmost*

This statement has been produced having regard to the Department of Work and Pension's September 2018 guidance: 'Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes'.

### *Value for Money*

In accordance with the Pensions Regulator's DC Code of Practice number 13 and the Administration Regulations, the Trustee (having taken professional advice) has carried out an assessment of the extent member borne DC charges and transaction charges (to the extent known) represent good value for members.

Good value means different things to different people. The Trustee believes that it balances costs against benefits (such as services). However, there are circumstances affecting Utmost at the moment which play a large part in a good value analysis.

The Trustee assessment followed the process undertaken previously, whereby the Trustee applied an assessment framework for measuring price, performance and productivity of the funds, scheme governance, at retirement solution, administration, online access & member tools and Member services & communications. Both costs and quality of services were taken into account. A poor, neutral and good rating system was used. The criteria were not weighted but instead reviewed holistically. Mercer advised the Trustee on their analysis and as such the Trustee benefits from Mercer's understanding of the DC market and comparative offerings.

The Trustee reviewed Mercer's assessment (issued on 3 June 2021 and approved by the Trustee on 16 June 2021) and concluded that the costs and charges paid by members represents poor value for money because:

- Whilst the closure deal and transfer to Utmost was overall assessed as being in the best interest of members, particularly due to the compensation on offer to applicable members, the range of future investment options with Utmost nudges the overall value from neutral to poor;
- Charges on funds have been assessed by our advisors as comparing as around average / neutral with those of peer funds. They could be considered as high by current DC standards but with the Plan closed to future contributions and due to the relatively small amount of total assets better terms may be difficult to obtain;
- The performance of the Plan's funds over the 5 years to 31 December 2019 has been mixed with a number of funds failing to beat or match their benchmark, although where unit linked funds have performed below median this has only been marginal, hence representing reasonable to poor value for members. Performance after this date is hard to measure given the funds were set up on 1 January 2020; however, we continue to monitor performance on a short term basis;
- Scheme governance was broadly assessed as good. The structure put in place, including the DC Working Group and Professional Trustee, and separate meetings provides for specific focus on defined contribution issues and topics;
- As a retirement solution, the Plan allows options as required under legislation but not much flexibility. This is therefore seen as neutral;
- Utmost has service standards of between 5 and 10 working days. As an additional overlay the Mercer administration team has a service level agreement in place that is monitored quarterly. This was assessed as good overall; and,
- Utmost does not offer online access and minimal member communications.

The Trustee Directors did not believe that it was proportionate to undertake a market review of price and performance for the with profits investments. This is because switching away from the Clerical Medical With Profits Fund would mean the loss of future guarantees and may incur a Market Value Reduction. The Trustee Directors continue to closely monitor developments in this area.

#### **4. Trustee knowledge and understanding**

In accordance with sections 247 and 248 of the Pensions Act 2004 and TPR Code of Practice 07, the Trustee Directors are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during 2020 as follows:

- All Trustee Directors have now completed The Pension Regulator's Trustee Toolkit (an online learning platform for trustees) and new directors are required to complete this within six months of becoming Trustee Directors of the Plan.
- The Trustee Directors maintain a trustee training log, which the Plan Secretary and Chair review to identify knowledge gaps in and agree how to address the gaps. They also take suggestions to identify gaps based on upcoming Trustee business.
- The Trustee receives regular advice from its actuarial, investment, legal, audit and consultancy advisers. Advisers regularly attend Trustee meetings and help the Trustee to obtain the necessary working knowledge of pensions law, funding and investment issues. Trustee advisers provide the Trustee with specific training on relevant items and proactively flag new regulatory, legal or market changes that would materially impact the Plan. The papers for every main Trustee meeting contain a Mercer paper flagging such changes over the last few months. During the year, the Trustee

received training on the potential impact of Covid-19 on markets and economy, as well as its implications on the DC Risk Register. Furthermore, due to the pandemic, special attention was given to pension scams.

- The Trustee Chair has been a Trustee Director of the Plan for 17 years. The Trustee also has (as required) one third representation by member-nominated Trustee Directors, who enable the Trustee to always access a member-perspective (in line with those individual's trustee duties).
- The Trustee Directors include a professional independent trustee, with a considerable amount of trustee and pensions consulting experience. He has a great deal of high quality experience as a trustee of both DB and DC schemes and an in depth knowledge of governance and operational issues for pension schemes. In particular, he has a great deal of understanding of the Plan's administration practices and is conversant with the Plan rules, SIP, statement of funding principles and trustee policies. He and his colleagues helped draft some of those policies when he became a Trustee Director of the Plan. The professional trustee came on board prior to the Plan closure to accrual and so quickly became familiar with its benefit structure, funding levels and investment strategies.
- Support is provided by a Plan secretary provided by the Company's in-house pensions function.
- The Trustee regularly takes advice from their investment consultants and legal advisers in respect of matters of funding, investment and pensions law and trusts, and the Chair (and/or the Plan Secretary on his behalf) liaises with those advisers about the agenda for upcoming Trustee meetings.

The Trustee Directors are conversant with the Plan's SIP and review this with assistance from the Plan's investment advisers. This is evidenced by the fact that the SIP is discussed at relevant Trustee meetings and also between the Chair and the investment consultant on a more regular basis. They also have a working knowledge of the Plan rules and Trustee policies. This is demonstrated in Trustee meetings when the Trustee Directors, and the advisers, are discussing member death cases or other issues relating to the Plan's operation. These requirements are also met as a result of the bullet points above.

Collectively they are an independent minded group of Trustee Directors who work collectively and collaboratively with all of their advisers.

During 2019 a self-assessment process was implemented. Each Trustee director filled out a questionnaire that helped them identify any areas for development, which was then reviewed by the Chair. No specific training was identified from the questionnaires.

It has been some years since a new Trustee Director joined the Trustee (who was not a professional). However, the Trustee is mindful that should a new trustee appointment take place a proper induction programme will be needed to ensure the new trustee director becomes conversant with the Plan and the pensions industry and legal and regulatory standards.

Taking account of the Trustee Directors as individuals and collectively, and the professional advice available to them, the Trustee Directors consider that they have appropriate knowledge and understanding. It means that when making trustee decisions, the Trustee Directors ask the right questions of the right adviser and properly challenge all of their advisers, as well as instinctively knowing which documents to refer to and what requirements must be adhered to. Importantly it means they 'know what they don't know' and when to obtain professional advice to plug the gap. These actions demonstrate that the Trustee Directors are enabled to carry out their duties as trustees.

### Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee Directors to the best of our knowledge.

Signed on behalf of the Trustee Company on 16 June 2021



..... Trustee Director

## PART 3

### THE LONDON UNITED BUSWAYS RETIREMENT BENEFIT PLAN (THE "PLAN")

#### STATEMENT OF INVESTMENT PRINCIPLES IN RESPECT OF THE DEFAULT INVESTMENT OPTION 1. Introduction

- 1.1 The Trustee of the Plan has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of Section 2A the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation, relating to provision of

information specific to default investments, referred to as “default arrangement”. This should be read in conjunction with the Part 2 Statement.

- 1.2 The default arrangements covered by this Statement are the Clerical Medical With Profits Fund in the main section, and in the appendix, the Utmost Life Secure Cash Fund and the Utmost Life Money Market Fund.
- 1.3 Unless otherwise stated below, the policies contained in the Part 2 Statement apply to the default arrangements contained in this Part 3 Statement.
- 1.4 Unless otherwise stated in the appendix, the below policies and statements applicable to the Clerical Medical With Profits Fund apply to the Utmost Life Secure Cash Fund and the Utmost Life Money Market Fund.

## **2. Principles**

- 2.1 The Trustee recognises that many members do not consider themselves able to take investment decisions. In addition, the Trustee is aware that members who have not actively decided upon an investment option will have had their contributions invested for them, making their arrangements a default arrangement.
- 2.2 Whilst no contributions are currently being paid into the Plan, investments may have historically been placed in the default arrangement.
- 2.3 The default arrangement covered by the main section is the Clerical Medical With Profits Fund which is accessed via a policy provided by Utmost Life and Pensions.

## **3. Clerical Medical With Profits Fund Default Arrangement**

### **Objectives**

- 3.1 The aims of the default arrangement and the ways in which the Trustee seeks to achieve these are detailed below:
  - To achieve a smoothed level return over the medium to long term
  - The Trustee has selected a with profits fund as the default arrangement. With profits funds have objectives that are consistent with that stated above.
  - The Trustee has appointed Clerical Medical to manage the default arrangement .The Clerical Medical With Profits Fund is invested in a range of assets including equities, government and corporate bonds, property and cash. The strategic investment mix is reviewed regularly by Clerical Medical and assets are chosen with a view to getting the best possible long-term performance; and making sure that the with-profits fund can always meet its guarantees.
  - To provide members with bonuses, at the discretion of the provider, depending on prevailing investment performance.

The policies with regards to the payment of bonuses can be found in the Principles and Practices of Financial Management (which is a Clerical Medical document that sets out how the Clerical Medical With Profits Fund is managed).



### **Policies in relation to the default arrangement**

3.2 The Trustee's policies in relation to the default arrangement, in relation to regulation 2A of the Occupational Pension Schemes (investment) Regulations, Section (b) (i) to (vi) are as follows:

- The Trustee has selected a with profits arrangement which means that the day-to-day decisions on the kinds of investments and the balance between different kinds to be held are taken by Clerical Medical. The Trustee acknowledges that there are restrictions in the extent that it can control these day-to-day decisions. The Trustee monitors the investment strategy and performance of the with profits arrangement and considers if it remains appropriate as part of its annual value for members assessment.
- The default arrangement manages investment risks during the lifetime of the investment. Section 4 provides further information on the Trustee's risk policies in relation to the default arrangement.
- In providing the default arrangement the Trustee considers the trade-off between expected risk and return. This is reviewed periodically. The Trustee's expectation is that the default arrangement will provide a positive real return over the long term in a steady manner, noting that it is reliant on asset allocation decisions taken by Clerical Medical to achieve this expectation.
- The Trustee takes into account the needs of members with regards the investment in relation to the security, quality, liquidity and profitability. To a great extent, the Trustee is reliant on the provider to manage these aspects.
- If members wish to, they can opt to choose their own investment options at any time from a limited range of daily dealt unit-linked funds. The Trustee communicates with members where penalties may apply on disinvestment.
- The Trustee monitors performance of the default arrangement. The Trustee does not provide advice to members on their individual choice of investment options.
- The selection, retention and realisation of assets within the With Profits fund is delegated to Clerical Medical in line with its Principles and Practices of Financial Management guidelines. Clerical Medical has full discretion on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

### **Member's Interests**

3.3 Taking into account the demographics of the membership and the Trustee's views of how the membership will behave at retirement, the Trustee will review the appropriateness of the default arrangement, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

### **Non-Financial matters**

3.3 The Trustee does not take non-financial matters (e.g. anyone's ethical views or personal views in relation to social and environmental impacts or quality of life) into account when making any investment decisions, including selecting, retaining or realising investments. There is not likely to be a common view amongst members. The Trustee will comply with its legal duty to act in the financial interests of the membership as a whole.

#### 4. Risk

4.1 The Trustee has set out a number of risks in Part 2 of this Statement, as required by (b) (iii) of the Regulations. The means by which those relevant for the default arrangements are managed or mitigated is set out below:

- **Investment return risk** – the risk that low investment returns over members' working lives will be lower than expectation. The Trustee has sought to reduce this risk by offering a fund that invests in assets with long term growth expectations, noting this cannot be guaranteed.
- **Manager risk** – the risk that the decisions taken by an investment manager may have a detrimental impact on the returns of a fund. The Trustee is aware that it is reliant on the manager to take appropriate investment decisions in pursuit of the investment objective.
- **Benefit Conversion Risk** – the risk that the value of the member's pre-retirement investment fund does not keep pace with the 'value' of the retirement benefits they intend to secure. This risk is not specifically mitigated within the default but fund options are available to members to manage this risk outside of the default.
- **Currency risk** – this is the risk that investments in overseas markets will be affected by changes in exchange rates leading to lower returns in pound sterling terms. The Trustee provides diversified investment options that invest in local as well as overseas markets and currencies.
- **Liquidity risk** – this is the risk that the pooled funds, through which the Trustee allows members to invest, do not provide the required level of liquidity. The Trustees access daily dealt and daily priced pooled funds. Investment managers are expected to manage the liquidity of assets in the underlying strategies and keep exposures to any illiquid assets to prudent levels.
- **Inflation risk** - this is the risk of investment returns not keeping pace with inflation. The Trustee has sought to address this risk by offering a fund that is across a range of asset classes that are expected to achieve a real rate of return over inflation. This may be further enhanced by returns paid in the form of discretionary bonuses.
- **Market Value Adjustment** – this is the risk that Clerical Medical impose a penalty on members' investments should they transfer their benefits or take 'non-standard' retirement. The Trustee does not have the direct ability to mitigate this risk but will look to communicate with members so as to manage member expectations in the event of this adjustment.
- **Solvency Risk** – this is the risk that the Clerical Medical become insolvent which prevents them paying the returns across to members. The Trustee expects Clerical Medical to be setting aside sufficient solvency capital to ensure benefits can be paid in this event.
- **Risk of operational costs** - The members who invest in the Clerical Medical with profits fund bear profits and losses arising from expenses and there is a risk that these will increase. The Trustee has noted that Clerical Medical's policy states that they plan to deduct no more than 1% in any one year, but in very adverse market conditions, may have to deduct more than this to ensure that guarantees are met.

- **Operational risk** – The Trustee will consider Utmost Life’s performance at least annually and monitor developments, taking advice from the Investment Adviser.
- **Transparency risk** – the Trustee has noted that it will not necessarily have access to the methodology used to calculate investment returns and bonuses in relation to the Clerical Medical With Profits Fund.
- **Timing risk** – this is the risk that members invested who leave the Clerical Medical With Profits Fund later are impacted by less favourable returns than those who left earlier. The Trustee expects Clerical Medical to adopt a fair mechanism for the distribution of returns across all members

Unless otherwise set out above, the risks are as set out in Part 2 of the Statement.

## 5. Suitability of the Clerical Medical With Profits Default

5.1 Based on its understanding of the Plan’s membership, the Trustee believes that the above objectives and policies (including relevant policies in the Part 2 Statement) reflect members’ needs and are intended to ensure assets are invested in their best interests, in particular because:

- The aim of achieving a smooth steady return is deemed to be in the best interest for members to provide growth to their contributions to achieve better outcomes in retirement.
- Investing in a fund that may apply bonus returns (noting that these are discretionary) will also have a positive impact of member outcomes.
- Investing in a fund that mitigates risk through diversification, for which the kind of assets and the balance between these has been delegated to a professional manager, is believed to improve the chances of achieving a smooth and steady return, which is in members’ best interests.

5.2 The default arrangement is aimed largely at members who have elected not to make investment decisions. The Trustee is aware that the default may not be suitable for all members.

## 6. Review of this Statement

6.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in the membership profile or investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments. Signed: Richard Casling

Date: 18/09/2020

## Appendix

Additional Default Arrangements – Utmost Life and Pensions Limited

**At the start of 2020, the assets previously held in the Equitable Life With Profits Fund were transferred into the Utmost Life Secure Cash Fund without members’ consent. This occurred as part of the transfer of the Equitable Life Assurance Society’s UK policies to Utmost Life and Pensions Limited. Between 01 July 2020 and 31 December 2020, the assets will be gradually moved into the Utmost Life Money Market Fund, following advice from the investment consultant.**

As the Equitable Life With Profits Fund was closed and members mapped to a new investment strategy, the Secure Cash Fund and the Money Market Fund can be considered as additional default arrangements, as per the broader definition of a default in the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (“the Charges and Governance Regulations 2015”), effective from 6 April 2018. Details of the funds used within the Utmost Life Secure Cash Fund, and then subsequently the Money Market Fund, the new default arrangements, are set out in this Appendix.

The investment strategy of the Utmost Life Secure Cash Fund is being used as a temporary measure following the transfer from Equitable Life to Utmost Life until funds are transferred to the Utmost Money Market Fund over the second half of 2020.

In line with regulatory requirements, the Trustee will continue to review the following over time.

**Aims, Objectives and Policies**

The aims, objectives and policies of each fund utilised within the default investment strategy are considered in more detail in following pages. The Trustee has focussed on what it considers to be ‘financially material considerations’. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member’s age and when they expect to retire.

**Secure Cash Fund**

The Trustee sees the Secure Cash Fund as an appropriate interim investment whilst arrangements are made for the transfer of assets to the Money Market Fund at Utmost Life.

The main objectives of the Utmost Life Secure Cash Fund are capital preservation, liquidity and yield; in that order.

The Trustee notes that the Secure Cash Fund’s value is unlikely to keep pace with inflation. Utmost has guaranteed that the unit price (net of fees) will not decrease, after accounting for charges. The Secure Cash Fund will cease to exist on 31 December 2020.

**Risk**

The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

<b>Risk</b>	<b>How it is managed</b>	<b>How it is measured</b>
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<b>Investment Return Risk</b>	<p>The fund will predominantly be invested in UK Treasury Bills, short term gilts and overnight bank deposits. On occasions, other high quality money market investments such as Commercial Paper or Repurchase Agreements may be purchased.</p> <p>There is a guarantee in place for the first six months of investment that the value of the fund will not decrease, after the adjustment of fees.</p>	<p>The investment manager is responsible for determining the balance between these different kinds of investments.</p> <p>The Trustees will monitor the performance of this fund, in line with the guarantee provided.</p>
<b>Inflation Risk</b>	<p>The fund is a short term investment, and as such inflation is not expected to have a large impact on the fund.</p>	<p>The Trustee will monitor the performance of this fund.</p>
<b>Solvency Risk</b>	<p>The Trustee has taken comfort from the High Court ruling in 2019, which considered the status of Utmost Life in the initial status of monitoring this investment.</p> <p>Underlying investments are considered in line with the main Part 3 Statement above.</p>	<p>Monitor developments at Utmost, taking advice from the Investment Adviser.</p>

**Members Interests**

The Secure Cash Fund is designed to meet its objective as outlined above. As such, and given that this fund will cease to exist in December 2020, the Trustee believes that its objectives and policies in relation to this fund will ensure assets are invested in relevant members’ best interests because it aims to achieve capital preservation and liquidity during this temporary period.

**Money Market Fund**

The Trustee sees the Money Market Fund as an appropriate investment following the temporary holding in the Secure Cash fund, as detailed above.

The main objective of the Utmost Life Money Market Fund is to preserve capital whilst aiming to provide a return in line with prevailing short term money market rates.

The Money Market Fund will predominantly be invested in short term deposits. The investment manager is responsible for determining the balance between the different kinds of investments.

Other policies are in line with the main DC Scheme.

**Risk**

The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
<b>Investment Return Risk</b>	The fund will predominantly be invested in short term deposits.	The Trustees will monitor the performance of this fund.
Risk	How it is managed	How it is measured

<b>Inflation Risk</b>	The fund is not aiming to keep pace with inflation.	The Trustees will monitor the performance of this fund, and will ensure members are aware of the fund's objectives.
<b>Solvency Risk</b>	The Trustees have taken comfort from the High Court ruling in 2019 which considered the status of Utmost Life in the initial status of monitoring this investment.  Underlying investments are considered in line with the main Part 3 Statement above.	Monitor developments at Utmost, taking advice from the Investment Adviser.
<b>Operational Risk</b>	The Trustee will consider Utmost Life's performance at least annually.	Monitor developments at Utmost, taking advice from the Investment Adviser.
<b>Manager Risk</b>	The Trustee seeks advice from their investment advisers on the ongoing suitability of the Fund.	The Trustee will monitor performance, taking advice from their Investment advisers.

**Members Interests**

The Money Market Fund is designed to meet its objective as outlined above. The Trustee believes that its objectives and policies in relation to this fund will ensure assets are invested in relevant members' best interests. In particular because this would provide a degree of capital protection for members, particularly those closer to retirement than the average member, and likely to access their funds at retirement. In line with regulatory requirements, the Trustee will continue to review this over time, at least triennially and likely sooner for those further away from retirement, or after significant changes to the Scheme's demographic profile.