

# *Clarkson PLC Pension Scheme*

## *Chair's DC Governance Statement, covering 1 April 2020 to 31 March 2021*

### **1. Introduction**

Governance requirements apply to defined contribution (“DC”) pension arrangements, to help members achieve a good outcome from their pension savings. The Trustees of the Clarkson PLC Pension Scheme (the “Scheme”) are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the default arrangement and other funds members can select or have assets in, such as “legacy” funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a ‘value for members’ assessment; and
- Trustee knowledge and understanding.

If members wish to make Additional Voluntary Contributions (“AVC”) into the Scheme, these AVCs will be paid into the same arrangement as the DC section with Fidelity. As such, the wording throughout this Statement relates to both the DC and AVC sections.

### **2. Default arrangements**

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes. This means that it is used as a pension savings scheme for employees who are eligible for automatic enrolment into a pension scheme.

The Trustees have made available a range of investment options for members. Members who join the Scheme and who do not choose an investment option are placed into the Drawdown Lifestyle (the “Default”). The Trustees recognise that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustees decided to make the Default a lifestyle strategy, which means that members’ assets are automatically moved between different investment funds as they approach their target retirement date.

The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and the Trustees’ policies regarding the default arrangement can be found in a document called the ‘Statement of Investment Principles’ (“SIP”). The Scheme’s SIP dated 6 August 2020 covering the default arrangement is attached to this document.

The aims and objectives of the default arrangement, as stated in the SIP, is to provide a long-term return in excess of inflation while displaying less volatility than a pure equity approach in the middle growth phase and reducing volatility for members approaching retirement age.

The Default is reviewed at least every three years and was last reviewed on 8 and 21 April 2020. The performance and strategy of the Default were reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the aims and objectives of the Default as stated in the SIP, and to check that it continues to be suitable and appropriate given the Scheme’s risk profiles and membership. This review included analysis of the membership demographics, analysing member choices at retirement, consideration of a shorter and longer de-risking glidepath and a review of the Default’s underlying funds. This analysis supported the Default continuing to target drawdown at retirement as well as the de-risking glidepath and underlying funds remaining appropriate. The Trustees were satisfied that the strategy and returns are consistent with the aims and objectives of the Default. However, the Trustees are considering evolving the equity allocation within the Default and will be reviewing this later in 2021 and are exploring whether to add a DC Property manager.

In addition to the strategy review the Trustees also review the performance of the default arrangement against their objectives on a triannual basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. The Trustees’ reviews that took place during the Scheme year concluded that the default arrangement was performing broadly as expected and they are satisfied that the Default remains appropriate.

### 3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Scheme, Fidelity. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The Trustees have received assurance from Fidelity that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately.

The Scheme has a service level agreement (“SLA”) in place with the administrator which covers the accuracy and timeliness of all core financial transactions, holding Fidelity accountable for ensuring that at least 95% of transactions occur within the agreed timescale. The key processes adopted by the administrator to help it meet the SLA are as follows:

- Fidelity administers the DC Section of the Plan using a common administration platform, Aquila Administrator, that is fully integrated with Fidelity’s investment dealing system to ensure that member records and fund prices are updated on a daily basis.
- The Record Keeping Team within the DC Administration department is split into functional teams, ie Withdrawals, Transfers in / out, New Joiners, and Contributions. All tasks are checked, using electronic task checklists. The majority of Fidelity’s administration functions are carried out via a fully automated Straight Through Process (“STP”). This includes transfers in / out, member switching of investment funds for existing assets and future contributions also being carried out via STP and fully integrated within Fidelity’s investment dealing process.
- Where Scheme / member information is received in a format that requires Fidelity’s administrators to key in data onto its administration platform (such as a handwritten address change letter) Fidelity will affect a “second set of eyes” check.

To help the Trustees monitor whether service levels are being met, the Trustees receive quarterly reports about the administrator’s performance and compliance with the SLA. Any issues identified by the Trustees as part of its review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

Fidelity outperformed its SLA target of 95% each quarter over the Scheme year, achieving the following success rates:

- Q2 2020 – 100%
- Q3 2020 – 98.4%
- Q4 2020 – 100%
- Q1 2021 – 100%

Based on its review processes, the Trustees, are satisfied that over the period covered by this Statement:

- the administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions on the whole have been processed promptly and accurately to an acceptable level during the Scheme year.

### 4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (“TER”). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges include all costs, eg administration and investment costs, since members incur these costs.

The Trustees are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme’s fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by Fidelity who is the Scheme’s platform provider. When preparing this section of the Statement the Trustees have taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustees have shown any negative figure as zero.

## Default arrangements

The Default arrangement is the Default Drawdown Lifestyle. The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the following table.

### Default charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
20 or more years to retirement	0.19	0.04
15 years to retirement	0.37	0.14
10 years to retirement	0.54	0.23
5 years to retirement	0.64	0.32
At retirement	0.62	0.31

## Self-select and AVC options

In addition to the default arrangement, members also have the option to invest in several other self-select funds. The annual charges for these lifestyles during the period covered by this Statement are set out in the tables below.

The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Default are shown in **bold**.

### Self-select fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (% pa)
<b>Passive Global Equity Fund</b>	0.19	0.04
<b>Diversified Growth Fund</b>	0.89	0.42
<b>Low Volatility Bond Fund</b>	0.58	0.38
<b>Cash Fund</b>	0.11*	0.00
Passive Diversified Growth Fund	0.19	0.00
Passive UK Equity Fund	0.19	0.05
Ethical Global Equity Fund	0.33	0.00
Passive Inflation Linked Bond Fund	0.19	0.00
Passive Corporate Bond Fund	0.18	0.00

\*Fidelity implemented a temporary reduction in the fee for the Cash Fund to 0.11% as it had been monitoring the yields on cash funds and has seen some move into negative territory. Fidelity will continue to monitor this going forward.

### Illustration of charges and transaction costs

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. In preparing this illustration, the Trustees have had regard to the relevant statutory guidance. Illustrations are also produced by Fidelity and are available at <https://retirement.fidelity.co.uk/about-workplace-pensions/investing/costs-and-charges/CLRK>. Please note that the illustrations shown below may differ from those shown on the website at the above link as Fidelity uses one-year transaction costs and updates the illustrations when more up to date transaction costs are received from the underlying managers. Some underlying assumptions may also differ. Projected annual returns and member assumptions used by Fidelity have been used in the illustration below.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past two years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past two years as

this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Scheme year.

- The illustration is shown for the Default Drawdown Lifestyle, since this is the arrangement with the most members invested in it, as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
  - **The fund with the highest before costs expected return** – Fidelity assume equity funds have the highest expected return. The Trustees have displayed the Passive Global Equity Fund in the illustration as it makes up the growth phase of the Default Lifestyle.
  - **The fund with the lowest before costs expected return** – Fidelity assume bond funds have the lowest expected return. The Trustees have displayed the Passive Inflation Linked Bond Fund as an example of one of the Scheme's bond funds.
  - **The fund with highest annual member borne costs** – This is the Diversified Growth Fund.
  - **The fund with lowest annual member borne costs** – This is the Cash Fund.

## Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £88,000, which is the average for the Scheme, calculated by Fidelity, based on all members having holdings in the Scheme.
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- Total contributions (employee plus employer) are assumed to be £900 per month. This is the average contribution calculated by Fidelity for this Scheme based on all members currently making contributions.

- The projected annual returns used are as follows:
  - Default Lifestyle: 2.4% above inflation for the initial years, gradually reducing to a return of 0.8% above inflation at the ending point of the lifestyle.
  - Passive Global Equity Fund: 2.4% above inflation
  - Passive Inflation Linked Bond Fund: 1.1% below inflation
  - Diversified Growth Fund: 2.4% above inflation
  - Cash Fund: 0.5% below inflation
- No allowance for active management outperformance has been made.

## Projected pension pot in today's money

Years invested	Default option		Passive Global Equity Fund		Passive Inflation Linked Bond Fund		Diversified Growth Fund		Cash Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£101,100	£100,900	£101,100	£100,900	£97,800	£97,600	£101,100	£99,900	£98,300	£98,200
3	£128,200	£127,500	£128,200	£127,500	£117,100	£116,400	£128,200	£124,200	£118,900	£118,500
5	£156,700	£155,300	£156,700	£155,300	£136,000	£134,800	£156,700	£149,000	£139,200	£138,600
10	£234,100	£230,500	£234,100	£230,500	£181,400	£178,600	£234,100	£213,700	£189,200	£187,700
15	£321,500	£314,500	£321,500	£314,500	£224,500	£219,700	£321,500	£282,300	£237,900	£235,300
20	£420,100	£408,300	£420,100	£408,300	£265,300	£258,200	£420,100	£355,200	£285,500	£281,500
25	£531,300	£509,200	£531,300	£513,000	£304,000	£294,300	£531,300	£432,500	£331,900	£326,400
30	£656,700	£613,500	£656,700	£629,900	£340,600	£328,100	£656,700	£514,400	£377,200	£369,900
35	£778,400	£702,900	£798,200	£760,400	£375,400	£359,800	£798,200	£601,400	£421,400	£412,100
40	£878,500	£765,700	£957,900	£906,100	£408,300	£389,600	£957,900	£693,700	£464,500	£453,100

## 5. Value for members assessment

The Trustees are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustees in relation to value for member considerations is set out below.

The Trustees review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review covering the same period as this Statement was 27 May 2021.

The Trustees note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustees' investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustees' assessment included a review of the performance of the Scheme's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the investment funds members can choose

during the period covered by this Statement have been consistent with their stated investment objectives.

In carrying out the assessment, the Trustees also consider the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustees, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Scheme website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, the Trustees are comfortable with the quality and efficiency of the administration processes.

The Trustees believe the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

Overall, the Trustees believe that members of the Scheme are receiving very good value for money for the charges and cost that they incur. The Trustees believe this because the fees benchmark well against other schemes. The Trustees aim to improve value for members in future through offering members more pre-retirement support and educational materials which they will make available over the next Scheme Year.

## 6. Trustee knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustees have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustees received training on responsible investment and implementation statements from LCP.

All the Trustees are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out the Trustees' policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments. Further, the Trustees believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties. The Scheme's professional advisors also

support the Trustees in running the Scheme in accordance with its governing documentation.

All the Trustees are required to commit to completing the training, either at the relevant meetings or by personal study. All the Trustees have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law). Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Scheme year.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. The Secretary maintains the training log on behalf of the Trustees to note any training. The training log is referred to at the beginning of each meeting and any knowledge gaps and required additional training requirements may be requested by the Trustees and are noted by the Secretary. Trustees are responsible both on an individual and on a group basis for identifying any gaps in their knowledge and understanding and notifying the Scheme's professional advisors of any additional areas of training that they require. Additionally, the Scheme has in place a structured induction process for new trustees, including sessions with the Secretary and Scheme's advisors.

The Trustees are looking to introduce a self-assessment process during the next Scheme year in order to evaluate the effectiveness of the Trustee board as a whole, including the knowledge and understanding of the Trustees. This will also further assist the Trustees in being able to identify and address any knowledge gaps which the Secretary will ensure are addressed in future Trustees' training sessions.

Timely training is given to the Trustees at meetings prior to addressing complex issues. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training provided by the Scheme's professional advisors relates to topical items or specific issues under consideration and during the Scheme year, including training on the Trustees' duties, and the funding and investment principles relevant to the Scheme. The Trustees are also encouraged to attend external training courses run by external advisors on topical matters. Furthermore, training is arranged on an ad-hoc basis as necessary in the context of current Trustees' business. The DC advisors provide updates on DC market developments as part of reporting. Over the period covered by this Statement, some of these items were as follow: Pension Schemes Bill (covering eg strengthening the Pensions Regulators ("TPR") existing powers, Pensions Dashboard), DWP's call for evidence on the

effectiveness of costs, charges and transparency measures and TPR's Covid-19 guidance.

Considering the knowledge and experience of the Trustees and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.



2 August 2021

\_\_\_\_\_ Date: \_\_\_\_\_

**Signed by the Chair of Trustees of the Clarkson PLC Pension Scheme**