

# UBM Pension Scheme - Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022

## 1. Introduction

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

- processing of core financial transactions (ie administration of the Scheme);
- the charges and transaction costs borne by members for the investment options 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.

## 2. Background to the Scheme

The Scheme is a 'hybrid' pension scheme, in that it has a large defined benefit ("DB") section and a smaller DC section. It has also historically provided Additional Voluntary Contribution ("AVC") arrangements for members. The Scheme is closed to new DB and DC members and is also closed to new contributions from existing members (including AVCs).

The Scheme does not offer a 'default arrangement' option (a fund into which members are automatically invested unless a Scheme member decides otherwise). This is because the Scheme is closed to new members and contributions and hence is not being used as a 'Qualifying Scheme' for auto enrolment purposes.

Historically, members had to select which fund to invest their DC / AVC contributions in, from a range of available "self-select" fund options with Legal & General and Clerical Medical. Some members also hold with-profits funds with Clerical Medical and Prudential. The funds available to members are detailed in this Statement. Members are able to switch their holdings between the available funds by contacting the Scheme's current administrator, Capita Pension Solutions Limited ("Capita").

## 3. Requirements for processing core financial transactions

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

We have received assurance from Capita that there are adequate internal controls to ensure that core financial transactions (such as transfers of members' funds between investment options) for the Scheme are processed promptly and accurately.

We receive copies of Capita's annual internal controls report which covers pension scheme administration. These internal controls are also tested by an independent third-party auditor. We are aware that Capita's previous annual controls report to 31 December 2020 included a qualified opinion from the independent third-party auditor, which identified several exceptions, including the processing of core financial transactions in a timely manner. None of these exceptions applied to the Scheme.

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 3. Requirements for processing core financial transactions (continued)

There were no exceptions noted for the accuracy of core financial transactions. We engaged with Capita during the year to 31 March 2022 to raise our concerns over their internal controls' procedures. Capita provided details of actions taken / to be taken to address these concerns.

Capita's latest annual controls report, to 31 December 2021, also contained a qualified opinion from the independent third-party auditor. However, the number of exceptions was significantly reduced, and the basis of the qualified opinion was unrelated to the processing of core financial transactions. In particular, we note the following statements from Capita, issued alongside its 2021 report, regarding the exceptions noted and steps taken by Capita to address these:

*"We appointed our new AAF auditor, Ernst & Young, and as part of moving to the new standard, we have jointly completed a full review of the design adequacy of our existing and new control activities. The new technical standard also increased the overall number of controls that were tested in the audit.*

*We are pleased to note that none of the previous years' exceptions occurred again in 2021 which we believe demonstrates the improvements we have made in relation to retaining evidence and enhancing our controls.*

*We are also pleased to note that the total number of exceptions in 2021 has significantly reduced to 3. Part of the reason for this improvement was a significant change to our operating model that was embedded during 2021."*

Based on the above we are satisfied that Capita is taking appropriate actions to improve its internal administration processes.

The Scheme has a service level agreement ("SLA") in place with the administrator covering both the Scheme's DB and DC (including AVC) assets. This includes minimum standards for the accuracy and timeliness of all core transactions. Examples of key internal processes adopted by the administrator to help it meet the SLA include:

- financial transactions require approval from at least one "authorised person";
- checklists are maintained and followed for key workstreams; and
- audit trails are maintained.

To help us monitor whether service levels are being met, we receive quarterly reports about the administrator's performance and compliance with the SLA. These quarterly reports cover the administration of the DB, DC and AVC assets. Any issues identified as part of our review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

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

- Capita operated appropriate procedures, checks and controls, within the agreed SLAs;
- there have been no material administration issues in relation to processing core financial transactions; and
- the majority of core financial transactions have been processed within a reasonable timeframe.

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 3. Requirements for processing core financial transactions (continued)

However, there has been a noticeable drop in the performance against the agreed SLAs in relation to the Scheme's DC arrangements over the period (falling to 48% on average over the 12 months to 31 March 2022, from 90% in the preceding 12 months). We have discussed this with Capita and expect to see an improvement going forwards. We acknowledge that in some cases delays are caused by factors outside of Capita's control, for example as a result of third-party involvement (eg delays in receiving information from the Scheme's investment managers, or from members' financial intermediaries). We expect Capita to liaise with the investment managers to try and improve the reporting / response times.

More generally, we discuss individual member cases on a day-to-day basis with the pensions management team at Informa, Capita, Aviva, Clerical Medical and Prudential.

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

We 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 exclude administration charges, since these are not met by the members.

We 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 the Scheme's DC and AVC providers. When preparing this section of the Statement we 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. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (ie we would not expect transaction costs to be negative over the long term).

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 4. Member-borne charges and transaction costs (continued)

#### Legal & General DC and AVC fund options (% per annum)

Fund name	TER	Transaction costs
Multi-Asset	0.10	0.01
Global Equity 70:30 Index	0.14	0.02
Global Equity 50:50 Index	0.13	0.01
UK Equity Index	0.13	0.02
World (ex UK) Equity Index	0.12	0.00
North America Equity Index	0.10	-0.01
Europe (ex UK) Equity Index	0.10	-0.02
Japan Equity Index	0.10	0.00
Asia Pac (ex-Jap) Dev Equity Index	0.10	0.00
World Emerging Markets Equity Index	0.47	0.03
Ethical UK Equity Index	0.21	0.04
Multi-Asset	0.10	0.01
Global Equity 70:30 Index	0.14	0.02
Global Equity 50:50 Index	0.13	0.01

#### Aviva AVC fund options (% per annum)

Fund name	TER	Transaction costs
Aviva Global Equity	0.88	0.02
Aviva UK Equity	0.88	0.05
Aviva US Equity	0.88	0.00
Aviva European Equity	0.88	0.03
Aviva Pacific Equity	0.88	0.06
Aviva Mixed Invest (40-85% Shares)	0.88	0.05
Aviva Property	0.88	0.09
Aviva Global Bond	0.88	0.21
Aviva Gilt	0.88	0.07
Aviva Deposit	0.88	0.00
Aviva With-Profits*	0.88	0.04
Aviva With-Profits Guaranteed*	0.88	0.04

\* With-Profits Funds aim to deliver performance based on a mix of assets whilst smoothing returns through periods of market volatility. These typically include an element of guaranteed performance (through annually declared bonus rates) and a terminal bonus when members take their money out of the With-Profits Fund. The With-Profits funds have "notional" TERs given the nature of the fund; in practice most of the With-Profits funds include a guaranteed minimum bonus rate and so returns are not directly impacted by the TER.

\*\* Clerical Medical has not been able to provide figures for the year to 31 March 2022, therefore we have shown figures provided for the previous Scheme year, to 31 March 2021.

\*\*\* Due to availability of data, this is as at 31 December 2021.

# Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

## 4. Member-borne charges and transaction costs (continued)

### Clerical Medical DC fund options (% per annum)

Fund name	TER	Transaction costs
With-profits*	1.00 **	0.41**
Cash Fund	1.00 **	0.01**

### Prudential DC and AVC fund options (% per annum)

Fund name	TER	Transaction costs
With-profits*	1.20	0.06***

### 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, we had regard to the relevant statutory guidance.

- 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 the average of those provided by the managers over the past three years (as five year averages are not yet available), subject to a floor of zero (so the illustration does not assume a negative cost over the long term).
- The illustration is shown for a selection of the Legal & General DC funds available to members. The three self-select funds shown in the illustration are:
  - The fund with the most amount of assets invested – the L&G Global Equity 50:50 Index Fund;
  - The fund with highest annual member born costs – the L&G Managed Property Fund; and
  - The fund with lowest annual member costs – the L&G Over 15 Year Gilts Index Fund.

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 4. Member-borne charges and transaction costs (continued)

Years invested	L&G Global Equity (50:50) Index Fund		L&G Managed Property Fund		L&G Over 15 yr Gilt Index Fund	
	Before Costs £	After Costs £	Before Costs £	After Costs £	Before Costs £	After Costs £
1	12,400	12,400	12,400	12,300	11,800	11,800
3	13,300	13,300	13,300	12,900	11,300	11,300
5	14,300	14,200	14,300	13,500	10,800	10,800
10	16,900	16,700	6,900	15,100	9,800	9,700
15	20,100	19,700	20,100	17,000	8,900	8,800
20	23,900	23,300	23,900	19,100	8,000	7,900

#### 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. The long term annual inflation is assumed to be 2.5%.
- The starting pot size used is £12,000. This is the approximate average (median) pot size for a DC Section member.
- The projection is for 20 years, which we believe to be reasonable, given the majority of the members with DC benefits are expected to retire within the next 20 years.
- The Scheme is closed to contributions, so no assumptions about contribution rates and salary (starting salary or salary growth) have been made.
- The projected annual returns (before costs) used are as follows:
  - L&G Global Equity 50:50 Index Fund: 3.5% above inflation
  - L&G Managed Property Fund: 3.5% above inflation
  - L&G Over 15 Year Gilts Index Fund: 2.0% **below** inflation

# Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

## 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.

### Legal & General fund options – net returns over one year to 31 March 2022:

Fund name	Net return (%)
Multi-Asset	4.2
Global Equity 70:30 Index	12.9
Global Equity 50:50 Index	11.2
UK Equity Index	13.0
World (ex UK) Equity Index	14.7
North America Equity Index	19.6
Europe (ex UK) Equity Index	6.1
Japan Equity Index	-2.5

Fund name	Net return (%)
Asia Pac (ex-Jap) Dev Equity Index	2.1
World Emerging Markets Equity Index	-4.0
Ethical UK Equity Index	12.7
Managed Property	22.0
Overseas Bond Index – GBP Hedged	-3.7
AAA-AA Fixed Interest Over 15y Target Duration Fund	-7.7
Over 5y Index-Linked Gilts	4.8
Over 15y Gilts Index	-7.3
All Stocks Gilts Index	-5.2
Cash	0.0

### Clerical Medical fund options – net returns over one year to 31 March 2022:

Fund name	Net return (%)
With-profits*	n/a
Cash Fund	0.0

### Prudential fund options – net returns over one year to 31 March 2022:

Fund name	Net returns (%)
With-profits*	n/a

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 5. Investment returns (continued)

#### Aviva AVC fund options – net returns over one year to 31 March 2022:

Fund name	Net Returns
Aviva Global Equity	12.8%
Aviva UK Equity	11.8%
Aviva US Equity	20.4%
Aviva European Equity	6.9%
Aviva Pacific Equity	1.0%
Aviva Mixed Invest (40-85% Shares)	7.0%
Aviva Property	18.4%
Aviva Global Bond	-3.7%
Aviva Gilt	-6.1%
Aviva Deposit	-0.7%
Aviva With-Profits*	n/a
Aviva With-Profits Guaranteed*	n/a

\* With-Profits Funds aim to deliver performance based on a mix of assets whilst smoothing returns through periods of market volatility. These typically include an element of guaranteed performance (through annually declared bonus rates) and a terminal bonus when members take their money out of the With-Profits Fund. The With-Profits funds have "notional" TERs given the nature of the fund; in practice most of the With-Profits funds include a guaranteed minimum bonus rate and so returns are not directly impacted by the TER.

### 6. Value for members assessment

We 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. Our general policy in relation to value for member considerations is set out below.

Our objective for the DC arrangements within the Scheme is to provide members with access to an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement.

We 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 last review carried out in the 31 August 2022 Trustee meeting. The review covered the Scheme Year from 1 April 2021 to 31 March 2022.

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 6. Value for members assessment (continued)

Our 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. There were no material concerns with the performance figures, noting that most of the funds are passive and therefore aim to provide a return close to that of their benchmark return. Some of the Aviva unit-linked funds have underperformed their respective objective or benchmark over the year and charges are (with the exception of the property fund) higher than equivalent L&G fund options. However, these funds are actively managed and therefore short-term underperformance may be expected from time to time.

Our investment advisers have confirmed that the fund charges are reasonable for the types of fund available to members, and particularly competitive for the main DC and AVC fund range provided by Legal & General.

We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received should also be considered. In carrying out the assessment, we also consider the other benefits members receive from the Scheme, which include:

- our 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 wide range of investment funds covering key asset classes; 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, we are comfortable with the quality and efficiency of the administration processes.

We 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, we believe that members of the Scheme are receiving good value for money for the charges and cost that they incur, for the reasons set out in this section.

## Chair's DC Governance Statement, covering 1 April 2021 to 31 March 2022 (continued)

### 7. Trustee knowledge and understanding

We are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. We 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 our advisers, we regularly consider training requirements to identify any knowledge gaps. Our investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. Our advisers typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, we received an update on responsible investment developments, including new guidance. This also covered our investment adviser's assessment of the responsible investment capabilities of our appointed investment managers. Additionally, we receive quarterly updates on topical pension issues from our investment advisers.

We are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out our policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, we 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, we believe that we 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 our duties.

The majority of the Trustee Directors 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). Furthermore, some of the Trustee Directors' prior experience includes work in finance, law and / or pensions, including relevant professional qualifications. 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.

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

David McCall

\_\_\_\_\_ Date: 28 October 2022

**Signed by the Chair of Trustees of the UBM Pension Scheme**