Chair's DC Governance Statement, covering 1 April 2022 to 31 March 2023 (the "Scheme year")

1. Introduction and members' summary

The **Clarkson PLC Pension Scheme** (the "Scheme") is an occupational pension scheme providing defined contribution ("DC") benefits (a DC pension scheme is where employee and employer contributions are paid into it, and the member chooses their investments, but bears the investment risk).

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.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustees of the Scheme, are required to produce a yearly statement (signed by the Chair of Trustees) covering:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (ie administration of the Scheme, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option members can select or have assets in;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- how the value members obtain from the Scheme is assessed; and
- Trustee knowledge and understanding.

The key points that the Trustees would like members reading this Statement to take away are as follows:

- The Trustees regularly monitor the investment arrangements, and are satisfied that the default and other investment options remain suitable for the membership.
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Scheme year, and the Trustees remain comfortable with the administrator's performance.
- Fees can have a material impact on the value of your pension savings and the fee impact is greater the more time passes, since fees reduce the amount of money that can grow with future investment returns.
- Fees for the investment options are set out in this Statement, and the Trustees remain comfortable that these fees are reasonable given the circumstances of the Scheme and represent value for the benefits members obtain.
- The Trustees reviewed the Default during the Scheme year and are considering one small change within one of the funds which is due to be explored during 2023. The Trustees were comfortable that the default arrangement has been designed to be in the best interests of the majority of the DC Section members and reflects the demographics of those members.
- Please note the Trustees are looking after your best interests as members, and they undertake training and receive advice as appropriate so that they have sufficient knowledge and understanding to do so effectively.

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 are set out 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 Statement as an Appendix.

The Default is reviewed at least every three years and was last reviewed on 9 March 2023. The performance and strategy of the Default were reviewed to check whether investment returns (after deduction of charges and costs) 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. The Trustees reviewed and considered the following:

- DC Section membership demographics, analysing member choices at retirement;
- the expected impact on member outcomes of changing the length of de-risking period; and,
- a review of the active managers used within the Default strategy.

Based on the outcome of this analysis, the Trustees concluded that the Default arrangement has been designed to be in the best interests of the majority of the DC Section members and reflects the demographics of those members. However, the Trustees are considering changes to the underlying funds used within one of the white-labelled blends. This is scheduled to be completed over the next Scheme year.

In the prior Scheme year the Trustees reviewed the equity allocation within the Passive Global Equity Fund, and following advice from LCP, the Trustees agreed to transfer assets within the Passive Global Equity Fund to a climate-tilted global equity fund. It was agreed the fund switches would be implemented gradually over 8 trades. The transition began in Q2 2022 with the final tranche to be completed by Q4 2023. At which point the Passive Global Equity Fund will be 100% invested in the climate-tilted global equity fund.

In addition to triennial strategy reviews the Trustees also review the performance of the Default against its objectives on a triannual basis. This review includes performance analysis to check that the risk and return levels meet expectations. The Trustees' reviews over the Scheme year concluded that the Default was performing broadly as expected and consistently with the aims and objectives as stated in the SIP.

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 recognise that delay and error can cause significant issues for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future outcomes. The Trustees have received assurance from Fidelity that there are adequate internal controls to support prompt and accurate processing of core financial transactions.

The Scheme has a service level agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core financial transactions. 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, they receive quarterly reports about the administrator's performance and compliance with the SLA. Any issues identified as part of their review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

Fidelity's SLA performance was 99.5% for each quarter over the year to 31 March 2023, with Fidelity completing all work items within the agreed SLAs over each quarter of the Scheme year. This is above the agreed target of 95% and reflects very good administration services from Fidelity.

Based on the Trustees review processes, they 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 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 are shown as a per annum (pa) figure and include any administration charges, since members incur these.

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, the Scheme's platform provider. At the time of writing, Fidelity was unable to provide transaction costs for the year to 31 March 2023 for all of the funds. However, Fidelity has provided transaction costs over the closest period available, for the year to 31 December 2022. The Trustees will continue to liaise with Fidelity to receive up-to-date transaction costs.

When preparing this section of the Statement the Trustees have taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. The Trustees have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations the Trustees have used zero where a transaction cost is negative to give a more realistic projection (ie the Trustees would not expect transaction costs to be negative over the long term).

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

Figures in brackets represent fees at the start of the Scheme Year

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
20 or more years to retirement	0.21 (0.19)	0.01
15 years to retirement	0.36 (0.35)	0.09
10 years to retirement	0.51 (0.51)	0.18
5 years to retirement	0.60 (0.61)	0.31
At retirement	0.58 (0.59)	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 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)
Passive Global Equity Fund	0.21 (0.19)	0.01
Diversified Growth Fund*	0.81 (0.83)	0.34
Low Volatility Bond Fund*	0.58	0.56
Cash Fund	0.11	0.00
Passive Diversified Growth Fund	0.20	0.13
Passive UK Equity Fund	0.19	0.02
Ethical Global Equity Fund	0.33	-0.03
Passive Inflation Linked Bond Fund	0.19	0.08
Passive Corporate Bond Fund*	0.19	-0.05
Passive Islamic Global Equity Fund*	0.46	-0.07
Property Fund**	1.01	0.00

Transaction costs as at 31 March 2023 except for the funds with *. Figures in brackets represent fees as at the start of the Scheme Year. TER's for the remaining funds have not changed over the Scheme Year. **Transaction cost for the Property fund was provided by LGIM as at 31 March 2023.

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 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 use one-year transaction costs and update the illustrations when more up to date transaction costs are received from the underlying mangers. 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 four years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). The Trustees have used the average annualised transaction costs over the past four 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 (the Drawdown Lifestyle), as well as two funds from the Scheme's self-select fund range. The two self-select funds shown in the illustration are:
  - the fund with highest annual member borne costs (TER plus Scheme Year transaction costs) – this is the Diversified Growth Fund.
  - the fund with lowest annual member borne costs – this is the Cash Fund.

Projected pension pot in today's money

	Default option		Diversified Growth Fund		Cash Fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£99,000	£98,800	£99,000	£98,000	£96,300	£96,200
3	£126,000	£125,300	£126,000	£122,400	£116,600	£116,300
5	£154,400	£153,000	£154,400	£147,400	£136,700	£136,100
10	£231,600	£227,700	£231,600	£212,800	£185,900	£184,500
15	£318,600	£311,000	£318,600	£282,500	£233,700	£231,200
20	£416,800	£404,000	£416,800	£356,700	£280,100	£276,200
25	£527,600	£504,300	£527,600	£435,900	£325,200	£319,800
30	£652,600	£608,800	£652,600	£520,200	£368,900	£361,800
35	£775,500	£700,300	£793,600	£610,000	£411,300	£402,400
40	£877,800	£766,400	£952,600	£705,700	£452,600	£441,500

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. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.

- 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% as used in Annual Benefit Statement projections. 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 £86,000, which is the average pot size for the Scheme, calculated by Fidelity, based on all members having holdings in the Scheme, ie excluding £0 pot values.
- 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 option: 2.4% above inflation for the initial years, gradually reducing to a return of 0.9% above inflation at the ending point of the lifestyle.
    - Diversified Growth Fund: 2.4% above inflation.
    - Cash Fund: 0.6% below inflation.
- No allowance for active management outperformance has been made.

5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the Scheme year. In preparing this illustration, the Trustees had regard to the relevant statutory guidance.

For the Default, returns are shown over the Scheme year for a member aged 25, 45 and 55 at the start of the period the returns are shown over.

Drawdown Lifestyle net returns over periods to Scheme year end

Age of member at the start of the period	1 year (%)	3 years (% pa)
25	-4.1	15.1
45	-4.2	14.2
55	-5.2	9.0

Self-select fund net returns over periods to Scheme year end

Fund name	1 year (%)	3 years (% pa)
Passive Global Equity Fund	-4.1	15.0
Diversified Growth Fund	-6.4	5.0
Low Volatility Bond Fund	-2.9	0.0
Cash Fund	2.2	0.7
Passive Diversified Growth Fund	-1.8	9.0
Passive UK Equity Fund	1.3	13.3
Ethical Global Equity Fund	-1.9	16.6
Passive Inflation Linked Bond Fund	-29.7	-10.7
Passive Corporate Bond Fund	-22.7	-8.8
Passive Islamic Global Equity Fund	N/A*	N/A*
Property Fund	N/A*	N/A*

*1 and 3 year performance unavailable as the funds were added to the Scheme in January 2023.

6. 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 Trustees general policy 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 on 6 July 2023. 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 Scheme's TERs are lower than the average fees of similar schemes for similar funds.

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 for most of the investment funds members can choose during the period covered by this Statement have been consistent with their stated investment objectives. However, the Diversified Growth Fund ("DGF") and the Low Volatility Bond Fund underperformed their targets over the year. The Low Volatility Bond has been impacted by the continued increase in interest rates and inflation, which has negatively impacted returns for fixed income assets. The Diversified Growth Fund has been impacted by both underlying DGF funds given their allocation to fixed income assets, for the same reasons as noted above. The Trustees will continue to monitor the performance of these funds and take action if appropriate.

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

- oversight and governance, 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 arrangement and how this reflects the interests of the membership as a whole;
- the range of investment options;
- 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 have compared the Scheme's TERs against those of similar schemes and found them to be competitive.

The Trustees believe that 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 costs that they incur, for the reasons set out in this section. The Trustees aim to improve value for members by signposting a post-retirement drawdown facility as an option for when members leave the Scheme, which is planned to be available for members over the next Scheme year.

7. Trustee knowledge and understanding

The Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. They 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.

With the help of the Trustees' advisers, they 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 typically deliver training on such matters at Trustees' meetings if they were material. Other training provided by the Trustees' professional advisers relates to topical items or specific issues under consideration and during the Scheme year, including training on their duties, and the funding and investment principles relevant to the Scheme.

The Trustees are also encouraged to attend external training courses run by external advisers on topical matters. Furthermore, training is arranged on an ad-hoc basis as necessary in the context of current Trustees' business. The DC advisers provide updates on DC market developments as part of their quarterly reporting. During the period covered by this Statement, the Trustees received training on the following topics: low carbon funds, DWP stewardship guidance, the de-risking strategy of a lifestyle and webinar training on 'where to next for life expectancies'.

The Trustees are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out their 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 triennially and as part of making any change to the Scheme's investments.

Further, the Trustees believe that 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 Trustees receive quarterly legal updates which are discussed with the Scheme's legal advisers at each Trustee Meeting. In addition, the Trustees receive ad-hoc legal updates where significant events have occurred which may affect the Scheme.

All of the Trustees have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law). The Trustees also complete any new modules added to the Trustee Toolkit. 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 the Trustees behalf to note any training. The training log is referred to at the beginning of each meeting. Any knowledge gaps and required additional training requirements may be requested by the Trustees and are noted by the Secretary. The Trustees are responsible both on an individual and on a group basis for identifying any gaps in their knowledge and understanding and notifying the Trustees' professional advisers 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 Trustees' advisers.

The Trustees are considering introducing 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.

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

____ Date: 30 October 2023

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