

CARVER PENSION SCHEME

APPENDIX II – CHAIR’S STATEMENT (forming part of the Trustees’ Report)

Chair’s Statement

Defined Contribution Governance Statement

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (‘the Administration Regulations’) require the Trustees to prepare an annual statement regarding governance of the Defined Contribution (‘DC’) funds within the Scheme and include this in the annual report and accounts.

The funds in the DC section of the Scheme were built up by members before 1997 and they have a Defined Benefit underpin which may come into payment when members take benefits. Although we estimate the Defined Benefit underpin will be triggered for the majority of members, these funds are still treated as DC funds for the purposes of this statement. This statement also covers the additional voluntary contributions (‘AVCs’) members paid in the Scheme whilst they were building up defined benefit pension, which are invested with Standard Life.

This statement covers the period from 6 April 2022 to 5 April 2023 and describes how the Trustees of the Scheme have met the statutory governance standards in relation to:

1. Charges and transaction costs paid by members and illustrations of the cumulative effect of costs and charges on members funds,
2. Net investment returns,
3. Value for Members assessment,
4. Processing of core financial transactions, and
5. Trustee knowledge and understanding.

The Regulations also require trustees to set out the governance processes in relation to the default investment strategy for their scheme. Our Scheme is not used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since the relevant Regulations came into force. The Scheme therefore has no default investment strategy, as defined by the Regulations, and so the governance requirements in relation to the default investment strategy do not apply to the Scheme and are not covered in this statement.

1i. Charges and transaction costs paid by members

The Trustees are expected to show:

- (i) the explicit charges paid by members. The Total Expense Ratio (‘TER’) is the total of the explicit charges each year expressed as a percentage of the fund value and therefore provides a clear picture of the total annual costs of running the fund. The TER includes the Annual Management Charge and any other expenses such as fees paid to the trustee (or depositary), custodian, auditors and registrar.
- (ii) Implicit costs – for the purposes of this statement these are the transaction costs which arise as a result of buying and selling investments in a fund and which are paid by members. As these costs are implicit, they are reflected in the performance of funds.

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1i. Charges and transaction costs paid by members (continued)

The charges (TER) and transaction costs for the DC and AVC funds held by members in respect of this reporting period are shown in the table below. These have been supplied by the providers, Legal & General Investment Management Limited ('LGIM'), abrdrn and Standard Life Assurance Limited ('Standard Life'). Providers calculate transaction costs quarterly therefore the transaction costs shown below are for the twelve-month period to 31 March 2023 (except abrdrn Global Absolute Return Strategies Fund, which is to 30 June 2023).

	TER (% p.a.)	Transaction Costs (% p.a.)	Total costs and charges (% p.a.)
DC funds			
Lifestyle strategy	0.14 – 0.73 ¹	0.03 – 0.65 ¹	0.18 – 1.38 ¹
LGIM Global Equity Fixed Weights 50:50 Index	0.165	0.05	0.215
LGIM UK Equity Index	0.10	0.03	0.13
LGIM Overseas Equity Fund ²	0.45	0.04	0.49
LGIM Future World Annuity Aware Fund	0.15	0.03	0.18
LGIM Cash Fund	0.125	0.04	0.165
abrdrn Global Absolute Return Strategies Fund	0.73	0.65	1.38
AVC funds			
Standard Life Managed Pension Fund	1.02	0.20	1.22

¹ Depending upon term to retirement

² The Overseas Equity Fund is currently invested entirely in the LGIM Global Emerging Markets Equity Index Fund.

1ii. Illustrations to show the cumulative effect of costs and charges

The Trustees are required to illustrate the effect of costs and charges typically paid by a member on their DC fund (as a "pounds and pence figure"). The Regulations allow the Trustees to exercise their discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustees have provided illustrations of their cumulative effect on the value of typical Scheme members DC savings over the period to their retirement.

These illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out under 'notes and assumptions' below. 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 and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their Annual Benefit Statements.

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1iii. Illustrations to show the cumulative effect of costs and charges (continued)

We have decided to show illustrations for two example members with DC funds.

- Example member A: a member with the longest term to retirement at age 65 (i.e. a member who is age 50 now) with a current fund value of £8,000.
- Example member B: an 'average' member who is 58 now with a current fund value of £14,000.

In accordance with the guidance, the impact of costs and charges are illustrated for the Lifestyle Strategy, the abrdn Global Absolute Return Strategies Fund (the fund with the highest charges) and the LGIM UK Equity Index (the fund with the lowest charges).

The projected impact of charges on estimated fund values ('EFV') is shown in the tables below:

Example member A:

At Age:	Lifestyle strategy			abrdn Global Absolute Return Strategies (highest charges)			LGIM UK Equity Index (lowest charges)		
	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges
55	£9,920	£9,660	£260	£9,920	£9,520	£400	£9,920	£9,860	£60
60	£12,180	£11,430	£750	£12,290	£11,340	£950	£12,290	£12,160	£130
65	£13,860	£12,800	£1,060	£15,240	£13,490	£1,750	£15,240	£14,990	£250

Example member B:

At Age:	Lifestyle strategy			abrdn Global Absolute Return Strategies (highest charges)			LGIM UK Equity Index (lowest charges)		
	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges
60	£15,120	£14,920	£200	£15,260	£15,010	£250	£15,260	£15,220	£40
65	£17,200	£16,700	£500	£18,910	£17,870	£1,040	£18,910	£18,770	£140

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1ii. Illustrations to show the cumulative effect of costs and charges (continued)

Notes and assumptions

- Fund values shown are estimates and are not guaranteed
- Illustrations assume no further contributions are paid and do not take the Defined Benefit underpin into account
- Projected fund values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation
- Inflation is assumed to be 2.5% p.a.
- Transaction costs have been averaged over a 5-year period in line with statutory guidance to reduce the level of volatility
- A floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time
- The projected growth rates used have been provided by our advisers and are consistent with the growth rates used for Annual Benefit Statements
- The growth rates and total charges (i.e. the TER plus average transaction costs) used for the illustrations are shown in the table below:

Fund	Total charges (% p.a.)	Expected growth rate
Lifestyle strategy	0.18 – 0.87 ³	4.2 – 7.0 ³
SLI Global Absolute Return Strategies Fund	0.87	7.0
LGIM Cash Fund	0.12	7.0

³ For the lifestyle strategy, the projection takes into account the changing proportion invested in the different underlying funds over time.

Only one member of the Scheme holds AVCs. We have not included an illustration to show the impact of costs and charges on AVC funds, since this members' Annual Benefit Statement will provide a better indication of this.

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2. Net investment returns

The Trustees are required to report the net investment returns for each DC fund members invested in during the Scheme year. The net investment return refers to the return on the fund minus all member-borne transaction costs and charges.

The net investment returns shown in the table below have been prepared having regard to the relevant statutory guidance. The guidance states that, for arrangements where the net returns vary with age, such as the Lifestyle Strategy, net investment returns should be shown for a member aged 25, 45 and 55 at the start of the investment reporting period. The returns below assume members invested in the lifestyle strategy have a selected retirement age of 65.

It is important to note that past performance is not a guide to future performance.

Net investment return to 31 March 2023	1 Year (%)	5 Years (% p.a.)
DC funds		
Lifestyle strategy (members aged 25 or 45 at the start of the reporting period)	-1.2	-1.6
Lifestyle strategy (member aged 55 at the start of the reporting period)	-1.2	-2.0
LGIM Global Equity 50:50 Index	-1.0	-1.2
LGIM UK Equity Index	2.3	7.1
LGIM Overseas Equity ²	2.9	5.0
LGIM Future World Annuity Aware	-5.3	1.6
LGIM Cash	-19.6	-3.2
abrdn Global Absolute Return Strategies	2.1	0.6
AVC funds		
Standard Life Managed	-2.5	4.2

3. Value for members assessment

The Administration Regulations require the Trustees to make an assessment of charges and transaction costs borne by members and the extent to which those charges and costs represent good value for members.

As the Scheme has been operating for more than three years and its total assets are under £100m, the Trustees are required to carry out a more detailed value for members assessment this year. This involves comparing the costs and charges and the net investment returns to suitable funds in three other large schemes. The governance and administration aspects of the Scheme have been assessed in accordance with the statutory guidance by the Trustees with input from their professional advisers.

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Costs and charges and net investment returns

The costs have been identified as the TER and the transaction costs, as set out in section 1i of this statement. Net investment returns are as set out in section 2 of this statement. The three large schemes used as comparators are the Standard Life Group Personal Pension Plan, the Aon Master Trust and NEST.

Members pay only the investment charges on their DC funds, all other costs are met by the sponsoring employer. As a result of this, the LGIM funds compare favourably to the comparator schemes on costs and charges, however the costs and charges on the abrdrn Global Absolute Return Strategies Fund are higher than those for the comparator schemes and this also impacts the DC Section Lifestyle Strategy which invests in the abrdrn fund.

Net investment returns on the LGIM funds were strong compared to the comparator schemes over 1 year and broadly in line with comparators over 5 years. The abrdrn Global Absolute Return Strategies Fund underperformed the active multi-asset funds in comparator schemes over 1 and 5 years and this Fund again impacted the Lifestyle Strategy returns.

We therefore conclude that the LGIM funds have provided value for members but the abrdrn Global Absolute Return Strategies Fund (and the Lifestyle Strategy which includes this Fund from 15 years before retirement onwards) did not.

The Trustees have also considered the benefits of membership under the following 3 categories: scheme governance, investments, administration and member communications. The conclusions of the assessment are set out below.

Scheme governance

The Trustees have appropriate governance arrangements in place, with the right structures in place to support effective management of risks. The Trustees also have processes in place to identify and manage any conflicts of interest.

Investments

The DC Section's investment strategy was initially designed following advice from the Trustee's investment adviser and performance is monitored twice a year. The Trustees advisers undertook a formal review of the DC investment strategy during this reporting period. The Trustees are considering the outcome of this and whether any changes should be implemented as a result.

The Trustees have allowed members to invest their AVCs in any fund on the Standard Life platform and are satisfied this is likely to meet the investment needs of the one member who still holds AVCs.

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Administration

The Trustees have a service level agreement in place with the Scheme Administrator, and formal processes and controls in place to monitor the core financial transactions and wider administration service. This includes member feedback and complaints, data quality and data security.

The Trustees do not have a service level agreement in place with the AVC provider however this is in line with market practice and there is only one member invested in the AVC arrangement.

Member communications

The Trustees comply with their statutory obligations in respect of member communications.

Summary

The Trustees’ assessment for this reporting period concluded that overall, the Scheme provided value to members in the DC Section. Although it is not explicitly taken account of by the value for members assessment, the Defined Benefit underpin means that any shortfall in investment returns required to provide the Defined Benefit pension at retirement from the DC Section will be met by the Employer. We believe this is a valuable benefit to members.

The Scheme also allows members to use their AVC funds as the first source of tax-free cash when they take retirement benefits (rather than giving up defined benefit pension for tax-free cash). This is likely to be of value to members who wish to take tax-free cash at retirement.

4. Processing of Core Financial Transactions

The Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately.

The Trustees have a service level agreement in place with the Scheme Administrator, Aon, which covers core financial transactions including:

- Transferring assets relating to members out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme, and
- Making payments from the Scheme to or on behalf of members.

Aon has confirmed that there are processes in place for each core financial transaction listed above to ensure that these transactions are processed in a timely manner and accurately. These processes include Aon reconciling the Trustee bank account and the DC fund unit holdings on a monthly basis.

Aon reports performance against the service level agreement to the Trustees twice a year (as at 30 June and 31 December) and the Trustees consider these reports at each trustee meeting. Aon's reports also cover any formal member complaints and member feedback received.

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During the period 1 January 2022 – 30 June 2023 (which includes the full reporting period for this statement), performance against the service level agreement for all (DB and DC) core financial transactions was 95%. There were only three core financial transactions for the DC funds, and two of these were completed within SLA. There were no core financial transactions for the AVC funds.

Based upon the above, the Trustees are satisfied that over the period covered by this statement:

- the Scheme Administrator was operating appropriate procedures, checks and controls and operating within the agreed service level agreement;
- there have been no material administration errors in relation to processing core financial transactions; and
- the majority of core financial transactions have been processed promptly and accurately during the Scheme year.

5. Trustee Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 require the Trustees to have sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively.

The comments in this section relate to the Trustee Board as a body in dealing with the whole Scheme and are not restricted to the DC Section of the Scheme.

The Scheme's Trustee Board is comprised of three Trustees, two Company-nominated Trustees and one member-nominated Trustee.

One of the Trustees is the Group Finance Director and the other Company-nominated Trustee is the UK Finance Director. Our professional experience provides expertise in financial management to the Trustee Board. Our third Trustee is a long-serving Trustee, having been appointed in 2012 and therefore has good knowledge of the Scheme and its governing documentation. He is also a Managing Director within the Group, so his professional qualifications and experience in company management bring relevant skills to the Trustee Board.

The Trustees consultancy and administration services have been provided by Aon since the 1980s. Our advisers and administrators therefore have an in-depth knowledge of the Scheme and its history.

All key Scheme documents and meeting papers are readily available to the Trustees via a secure website, Aon Pensions Organiser, which provides a facility for the Trustees to view and maintain a working knowledge of the Scheme's Trust Deed & Rules and other documents setting out the Scheme's policies and practices.

Aon discusses with the Trustees forthcoming areas of focus and what specific knowledge and understanding requirements may be. We hold two trustee meetings a year and the Trustees professional advisers attend each trustee meeting and provide updates on relevant legislative changes as well as specialist advice and training to support the Trustees decision-making at each point in time.

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During the period covered by this Statement, we have:

- Received advice and training on GMP equalisation;
- Received updated actuarial valuation training, including training on the latest guidance from the Pensions Regulator.
- Made decisions on specific member cases, taking into account the requirements of the Scheme's Trust Deed & Rules and also the wider law relating to pensions and trusts.
- Carried out regular annual tasks, such as reviewing and signing off the Trustee Report & Accounts.
- Regularly monitored investment performance of the Scheme's assets and the funding position of the Defined Benefit Section of the Scheme.
- Received regular updates on topical issues in pensions and developments in pensions legislation/regulations which helped us to maintain a knowledge of the law relating to pensions and trusts.

As a result of the professional background of the Trustees, the training activities we undertake as part of our role as Trustees and taking into account the professional advice available to us, I am confident that the Trustee Board meets the Pension Regulator's TKU requirements (as set out under Code of Practice No 7). I am also confident that the combined knowledge and understanding of the Trustees enables us to exercise our functions properly. I believe that this has been demonstrated and evidenced by the meetings and correspondence throughout the year, where training and advice has been provided, discussions held and decisions taken in relation to any matters material to the running of the Scheme.

Signed on behalf of the Trustees of The Carver Pension Scheme

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Chair of Trustees