

Scholl Pension Plan (“The Plan”)

Annual governance statement by the Chair of Trustees

Plan Year ended 5 April 2024

Under legislation set out in Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Schemes (Charges and Governance) 2015 and subsequent amendments (“the Administration Regulations”) the Trustees of the Plan are required to prepare a statement (the ‘Statement’) on governance in the annual report.

The Trustees are pleased to present the Trustees’ annual statement on Defined Contribution (“DC”) governance for inclusion in the Report and Accounts for the Plan, covering the period 6 April 2023 to 5 April 2024. This statement describes how the Trustees seek to make sure that the Plan is well-managed and delivers value for money to members. In doing so, the Trustees provide the various statutory disclosures required by legislation. These standards cover six principal areas relating to the Plan’s DC Section and Additional Voluntary Contributions (‘AVCs’) arrangements, namely:

1. Investment Strategy, with particular focus on the Plan’s default arrangement;
2. Internal Controls, with particular focus on the processing of core financial transactions;
3. Charges and transaction costs within the Plan, and the impact of these on a member’s future fund size;
4. Net return on investment;
5. Value for members assessment; and
6. The knowledge and resources available to Trustees, including how the Trustees maintained the statutory level of knowledge and understanding to govern the Scheme, and how these help the Trustees ensure the Plan is governed correctly.

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these minimum standards over the period 6 April 2023 to 5 April 2024. This statement is uploaded to a publicly available website (link below) and is included within benefit statements.

<https://schollpensionplan.com/home/>

The Plan closed to future contributions on 31 August 2000. As noted above, the Plan has a DC Section and this Statement relates principally to that Section of the Plan. In addition to the DC section, the Plan has two AVC policies held with Utmost Life & Pensions (“Utmost”) and Clerical Medical.

It should be noted that members in the DC Section have a Defined Benefit (“DB”) underpin to ensure that their benefits meet the necessary terms for the Plan having contracted-out of part of the state pension. In practice, this means that each member in the DC Section also has an annual pension which increases over time from the date of leaving the Plan to retirement. A check is carried out at retirement, and the member receives the greater of the DC pension fund (which is converted into an annual pension) and the DB underpin increased to retirement age.

The Trustees are aware that the benefits arising from the DB underpin are generally greater than the DC benefits. Because of this, and given the small size of the DC Section relative to the Plan’s other benefits, the Trustees have taken a proportionate approach to these benefits in their governance of the Plan.

Members with DC benefits were previously notified that the Trustees of the Plan have been taking actions to ensure that the Plan is in a position to ‘buy-in’ the DC benefits in the future and that a ‘buy-in’ is a way of securing benefits within the Plan so that no further contributions are needed from the sponsoring employer, and also guarantees a level of pension for members.

As part of the buy-in preparation, the Trustees of the Plan arranged for the DC investments within the Plan (excluding AVCs held with Utmost or Clerical Medical) to be transferred to investments that broadly mirror the liability characteristics of the DB underpins. The switch took place in February 2022.

As part of the transition of DC benefits the Trustees agreed terms with the Pension Insurance Corporation (‘PIC’), who will eventually secure members’ benefits. It was agreed that for members whose DC funds exceed their DB underpin, they will have the additional DC fund converted into additional DB pension, and for members whose DC fund was less than the DB underpin, the Plan would make up the difference in cost.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, they can get help finding a regulated financial adviser through the MoneyHelper website at www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/find-a-retirement-adviser.

The Default Investment Arrangement

The Trustees are responsible for setting the Plan's investment strategy and for appointing investment managers to carry out that strategy.

A copy of the Plan's latest Statement of Investment Principles ("SIP"), dated December 2022, prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is appended to this document. The SIP relates to the Plan as a whole but includes details relating to the DC Section and AVC arrangements.

The SIP covers the following key matters in relation to the default arrangement:

- Trustees' aims and objectives in relation to the Plan's investment arrangements
- Trustees' policies relating to matters such as risk and diversification.

The Plan is not, and never has been, used as a vehicle for auto-enrolment and closed to future accrual on 31 August 2000. As such, the Plan does not operate a default investment arrangement within the meaning of the Pensions Act 2008 in relation to the DC benefits under the Plan. References to the "default strategy" within the SIP refers to the investment strategy in which members' funds are invested.

During 2021, the Trustees took advice regarding the best investment approach to limit additional costs in line with the buy-in. Following the advice provided by a suitable investment advisor, an alternative investment strategy was created to broadly mirror the liability characteristics of the DB underpins. Based on this remit and the availability of funds at Legal and General (the Plan's investment platform), the Plan's DC assets were transferred to invest in a single blended fund, proportions as follows: 20% LGIM Over 15 Years Gilt Index, and 80% LGIM All-Stocks Index-Linked Gilt Index. The change took place in February 2022.

The Trustees review investment performance regularly.

Asset Allocation

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 ("the 2023 Regulations") introduced new requirements for trustees and managers of certain occupational pension schemes.

For the first scheme year that ends after 1 October 2023, trustees or managers of relevant occupational pension schemes, are required to disclose their full asset allocations of investments for their default arrangements. We set out this information below:

Legal & General Blended Bond Fund	Percentage allocation (%)
Cash	0.0
Bonds	100.0
Listed Equities	0.0
Private Equity	0.0
Infrastructure	0.0
Property	0.0
Private Debt	0.0
Other	0.0
Total	100.0

Notes:

The negative allocation in 'other' is due to exposure to derivatives, which provide synthetic exposure to asset classes (i.e. Bonds in the case of the Plan). These have been noted as 'other', as these synthetic exposures can be complex and do not clearly fit into any of the specified asset classes listed in the table above.

The following describes the types of investments covered by the above asset classes:

- Cash – Cash and assets that behave similarly to cash e.g. treasury bills. It only includes invested cash and not the cash balance held by a scheme.
- Bonds – Loans made to the bond issuer, usually a government or a company, to be repaid at a later date.
- Listed Equity – Shares in companies that are listed on global stock exchanges. Owning shares makes a scheme a part owner of the company, entitled to a share of the profits (if any) payable as dividends.
- Private Equity – Unlisted equities that are not publicly traded on stock exchanges. Encompasses a broad range of investment styles, including:
 - Venture Capital – Small, early stage businesses that may have high growth potential, albeit at significant risk.
 - Growth Equity – Relatively mature companies that are going through a transformational event with potential for growth.
- Infrastructure – physical structures, facilities, systems, or networks that provide or support public services including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals, and prisons.
- Property – Real estate, potentially including offices, retail buildings which are rented out to businesses.
- Private Debt – Other forms of loan that do not fall within the definition of a 'Bond'.
- Other – Any assets that do not fall within the above categories.

The Processing of Core Financial Transactions

As required by Regulation 24 of the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. As mentioned above, the Plan is closed to future contributions and has only one investment option (with some AVC arrangements in addition). As a result, the core financial transactions that relate to the Plan are:

- the transfer of members' assets out of the Plan; and
- payments from the Plan, to, or in respect of, members.

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Appointing a reputable professional pension administration provider, Aptia UK Limited (the "Administrator")
- Core transactions involve liaising with the providers and investment managers. The Trustees have delegated the day-to-day investment management of the DC Section to Legal & General, and to Utmost and Clerical Medical in relation to the AVC policies.
- Having in place Service Level Agreements (SLAs) with the Administrator which cover all core administration processes. The Administrator (Aptia) is asked to account for shortfalls in performance against SLAs. The SLAs are details below:

SLA	Transaction type	Target Service Level
3 working days	Death No Annuity - Quotation	95%
3 working days	Death Settle	95%
4 working days	Individual Member Switch	95%
10 working days	Retirement	95%
10 working days	Transfer In	95%
10 working days	Transfer Out	95%
35 working days	Divorce	95%

- Over the Plan year, 95% of cases were completed within the agreed SLAs and 100% of cases relating to core financial transactions were completed within the agreed SLAs;
- Ensuring that detailed disaster recovery plans are in place with the Administrator, other relevant third parties, and within the sponsoring employer;

- Maintaining and monitoring a Risk Register which outlines the risks to members and to the Plan. The Register includes risks in relation to core financial transactions and considers the impact, likelihood, controls and mitigation for each risk. The Risk Register is monitored and reviewed on a regular basis;
- Appointing a professional firm to undertake an annual audit to confirm that benefit payments have been made in a timely manner and in line with the required timescales, and;
- As a wider review of the Administrator in general, the Administrator employs an independent auditor to prepare an annual report on their internal controls (AAF01/06/ ISAE 3402) to which the Trustees have access.

The Trustees were satisfied that the Plan's core financial transactions were processed promptly and accurately during the period to which this Statement relates.

Charges and transactions costs

The Trustees are required to report on the charges and transaction costs for the investments used by the Plan and their assessment of the extent to which these charges and costs represent good value for members. There is a Government imposed charge cap of 0.75% p.a. for default arrangements for schemes which are being used for auto-enrolment purposes. However, as the Plan is not used for this purpose the cap does not apply. Despite this, the Plan's fund charges are below the charge cap. Members have been made aware of the maximum charges that could apply to the fund choices.

The range of the levels of charges and transaction costs applicable to the investments during the period are detailed in this section.

Explicit charges known as the Total Expense Ratio ("TER") consist principally of the manager's annual charge for managing and operating a fund, but also include the costs for other services paid for by the fund, such as the 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.

Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty.

Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

The table below shows the TER and transaction costs in the fund used by the DC Section.

Current fund

The DC Section's assets are currently invested in the 'Blended Bond Fund', which is comprised of the two funds in the following proportions: 80% in the All Stocks Index-Linked Gilts fund; and 20% in the Over 15 Year Gilts Index fund.

Fund	TER (% pa)	Transaction Cost (%)
Legal & General Blended Bond Fund	0.13%	0.02%

Source: Legal & General.

In relation to the Plan's AVC arrangements, the table below sets out the charges for all funds available under the providers:

Utmost:

Fund Name	TER (% pa)	Transaction Cost (%)
Utmost Managed	0.75%	0.12%
Utmost Money Market	0.50%	0.02%
Utmost UK Equity	0.75%	0.24%
Utmost US Equity	0.75%	0.08%

Clerical Medical:

	AMC (% pa)	Transaction Cost (%)
Clerical Medical	0.50	-

Source: Utmost and Clerical Medical.

Notes: Transaction costs provided by Legal and General and Utmost are for the period 01/04/23 – 31/03/24.

Costs for the Clerical Medical arrangement were not provided in time for the production of this document, therefore, the AMC shown is as at 31/03/23.

Performance Fees

There are no performance fees associated with any of the funds invested in by the Plan.

Net Investment Returns

The Trustees acknowledge the requirement, as part of the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') to calculate and state the return on investments from their funds, net of transaction costs and charges. Performance is provided to 31 March 2024 due to availability of data.

Fund	1 Year to 31/03/24	5 Year (p.a) to 31/03/24
Legal & General Blended Bond Fund	-5.0%	N/A

Source: Legal & General.

Notes: 5 Year performance is unavailable given the inception date of February 2022 for the Blended Bond Fund.

Utmost:*Source: Utmost*

Fund	1 Year to 31/03/24	5 Year (p.a) to 31/03/24
Utmost Managed	9.4%	4.7%
Utmost Money Market	4.7%	1.2%
Utmost UK Equity	8.6%	4.3%
Utmost US Equity	29.0%	15.0%

Performance of Clerical Medical's AVC arrangements was not provided in time for the production of this document.

Illustrations of the Impact of Costs and Charges

In accordance with regulation 23(1) (ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings. The statutory guidance provided has been considered when providing these examples. The below illustration has taken into account the following elements:

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

To make this representative of the membership, the Trustees have based this on an average member, aged 58, using a starting fund size of £27,150 invested in the default investment strategy. No further contributions have been assumed and no allowance has been made for the impact of any DB underpin.

Projected Fund sizes in Today's Money			
		Blended Bond Fund	
Year End	Age	Fund Size with no Charges Incurred	Fund Size with Charges Incurred
0	58	£27,150	£27,150
1	59	£28,129	£28,063
2	60	£29,144	£29,006
3	61	£30,195	£29,981
4	62	£31,284	£30,989
5	63	£32,412	£32,030
6	64	£33,581	£33,107
7	65	£34,792	£34,220

Notes:

1. Projected pension fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Starting fund size is assumed to be £27,150, starting age is assumed to be 58 and retirement is assumed at age 65.
3. The member is assumed to make no further contributions.
4. Inflation is assumed to be 2.5% per annum.
5. Charges assumed for the fund are as provided by Legal & General, shown earlier in this Statement.

6. The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Plan Year End. Due to lack of available data for previous years, the transaction costs used in the above illustrations are based on the two year period 1/04/2022 to 31/03/2024 only.
7. Values are estimates at end of each year and are not guaranteed.
8. The projected growth rate assumed for the Blended Bond Fund is 3.5% per year real return above inflation, gross of charges.

Value for Member Assessment

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustees are required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for members, relative to peers and alternative arrangements that are available.

The Trustees fully support transparency of charges and costs for members. However, a key consideration for members is the performance produced net of combined charges and costs. Moreover, a cheaper fund does not necessarily deliver the best value for money.

The Trustees are required to assess the extent to which the DC Section of the Plan delivers value for members across three key areas:

- Comparative assessment against three larger DC arrangements, considering the level of ongoing member-borne charges and transaction costs;
- Comparative assessment against three larger DC arrangements, considering investment performance net of all member-borne costs and charges; and
- Standalone assessment of the Plan's governance and administration arrangements, covering: core financial transactions; record keeping; default investment strategy; investment governance; trustees knowledge and understanding; member communications; and management of conflicts of interest.

The Trustees have carried out a 'value for members' assessment as at 5th April 2024. The conclusions of this assessment are set out below:

- Costs and charges - The Trustees have assessed the DC Section of the Plan as offering good value from a costs and charges perspective.
- Net investment performance - The Trustees have assessed the DC Section of the Plan as offering reasonable value from a net investment performance perspective. Although performance has been low relative to comparators, the Trustees are planning to secure defined benefits on the winding-up of the Plan so the strategy reflects the expected cost of such defined benefits, which has fallen over the Plan year.
- Governance and administration - The Trustees have assessed the DC Section of the Plan as offering reasonable value from a governance and administration perspective. Whilst there are some potential areas for improvement, the Plan is currently undergoing a buy-in project which is expected to be finalised in 2024 or early 2025.
- Overall - Considering all three areas set out above, the Trustees have assessed the DC Section of the Plan as offering reasonable value for members. The Plan is currently undergoing a buy-in project, which is expected to be finalised in early 2025, and as such the above factors reflect this process.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees 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. The Trustees must also be conversant with the Plan's own documentation. These are described in legislation as items such as Trustees' Memorandum and Articles of Association, trust deed and rules, statement of investment principles ("SIP"). The Trustees must also be conversant with any other document recording current policy relating to the administration of the Plan generally. The Pensions Regulator interprets 'conversant' as having a

working knowledge of those documents such that the Trustees are able to use them effectively when they are required to do so in the course of carrying out their duties on behalf of the Trustees.

The Trustees are required to disclose how these duties have been fulfilled and how their combined knowledge and understanding, together with the advice, which is available to them, enables them to properly exercise their duties and responsibilities.

The seven Trustees' meetings held in the period covered by this statement were attended by the Plan's advisers. Training and advice delivered as part of the business at these meetings is incorporated by the Trustees in their decision-making processes.

The Trustees are conversant with, and have a working knowledge of, the Plan documents such as the Trust Deed and Rules. The Trustees have demonstrated conversance by exercising their discretionary powers relating to death cases over the Plan year, where necessary. If there are any ambiguities over the interpretation of the Rules, legal advice is sought from the Plan's legal advisors.

The Trustees are conversant with, and have a working knowledge of, the current SIP. The Trustees undertake regular training on investment matters and review the Plan's investments at Trustees' meetings. The Trustees have sufficient knowledge of investment matters to be able to challenge their advisors. During the Plan year, the Trustees demonstrated conversance through:

- Consideration of the methodology for converting the benefits of members of the DC Section into defined benefits.
- Working closely with advisors to progress the buy-in and secure the benefits of Plan members.

The Trustees receive professional advice from Mercer and legal advice where appropriate to support them in reviewing the performance of the Plan and in governing the Plan in line with the Trust Deed and Rules, and the relevant skills and experience of Mercer is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustees, along with their own experience allows them to properly exercise their functions.

The Plan's risks are reviewed regularly at Trustees' meetings as part of the buy-in project.

All of the Trustees in office over the year are undertaking or are up to date with the relevant Pension Regulator's Trustee Toolkit training modules. During the year, the Trustees have undertaken training as part of their regular trustee meetings, including training on the requirements for winding-up including communicating with members, cyber security and trustee protections including consideration of insurance and company indemnity, as well as regular updates from Mercer on developments in the market, regulation and legislation.

Taking account of actions taken individually and as a group of Trustees, and the professional advice available to them, the Trustees consider they are properly enabled to exercise their function as a Trustee Board.

Chair's declaration

This Statement has been prepared in accordance with Regulation 23 of the Administration Regulations and I confirm that the above Statement has been prepared by the Trustees and is correct to the best of my knowledge.

Finally, I would like to thank both the Company and my fellow Trustees for their diligence and support in running the Plan for the benefit of the members.

Signed for and on behalf of The Chair and Trustees of the Scholl Pension Plan.