

## SPX UK Pension Scheme

### Chair's Statement for the Scheme year ending 31 December 2018

This Chair's Statement ('Statement') has been prepared by the Trustee of the SPX UK Pension Scheme ('the Scheme') to demonstrate how the Scheme has complied with the DC governance standards introduced on 6 April 2015 under The Occupational Pension Schemes (Charges and Governance) Regulations 2015.

There are various DC benefits within the Scheme which, for the purposes of this Statement, we will refer to as the "DC Section".

This is the third statement and relates to the Scheme year ending 31 December 2018 and covers the following key areas:

1. Scheme Management, including the Trustee's compliance with the statutory Trustee Knowledge and Understanding ("TKU") requirements;
2. Investment governance of the Scheme's default arrangement;
3. Charges, transaction costs and value for money within with the Scheme;
4. Illustrations of the cumulative effect of the transaction costs and charges;
5. Administration, including the processing of core Scheme financial transactions.

#### **1. Scheme Management**

##### Trustee Knowledge and Understanding

Upon appointment, and subsequently, the Trustee Directors are made aware that they are required to maintain appropriate levels of trustee knowledge and understanding, both individually and collectively. This requirement is managed in a number of ways:

- Newly appointed Trustee Directors are provided with a copy of the Pensions Regulator's 'A guide for new trustees', Code of Practice 7 relating to Trustee Knowledge and Understanding (TKU) and scope guidance relating to both Defined Contribution and Defined Benefit Schemes.
- It is strongly recommended that all newly appointed trustees complete the Pensions Regulator's eLearning trustee toolkit within 6 months of becoming a Trustee Director and details of how the toolkit can accessed are provided to a new Trustee Director once appointed.
- Trustee training is a regular agenda item at Trustee meetings, with training provided by the Trustee's advisers, as appropriate and, where possible, on the afternoon before the main Trustee meeting. Ad-hoc updates on key issues are also provided by the Trustee's advisers when required.
- The Trustee Directors are encouraged to attend external pension related seminars and events run by their professional advisers.
- The Trustee Directors have access to a document portal, which contains the key Scheme documents that the Trustee Directors should be familiar with and which they can access at any time, as required. These documents include the Scheme's Trust Deed & Rules, amending deeds, member booklets, the Statement of Investment Principles (SIP) and the Trustee Business Plan.

The Trustee has arranged specific areas of training in 2019 as follows:

- March 2019 – Legal Update
- June 2019 – Investment Managers
- September 2019 – Administration issues
- November 2019 – Actuarial issues

The Trustee intends to continue to assess training needs during 2019 and into 2020, and on a regular basis thereafter, to identify any training needs for the future.

In addition to the knowledge and skills within the Trustee board itself, the Trustee has also appointed a number of professional advisers who provide specialist support and advice. This includes the Scheme's third-party administrators, legal advisers, investment consultants, Scheme Actuary and auditors.

Pooling of these resources together means that the Trustee Directors are well equipped to exercise their duties and manage the Scheme effectively.

#### Conflicts of duty or interest and Risk Management

Conflicts of duty or interest is a regular agenda item at the start of each Trustee meeting and, should any conflicts of duty or interest be declared by any Trustee Director, the required action will be decided by those present at the meeting. Such action may be for the conflicted Trustee Director to be excluded from the meeting or excluded from the particular item causing the conflict.

The Trustee maintains a Risk Register which is reviewed at least annually.

## **2. Investment governance and Scheme's default arrangement**

The Trustee's investment strategy and objectives in relation to the Scheme's default investment option, as set out in the Statement of Investment Principles (SIP), which is appended to this document.

A review of the investment options for the DC and AVC sections was completed in 2016, including a review of the default investment strategy.

In carrying out this review the Trustee considered a number of factors including the demographics of the Scheme membership and how these members are likely to take their DC fund. The Trustee also obtained information about the members' needs, attitudes to risk, and retirement expectations to assess what an appropriate default arrangement will be for the Scheme.

Following this review, the Trustee decided to amend the default strategy, having taken advice from its investment consultant, which included revisiting the review to ensure that circumstances had not changed since the original advice, and was implemented in February 2018.

The Trustee has produced a SIP which summarises the Trustee's decisions in respect of investments, including their aims, objectives and policies for the Scheme's default investment strategy.

The Trustee's key aims and objectives with regard to investments are as detailed in the SIP as follows:

- To offer a range of passive and actively managed funds with different objectives and risk profiles from which members can make a choice.
- To offer a default investment strategy in the event that members are unwilling to make their own investment choice.
- In selecting the fund choices offered to members of the DC section, the Trustee has considered the historical rates of return earned on the various asset classes available.
- The members' investments are held in funds which are sufficiently liquid to be realised to provide pension benefits on retirement or on earlier payment.
- The Trustee has taken advice from its investment consultant to ensure that the investment options are suitably diversified and appropriate for the Scheme. The Trustee will review the suitability of the funds offered from time to time.

Members who do not make an active investment decision have their fund invested in a default Lifestyle arrangement which aims to help members by:

- Adopting a strategy which is designed taking Scheme members' characteristics into account, e.g. their tolerance to risk and how they are likely to take their pension in retirement;
- Aiming to provide a smoother transition to retirement by de-risking gradually over time, as opposed to a single point in time;
- Aiming to provide a better risk adjusted return irrespective of where members are on their savings journey;
- Enhancing expected asset growth in the opening and middle stages through the addition of emerging market exposure to the equities;
- Diversifying sources of return in the middle and end stages through allocating to corporate bonds.
- The Trustee Directors reviewed the strategy in March 2019 and fund performance in March 2019 and were satisfied that their stated objectives were being met and the performance was in line with expectations.

### **3. Charges - Transaction costs and value for money**

Transaction costs and charges borne by members may have a significant impact on their pension savings, so it is important the Trustee keeps the levels of these deductions under review.

#### Member-borne costs and charges

The costs associated for many of the services required to operate the Scheme and support members, such as administration and communications, are met by the Scheme sponsor. Key information in respect of charges is as follows:

- The charges (AMC and additional expenses) relating to the funds available to members range from 0.25% to 0.87%.
- The same range of unit-linked investment funds is available to both DC Section and AVC Section members, with the exception of the Prudential With-Profits Fund which is only available to AVC Section members.
- The actual costs borne by individual members depend on the fund, or combination of funds, that members are invested in.
- The total expected charges for the various phases of the Lifestyle Strategy are as follows:
  - Early years 0.74% per annum;
  - Mid-term 0.631% per annum;
  - At retirement 0.3555% per annum.

#### Transaction costs

The Trustee understands that it is required to assess and understand the different types and levels of transaction costs that are incurred by the different funds and assess the value these costs deliver to members.

For all investment funds, including the default, there are additional charges incurred by members when choosing to transact between different funds. These charges are included by the investment manager within the unit price offered to members and depend on whether members are buying into, or selling out of, a fund. The fund charges and pricing basis for each fund were provided in an update to members explaining the changes in 2018 and will be disclosed in future annual benefit statements.

The Trustee has been able to obtain transaction costs for all the funds being used in the Scheme.

The total charges for the various funds available to members are as follows where known:

	<b>Annual Management Charge (AMC)</b>	<b>Transaction Costs</b>	<b>Total Cost to members</b>
Aegon BlackRock 70/30 GLOBAL GROWTH	0.75%	0.22%	0.87%
Aegon BlackRock UK EQUITY INDEX	0.28%	0.05%	0.33%
Aegon BlackRock CASH	0.30%	0.02%	0.32%
Aegon BlackRock LONG GILT	0.15%	-0.02%	0.13%
Aegon BlackRock70:30 GLBL EQ IDX	0.28%	0.04%	0.32%
Aegon BlackRock EMG MKTS EQ IDX	0.43%	-0.08%	0.35%
Aegon BlackRock OVER 15YR CORP BD IDX	0.28%	0.05%	0.33%
Aegon BlackRock CORP BD ALL STKS IDX	0.28%	0.02%	0.30%
Aegon BlackRock ALL STOCKS UK I/L GILT	0.28%	-0.03%	0.25%
Aegon LGIM GLOBAL EQUITY 50:50 IDX	0.40%	N/A	0.40%
Aegon LGIM OVERSEAS CONSENSUS IDX	0.50%	-0.01%	0.49%

These charges are reflected in the unit price quoted by the investment manager, rather than being explicitly deducted from each member's fund. The actual costs borne by the individual members depend on the fund, or combination of funds, that the members are invested in.

The Scheme is not used as a qualifying scheme for automatic enrolment so the charge controls on DC schemes do not apply.

#### Core Financial Transactions

Defined Contribution pension schemes rely on the prompt, accurate, investment of contributions and other payments into the Scheme, and the efficient payment of funds to members when they seek to access their pensions savings.

As the Scheme no longer has any active members, the settlement of benefits are monitored and reported to the Trustee. The Trustee has service level agreements (SLAs) in place with HS Admin and they provide quarterly reports that confirm the performance against these standards.

The performance against the SLAs for the processing and payment of death claims, retirement settlements and trivial commutation payments are reported in HS Admin's routine report to the Trustee (although this does include both defined benefit and defined contribution members), as well as the processing of transfers out of the Scheme, and instructions by members to switch their investment funds. Over the year HS Admin has performed in line with the agreed SLAs for the members of the DC Section.

#### Value for money

When assessing the charges and costs which are payable by members, there is a requirement to consider the extent to which the investments options and the benefits offered by the Scheme represent good value for members.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one, however when determining good value for money the Trustee has considered the regulatory guidance available.

As a starting point to the investment review assessing good value, the level of charges in each fund were considered in relation to the levels of return they are expected to deliver to members. These are deemed to be reasonable and deliver good value. The overall charges incurred by members (the costs of membership) have also been compared against the services and benefits provided by the Scheme. The benefits of membership include (amongst other things): the design of the default arrangement and how this reflects the interests of members; the range of investment options and strategies; the efficiency of administration processes and the extent to which HS Admin as administrator met and exceeded its service level standards for the Scheme year; the quality of communications delivered to members; and the quality of support services and Scheme governance.

The Trustee Directors have also reviewed the security of the assets held with Aegon and have received the following information:

- Scenario 1 – Aegon is in default. The Financial Services Compensation Scheme (FSCS) protection applies under contract of insurance rules. There is no upper limit on compensation.
- Scenario 2 – The underlying fund manager (reinsured) is in default. Aegon has a floating charge in place with all managers and would therefore rank on an equal footing with direct customers. However, FSCS protection would not apply unless the loss results in the failure of Scottish Equitable plc, in which case there would be come FSCS protection.
- Scenario 3 – The underlying fund manager (Investment Management Agreement) is in default. Fund manager ring fences assets so the chance of receiving back less than the market value of the portfolio is minimal. However, FSCS protection would not apply unless the loss results in the failure of Scottish Equitable plc, in which case there would be come FSCS protection.

Overall, the Trustee believes that with the day to day administration being managed efficiently and following the implementation of the new investment default and increased choice of funds available to members, members of the Scheme are receiving value for money.

#### **4. Illustrations of the cumulative effect of the transaction costs and charges**

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

The "before charges and transaction costs" figures represent the projected pension savings assuming an investment return with no deduction of member borne fees or transaction costs. In comparison, the "after charges and transaction costs" figures represent the projection pension savings using the same assumed investment return after deducting the member borne fees (i.e. the AMC) and an allowance for transaction costs.

An illustration is shown for the components of the default option, the Lifestyle Strategy, as most members of the Scheme are invested in the default, as well as two funds from the Scheme's self-select fund range. The two self-select funds used for the illustrations are:-

- The fund with the highest before costs expected return – this is the Aegon LGIM Overseas Equity Consensus Index Fund.
- The fund with the lowest before costs expected return – this is the Aegon BlackRock All Stocks UK Index-Linked Gilt Index Fund.

The illustrations shown in the table below have been prepared in line with the statutory guidance published by the Department for Work & Pensions.

### Projected pension pot in today's money

Years from now	Lifestyle (most popular)		Aegon LGIM Overseas Equity Consensus Index (highest return)		Aegon BlackRock All Stocks UK Index-Linked Gilt Index (lowest return)	
	Before charges & disclosure costs	After charges & disclosure costs	Before charges & disclosure costs	After charges & disclosure costs	Before charges & disclosure costs	After charges & disclosure costs
0	£80,000	£80,000	£80,000	£80,000	£80,000	£80,000
1	£82,676	£82,401	£83,356	£82,974	£78,439	£78,236
3	£87,765	£86,890	£90,497	£89,257	£75,408	£74,824
5	£92,642	£91,107	£98,249	£96,015	£72,494	£71,561
10	£105,464	£101,993	£120,660	£115,237	£65,692	£64,012
15	£120,049	£114,168	£148,184	£138,307	£59,528	£57,260
20	£136,643	£127,789	£181,986	£165,995	£53,943	£51,219
25	£153,664	£141,344	£223,499	£199,226	£48,882	£45,816
30	£165,464	£149,815	£274,481	£239,110	£44,295	£40,983
35	£168,594	£150,325	£337,092	£286,978	£40,139	£36,660

### Notes to illustrations

- Values shown are estimates and are not guaranteed.
- Projected pension pot values are shown in today's terms.
- Inflation is assumed to be 2.5% each year.
- The starting pot size is £80,000.
- There are no ongoing contributions.

### 5. Administration

#### Processing core financial transactions

The Scheme is closed to new entrants and future contributions.

The processing of core financial transactions are regularly monitored by HS Admin who have documented internal control procedures that help to ensure that core financial transactions are processed promptly and accurately. These include controls and procedures to manage the accuracy of investment allocations, payments of benefits as well as individual transfers out and investment switches managed as part of the Lifestyle arrangement.

The Scheme's administrator, HS Admin, provides a governance report to the Trustee on administration issues at quarterly intervals. The Trustee uses this information to review HS Admin's administration processing, including core financial transactions.

HS Admin produces a quarterly bank reconciliation report detailing Scheme transactions which is reviewed by the Trustee to ensure that there are no discrepancies.

Any exceptions or issues with administration or transaction processing identified through the quarterly reporting are discussed with HS Admin to identify the root cause and the provider is asked to confirm what measures are being taken to improve the Scheme's processes in order to minimise the likelihood of repeat issues occurring and ensure transaction processing is as efficient as possible.

In addition, the Trustee will also review HS Admin's administration assurance reports (AAF 01/06) which includes details of their disaster recovery and business continuity plan.

Details of HS Admin’s service levels for key administration tasks are summarised in the table below.

Task description	HS Admin time (working days)	Pending time (working days)	Total elapsed time (working days)	Performance Indicator
Cashflow	5	10	15	90%
Death	13	40	53	90%
General enquiry/ HMRC correspondence	10	10	20	90%
Invoice	2	0	2	90%
Retirement – early from preserved	8	60	68	90%
Retirement – normal from preserved	8	20	28	90%
Retirement – late from preserved	8	40	48	90%
Retirement settlement	6	10	16	90%
Transfer out - quotation	12	100	112	90%
Transfer out – settlement	7	40	47	90%
Value of preserved pension	10	0	10	90%
Payroll cases	Next Payroll Run			90%

The performance achieved, as reported in the quarterly administration reports, is the percentage of cases HS Admin have completed within the ‘Total elapsed time’ targets.

Any exceptions or issues with administration or transaction processing identified through the quarterly reporting will be discussed with HS Admin to identify the root cause and they will be asked to confirm what measures are being taken to improve the Scheme’s processes in order to minimise the likelihood of repeat issues occurring and ensure transaction processing is as effective as possible.

The Trustee Directors review the information provided by HS Admin and consider whether it allows them to determine whether scheme processing is timely and accurate, or whether further reporting would be helpful in future.

Over the period covered by this Statement, the Trustee Directors are satisfied that:-

- There have been no material administration errors in relation to processing core financial transactions; and
- All core financial transactions have been processed within a reasonable timeframe.

Scheme data and record-keeping

As part of the ongoing review of Scheme data, the Trustee has asked HS Admin to review the Common and Conditional data held regarding the members of the DC section and those members with AVCs.

This data review was carried out in accordance with the Pensions Regulator’s guidance<sup>9</sup> “keeping records: records that must be kept by law under the new employer duties” and an improvement plan will be put in place if required.

The “Common Data” score for the DC section is 99%.

Signed

Lynn Williams

24 July 2019

**Signed by the Chair on behalf of the Trustee of the SPX UK Pension Scheme**