

Date: August 2021

# The Morris & Spottiswood Limited Pension Scheme

## Annual Chair's Statement for the Scheme Year

This statement has been prepared by the Trustees of the Morris & Spottiswood Limited Pension Scheme ("the Scheme") in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended). It explains how the Trustees have met their legal obligations in relation to:

- The investment options in which members' funds are invested (the default arrangement and other funds members can select or have assets in);
- Requirements for processing financial transactions;
- Assessment of charges and transaction costs; and
- The requirement for trustee knowledge and understanding,

over the year 1 January 2020 to 31 December 2020 ("the Scheme Year").

This statement, along with other useful documents relating to the Scheme, can be found on the following website <https://www.morrisandspottiswood.co.uk/about/our-commitments/pension-statements>.

### 1. The Default Arrangement

#### i) *Statement of Investment Principles*

Appended to this statement is a copy of the Scheme's latest Statement of Investment Principles ("SIP") which governs the Trustees' decisions about investments, including its aims, objectives and policies for the Scheme's default arrangement. In particular, the SIP covers the Trustees' investment policies on risk, return and ethical investing and how the default arrangement is intended to ensure that assets are invested in the best interests of members.

The SIP covering the Scheme Year (1 January 2020 to 31 December 2020) was effective from 1 August 2015. Towards the end of the Scheme Year, the Trustees updated the SIP so that it meets new regulatory requirements and reflects the current default arrangements. This SIP was effective from December 2020.

The Trustees have completed an Implementation Statement for the Scheme Year to 31 December 2020. This document outlines the Trustees adherence to the policies included within the SIP and has been included within the appendices.

The Trustees will review the SIP at least every three years (or after any significant change in investment policy). In the absence of any material changes, the SIP will next be reviewed following any changes that come out of the 2021 investment strategy review and before December 2023.

#### ii) *Review of the default arrangements*

The Trustees review the appropriateness of the default arrangements on an ongoing basis and formally at least every three years (or sooner, if there is any significant change in investment policy or member demographics), to ensure that the return on investments is consistent with the Trustee's aims, objectives and policies.

The Trustees last completed a formal review of the Scheme's current default arrangements in April 2019. They will complete a formal review of the Scheme's current default arrangements in 2021.

#### iii) *Aims, objectives and policies relating to the Scheme's main default arrangement*

During the Scheme Year, the Scheme's default strategy was invested with the Prudential Dynamic Growth IV Lifestyle 'targeting retirement options' lifestyle. Details are set out in the attached SIP, with key points noted below.

The strategy initially targets growth in the early years by investing in equities and other assets which have a high expected return, but higher expected risk. The strategy then switches gradually approaching retirement into assets such as bonds and equities, which together provide less volatility but still some growth to preserve wealth.

A range of additional pooled funds are available through Prudential for members to choose based on their own individual circumstances and expected time horizon. The funds are available across a diverse range of asset classes such as equities, bonds, and money market investments/cash.

Alternative lifestyle strategies are also available with different investment strategies suitable for members depending on how they wish to use their savings at retirement.

The Trustees will review both the default strategy, the performance of the default arrangement and the fund range on a regular basis to ensure continued suitability. This will be at least every three years, or without delay, after a significant change to the membership demographic or investment policy.

## 2. Financial Transactions

The Trustees have a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the Scheme are processed promptly and accurately.

We understand that, Service Level Agreements (“SLAs”) are in place with the provider, Prudential, including targeted turnaround times of all core financial transactions. During the Scheme Year, SLAs were monitored by the Trustees on an adhoc basis as a result of all Scheme communications and member queries being directed through the Trustees. However, there is no standard process for reporting to be received from Prudential in relation to how they have performed against these SLAs.

The Trustees, via their advisers, have requested details of the SLAs in place and key Management Information on core transactions and administration activity.

The Trustees are intending to review the provider’s SLAs in future and put in place more formal ongoing monitoring (for example by requesting regular Management Information reporting from the provider to be considered at future Trustee meetings). The Trustees will review these to consider the accuracy and timeliness of all core transactions and take action where appropriate.

## 3. Charges and Transaction costs

### i) Charges borne by the members

The Total Expense Ratio (TERs) measures the total charges applied to the fund’s members are invested in. These charges are already accounted for within the unit price of the fund. Minor variations in TER will occur from year to year as the funds incur some fixed costs which vary as a percentage of assets as the asset value changes.

The TERs borne by the members were as follows:

<b>Fund</b>	<b>Total Expense Ratio (p.a.)</b>
Prudential Dynamic Growth II Fund (default strategy)	0.7300%
Prudential Dynamic Growth IV Fund (default strategy)	0.7300%
Prudential Cash Fund (default strategy)	0.7200%
Prudential International Equity Fund	0.7700%
Prudential UK Equity Fund	0.7600%
Prudential UK Property Fund*	1.3200%
Prudential Long Term Bond Fund	0.6600%
Prudential All Stocks Corporate Bond Fund	0.7600%
Prudential Long Term Gilt Passive Fund	0.6600%

Notes: \*The Prudential UK Property Fund is closed to new contributions.

The government-set a limit on the annual amount that can be charged to savers in default arrangements within defined contribution pension schemes used for auto-enrolment. Default Members investing in the default investment strategy would have seen charges between 0.72% p.a. and 0.73%p.a. depending on how far away they are from retirement. The Scheme's default arrangements therefore complied with the charges cap during the Scheme Year.

**ii) Transaction costs**

To achieve greater transparency about costs, new regulations came into force on 6 April 2018 which require the Trustees to provide members with additional information in relation to investment charges and core transaction costs. These are required to be set out as example member illustrations that have been prepared regarding the relevant statutory guidance: Reporting of costs, charges, and other information: guidance for trustees and managers of relevant occupational schemes.

The Trustees have requested, via their advisers, transaction costs information, covering each of the past five scheme years, for every fund in the Scheme's fund range, from the Scheme's investment platform provider, Prudential.

Prudential provided the Trustees with average transaction costs for each fund over the last 5 years per annum. The Trustees calculated the total costs borne by members by combining the average transaction costs with the TERs for each fund.

The total charges borne by members were as follows:

<b>Fund</b>	<b>Average Transaction Costs (p.a.)</b>	<b>Total Costs (p.a.)</b>
Prudential Dynamic Growth II Fund	0.1113%	0.8413%
Prudential Dynamic Growth IV Fund	0.1000%	0.8300%
Prudential Cash Fund	0.0000%	0.7200%
Prudential International Equity Fund	0.0788%	0.8488%
Prudential UK Equity Fund	-0.0388%	0.7600%
Prudential UK Property Fund	0.4923%	1.8123%
Prudential Long Term Bond Fund	-0.0038%	0.6600%
Prudential All Stocks Corporate Bond Fund	0.0038%	0.7638%
Prudential Long Term Gilt Passive Fund	-0.0625%	0.6600%

*Notes: Average transaction costs shown for the last 5 years. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs and member illustrations in the appendix.*

During the Scheme Year, the total costs that applied to the Scheme's main default arrangement were:

- 0.83% per annum in the period up to ten years before the member's selected retirement date.
- Between 0.83% and 0.81% per annum over the de-risking period for the 10 years before the member's selected retirement age.

The illustrations for Scheme members are set out and explained in the Appendix of this Chair's Statement.

### *iii) Value for members assessment*

There is no legal definition of “good value” and so the process of determining good value for members is a subjective one. The Trustees, with the support of their advisers, have undertaken a value for member assessment review to assess whether the Scheme represents good value for its members. The review is carried out across six key areas, aligned to The Pension Regulator’s DC Code of Practice and guidance on DC schemes. The Trustees have considered a method of assessment which encompasses the charges paid by members and a wide array of features and benefits which are provided by the Scheme and these were assessed on a red/amber/green basis to determine whether they were either behind, slightly behind, or in line with the market. The outcome of the review was documented with any areas for improvement captured.

This review concluded that on an overall basis, the Scheme could be considered to provide poorer value for members compared to what may be available in the market. Whilst there is an appropriate investment strategy in place, the charges incurred by members when considering the wider range of services available, in particular in relation to the retirement options available through the scheme and the range of member communications is behind the wider DC market. A summary of the key findings is set out below. Given the extent of improvements required, the Trustees have started to work with the sponsoring employer (Morris & Spottiswood Limited) to explore the future pension strategy with a view to considering alternative types of DC scheme that would improve value for members.

- **Scheme charges:** Member charges for the Scheme’s default investment strategy are 0.73% p.a. which is lower than the 0.75% p.a. industry charge cap. However, the charges borne by members are considered to be significantly higher than expected for schemes of similar size when approaching the market for a new arrangement. The Trustees were able to obtain details of transaction costs incurred during the Scheme Year from Prudential, and the impact of all charges and costs on members’ pots at retirement is included as an Appendix to this Statement.
- **Investment options:** The Scheme’s default investment strategy targets ‘retirement options’ meaning it is appropriate for members that are undecided about how they will take their income in retirement. We would deem this to be an appropriate target given the pension freedoms. Members also have access to a range of investment options to choose from.
- **Retirement support:** The Scheme does not provide members with the same levels of flexibility at retirement as afforded by more modern schemes in the wider DC market – for example, members can access some of the pension freedoms within the Scheme (UFPLS) however have to transfer out of the scheme to access flexi-access drawdown. The Scheme’s provider, Prudential, provides only limited support for members in making a retirement decision via the issue of their member retirement packs.
- **Governance:** This area was identified as a key area for review by the Trustees and a number of steps have already been taken by the Trustees to address this. These include appointing professional advisers (Isio appointed in October 2020), reviewing the Scheme Statement of Investment Principles (carried out in December 2020) and reviewing regularity and formality of the Trustee meetings (which are now held quarterly).
- **Administration:** The Trustees, via their advisers, have requested details of the SLAs in place and key Management Information on core transactions and administration activity. During the Scheme Year, SLAs were monitored by the Trustees on an adhoc basis as a result of all Scheme communications and member queries being directed through the Trustees. The lack of reporting on the timescales taken to complete member requests is out of line with market practise and the Trustees have taken steps to establish a more formal monitoring process by requesting regular Management Information reporting and details of the end to end reporting.
- **Member education and engagement:** Members receive annual benefit statements from the provider and have access to online personal accounts with some basic modelling tools. All member communications are issued via the Trustees. On balance, the Scheme is below average in

this area when compared against the more modern education and engagement tools available in the wider DC market, such as online calculators, video benefit statements and apps, for example.

Given the extent of improvements to be considered, the Trustees have started to work with the sponsoring employer (Morris & Spottiswood Limited) to explore the future pension strategy with a view to considering alternative types of DC scheme that would improve value for members and governance.

#### **4. Trustee knowledge and Understanding (TKU)**

The law requires the Trustees to possess sufficient knowledge and understanding to enable them to properly exercise their functions as a trustee including (in relation to a DC scheme) that they must be conversant with:

- The trust deed and rules of the scheme.
- The statement of investment principles.
- Any other scheme administration policies or scheme documents.
- And must have appropriate knowledge and understanding of:
  - The law relating to pensions and trusts.
  - The principles relating to
    - The funding of occupational pension schemes.
    - Investment of the assets of such schemes.

The Trustees' own knowledge and understanding, together with the advice which is available to them through their advisers enables them to properly exercise their functions as Trustees of the Scheme. The Trustees held adhoc meetings throughout the Scheme year in order to discuss legislative change and requirements in order to meet their objectives. Since the 2019 Scheme year end, the Trustees have now moved to holding quarterly Trustee meetings.

The Trustees' approach to meeting the TKU requirements during the Scheme year included:

- Ensuring all existing Trustees have completed the Pension Regulator's Trustee Toolkit and a requirement for new Trustees to complete this within twelve months of appointment.
- The Trustees carry out a self-assessment of training needs and take personal responsibility for keeping up to date with relevant legislative and regulatory requirements. The Chair of Trustees reviews the self-assessments and arranges for training to be made available to individual Trustees or to the whole Trustee body as appropriate.
- The Trustees are aware and have an understanding of the Scheme's Trust Deed and Rules, SIP and other documents which are used to govern the Scheme. The Trustees use this knowledge along with the support of their advisers in order to make appropriate decisions as required during the year.

For these reasons, the Trustees believe that their combined knowledge and understanding, together with the advice that is available to the Trustees, enable them to properly exercise their function as the Trustees of the Scheme.

During the Scheme Year, the Trustees have worked towards meeting the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding).

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the regulations").

**Signed on behalf of the Trustees**

**Paul Brown**

## **Appendix**

### **Illustrations of the effect of costs and charges**

#### *Background*

The next pages contain illustrations about the cumulative effect of costs and charges on member savings within the Scheme over a period of time. The illustrations have been prepared with particular regard to statutory guidance.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make several assumptions about what these might be. The assumptions are explained in the Notes section below the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future. In addition, the information contained in this Chair's Statement is not a substitute for the individual and personalised illustrations which are provided to members each year by the Scheme.

#### *Key points to note*

The charges shown in this Statement and illustrated on the next pages have always been in place. These are not new charges. The only difference is that we are required by legislation to demonstrate the effect of charges on your investments. The Trustees work to ensure the charges provide value for our members as set out earlier in this Statement.

#### *Illustrations*

Each of the charts below illustrates the potential impact that costs and charges might have on different investment options provided by the Scheme. Not all investment options are shown - the Trustees have chosen several illustrations which they believe will provide an appropriate representative sample of the different investment choices that members can make.

In each of the illustrations, the "Before charges" column gives the hypothetical value of the investments if members were able to invest in funds at no cost. However, there will always be some cost to investing. This is because the organisations which manage the funds charge fees for their services, and because buying and selling the stocks and shares which drive the funds' performance also has a cost. The "After all costs and charges deducted" column reflects the performance of the funds after these costs have been deducted.

In the illustrations, we have shown the projections for the following:

- The Default Lifestyle Strategy (Prudential Dynamic Growth IV 'Targeting Retirement' Lifestyle)
- The lowest expected returning fund (Prudential Cash Fund)
- The highest expected returning fund (Prudential UK Equity Fund)
- The lowest charging fund (Prudential Long Term Gilt Passive Fund)
- The highest charging fund (Prudential UK Property Fund)

These funds cover a range of expected returns and charges in line with the legislation as well as covering the funds with the highest and lowest expected returns and the highest and lowest charges.

## 1) Illustrations for individual funds

The table below sets out the projected pot size at age 65 for a member currently aged 21 invested solely in one of the funds shown below. Please see the Notes below for more details of the projections.

Active member – 21year old								
Age	Prudential Cash Fund		Prudential UK Equity Fund		Prudential Long Term Gilt Passive Fund		Prudential UK Property Fund	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
21	2,485	2,472	2,555	2,542	2,485	2,473	2,520	2,488
24	5,366	5,297	5,759	5,683	5,366	5,303	5,560	5,384
26	8,133	7,970	9,093	8,903	8,133	7,984	8,600	8,175
31	14,580	14,043	18,028	17,307	14,580	14,087	16,200	14,724
36	20,408	19,333	27,893	26,246	20,408	19,420	23,800	20,700
41	25,676	23,942	38,785	35,753	25,676	24,081	31,400	26,154
46	30,437	27,957	50,811	45,865	30,437	28,154	39,000	31,131
51	34,741	31,456	64,088	56,619	34,741	31,713	46,600	35,673
56	38,632	34,503	78,748	68,056	38,632	34,824	54,200	39,818
61	42,149	37,158	94,933	80,221	42,149	37,542	61,800	43,601
65	44,718	39,034	109,085	90,507	44,718	39,467	67,880	46,388

### 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. Retirement is assumed to be at age 65.
3. The member is assumed to have a pot of £1,000.
4. Inflation is assumed to be 2.5% each year.
5. Starting salary is £19,000 and is assumed to increase in line with inflation.
6. Gross contributions at each year are assumed to be at auto-enrollment level (8% of salary as at that year), from the start of the projection to retirement.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates adjusted for inflation for each fund are:
  - Prudential Cash Fund: -2.00%
  - Prudential UK Equity Fund: 2.00%
  - Prudential Long Term Gilt Passive Fund: -2.00%
  - Prudential UK property Fund: 0.00%
9. The charges assumed for each fund are the current charges as shown earlier in the Chair's Statement. The growth rates and the transaction costs used for the calculations have been provided by Prudential and are the average transaction costs p.a. for each fund over the last 5 years.
10. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs.

The table below sets out the projected pot size at age 65 for a member currently aged 50 invested solely in one of the funds shown below. Please see the Notes below for more details of the projections.

Active member – 50 year old								
Age	Prudential Cash Fund		Prudential UK Equity Fund		Prudential Long Term Gilt Passive Fund		Prudential UK Property Fund	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
50	31,370	31,158	32,549	32,325	31,370	31,175	31,960	31,426
53	39,850	39,137	43,983	43,175	39,850	39,196	41,880	40,037
55	47,994	46,688	55,879	54,296	47,994	46,795	51,800	48,340
60	66,971	63,840	87,764	83,327	66,971	64,094	76,600	67,815
65	84,125	78,783	122,967	114,202	84,125	79,212	101,400	85,588

#### 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. Retirement is assumed to be at age 65.
3. The member is assumed to have a pot of £27,000.
4. Inflation is assumed to be 2.5% each year.
5. Starting salary is £62,000 and is assumed to increase 2.5% per year.
6. Gross contributions at each year are assumed to be at auto-enrollment level (8% of salary as at that year), from the start of the projection to retirement.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates adjusted for inflation for each fund are:
  - Prudential Cash Fund: -2.00%
  - Prudential UK Equity Fund: 2.00%
  - Prudential Long Term Gilt Passive Fund: -2.00%
  - Prudential UK property Fund: 0.00%
9. The charges assumed for each fund are the current charges as shown in the Chair's Statement. The growth rates and the transaction costs used for the calculations have been provided by Prudential and are the average transaction costs p.a. for each fund over the last 5 years.
10. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs.



## 2) Illustrations for the default strategy

Most members are in the default strategy. The table below sets out how a member aged 21 and a member aged 50 will see their pots grow with and without charges in the period to their retirement. Please see the Notes section below for more details on the projections.

Years	Age now: 21		Age now: 50	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,529	2,514	32,107	31,863
3	5,609	5,528	42,399	41,540
5	8,721	8,521	52,794	51,154
10	16,637	15,919	79,955	75,583
15	24,752	23,196	108,705	100,455
20	33,073	30,353	-	-
25	41,603	37,393	-	-
30	50,350	44,318	-	-
35	59,316	51,129	-	-
40	69,496	58,652	-	-
44	77,956	64,700	-	-

### 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. Retirement is assumed to be at age 65.
3. The starting pot size is assumed to be £1,000 for the 21 year old and £27,000 for the 50 year old.
4. Inflation is assumed to be 2.5% each year.
5. Starting salary for a 21 year old is £19,000 and 50 years old is £62,000. Salary is assumed to increase in line with inflation.
6. Gross contributions at each year are assumed to be at auto-enrollment level (8% of salary as at that year), from the start of the projection to retirement.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates adjusted for inflation are:
  - 1.50% p.a. for periods up to 10 years to retirement, gradually reducing to 0.50% p.a. at retirement age.
9. The charges assumed for each fund are the current charges as shown in the Chair's Statement. The growth rates and the transaction costs used for the calculations have been provided by Prudential and are the average transaction costs p.a. for each fund over the last 5 years.
10. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs.