

Date: July 2022

# 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 2021 to 31 December 2021 ("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

- ***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 2021 to 31 December 2021) was effective from 15 December 2020.

The Trustees have completed an Implementation Statement for the Scheme Year to 31 December 2021. 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). The SIP is next due to be reviewed in December 2023, however, as the Company and Trustees are in the process of winding up the scheme and transferring members' existing assets to the Standard Life Master Trust, it is unlikely the SIP will need to be reviewed at that point.

- ***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. The Trustees were due to complete a formal review of the Scheme's current default arrangements in 2021, however, as the sponsoring employer was considering whether to wind up the scheme during the Scheme Year, this was put on hold. The suitability of the investment arrangements of the Standard Life Master Trust were a key part of selecting a provider.

Post-Scheme Year End, the sponsoring employer has agreed to wind down the scheme and all members will be bulk transferred to the Standard Life Master Trust.

- ***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.

As part of the agreed bulk transfer exercise, members will be transferred to the Standard Life Master Trust investment arrangements and following this the Scheme will be wound up.

## ***2. Charges and Transaction costs***

### ***i) Charges borne by the members***

The Total Expense Ratio (TERs) measures the total charges applied to the funds 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)	0.7200%
Prudential Dynamic Growth IV Fund (default strategy)	0.7200%
Prudential Cash Fund (default strategy)	0.7200%
Prudential International Equity Fund	0.7500%
Prudential UK Equity Fund	0.7500%
Prudential Long Term Bond Fund	0.6500%
Prudential All Stocks Corporate Bond Fund	0.7500%
Prudential Long Term Gilt Passive Fund	0.6500%
Prudential UK Property Fund*	1.3200%

*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 of 0.72% p.a. during the Scheme Year. 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, for every fund in the Scheme's fund range, from the Scheme's investment platform provider, Prudential.

Prudential have provided the Trustees with average transaction costs for each fund over the last 6 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	0.0811%	0.8011%
Prudential Dynamic Growth IV Fund	0.0800%	0.8000%
Prudential Cash Fund	0.0000%	0.7200%
Prudential International Equity Fund	0.0573%	0.8073%
Prudential UK Equity Fund	0.0000%	0.7500%
Prudential Long Term Bond Fund	0.0000%	0.6500%
Prudential All Stocks Corporate Bond Fund	0.0048%	0.7548%
Prudential Long Term Gilt Passive Fund	0.0000%	0.6500%
Prudential UK Property Fund	0.4923%	1.8123%

*Notes: Average transaction costs shown for the last 6 years to 30 September 2021. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.0000%' 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:

- 0.8011% per annum in the period up to ten years before the member's selected retirement date.
- Between 0.8000% and 0.8011% 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, overall, the Scheme could be considered to provide poorer value for members compared to what may be available in the market. When considering both the investment strategy and the wider range of services available for the charges incurred, for example the retirement options available through the Scheme and the range of member communications, the Scheme is behind the wider DC market. A summary of the key findings is set out below. Given the extent of improvements required, the Trustees worked throughout the year and into 2022 to consider alternative types of DC scheme that would improve value for members. Work is now complete. All future contributions for members are being made to the Standard Life Master Trust and members’ existing assets are expected to be transferred across to the Master Trust in the second half of 2022 before the Scheme is formally wound up.

- **Scheme charges:** The Scheme’s default investment strategy is the Prudential Dynamic Growth IV Lifestyle which has a total member charge of 0.72% pa. This is quite high compared to alternatives available in the market. There are also 9 self-select funds members can invest in which have total member charges ranging from 0.66%-1.28% pa. The total member charge is inclusive of Scheme administration charges and is applied to the value of investments held by members. 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 is the Prudential Dynamic Growth IV Lifestyle and members also have access to 3 alternative lifestyle strategies and 9 self-select funds. The aim of the Prudential Dynamic Growth IV Lifestyle is to target ‘retirement options’. The strategy initially targets growth in the early years by investing in equities and other assets and switches gradually into assets such as bonds and equities as members approach retirement to preserve wealth. Whilst this is an appropriate target given the pension freedoms, the trustees are aware that, following the development of investment strategies in recent years, the overall strategy is no longer fit for purpose.
- **Retirement support:** The Scheme is behind the market for various reasons. Members can’t access flexi-access drawdown directly from the Scheme but must transfer out. They get little in the way of specific retirement support from the Scheme provider and receive limited communications as they approach retirement.
- **Governance:** Steps were taken in 2020 to improve scheme governance. During 2021, Trustee meetings were held regularly, with the majority of the day-to-day Trustee responsibilities falling to the Chair of Trustees.
- **Administration:** The Trustees have continued to receive Management Information reporting from Prudential. Updated member and asset value data was obtained throughout the 2021 year. In common with many other providers, Prudential moved from transactional style Service Level Agreements (“SLAs”) towards end-to-end reporting. No information has been provided by Prudential in relation to how they have performed against these new end-to-end reporting metrics but this has been requested by the Trustees. Once received, this will bring the Scheme more into line with market practise.

- **Member education and engagement:** Members receive annual benefit statements from the provider. All member communications are issued via the Trustees and the Trustees are satisfied that they have met their statutory disclosure requirements. 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.

#### iv) 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.

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 of 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 – 21years 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	2,494	2,481	2,564	2,551	2,494	2,482	2,536	2,504
24	5,414	5,345	5,810	5,734	5,414	5,351	5,649	5,471
26	8,247	8,083	9,220	9,030	8,247	8,098	8,819	8,384
31	14,967	14,413	18,521	17,787	14,967	14,466	16,995	15,437
36	21,197	20,072	29,043	27,339	21,197	20,178	25,547	22,174
41	26,974	25,129	40,949	37,755	26,974	25,301	34,490	28,609
46	32,331	29,650	54,419	49,116	32,331	29,897	43,843	34,756
51	37,298	33,690	69,659	61,506	37,298	34,020	53,625	40,628
56	41,903	37,302	86,901	75,018	41,903	37,718	63,854	46,237
61	46,173	40,530	106,410	89,755	46,173	41,036	74,553	51,594
65	49,364	42,864	123,847	102,501	49,364	43,442	83,463	55,707

### 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 autoenrollment 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: -1.50%
  - Prudential UK Equity Fund: 2.50%
  - Prudential Long Term Gilt Passive Fund: -1.50%
  - Prudential UK Property Fund: 0.90%
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 6 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.

<b>Active member – 50years old</b>								
<b>Age</b>	<b>Prudential Cash Fund</b>		<b>Prudential UK Equity Fund</b>		<b>Prudential Long Term Gilt Passive Fund</b>		<b>Prudential UK Property Fund</b>	
	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	31,518	31,305	32,697	32,476	31,518	31,326	32,225	31,691
53	40,351	39,631	44,521	43,716	40,351	39,701	42,817	40,945
55	48,921	47,591	56,943	55,354	48,921	47,719	53,601	50,031
60	69,246	65,996	90,821	86,277	69,246	66,305	81,421	72,030
65	88,092	82,447	129,151	120,002	88,092	82,976	110,515	93,044

#### **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 autoenrollment 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: -1.50%
  - Prudential UK Equity Fund: 2.50%
  - Prudential Long Term Gilt Passive Fund: -1.50%
  - Prudential UK Property Fund: 0.90%
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 6 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.



## Statement regarding DC governance for the year ended 31 December 2021 (continued)

### 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	2,555	2,541	32,549	32,314
3	5,759	5,679	43,983	43,133
5	9,093	8,893	55,879	54,214
10	18,028	17,270	87,372	82,726
15	27,893	26,163	118,978	110,106
20	38,785	35,602	-	-
25	50,811	45,621	-	-
30	64,088	56,256	-	-
35	78,748	67,545	-	-
40	94,258	78,959	-	-
44	105,277	86,540	-	-

#### 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 autoenrollment 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:
  - 2.00% p.a. for periods up to 10 years to retirement, gradually reducing to 0.75% 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 6 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.