

# UBM 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 Trustee of the UBM Pension Scheme (the "Scheme") is 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 (ie administration of the Scheme, such as disinvestments to meet member benefits);
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- how the value members obtain from the Scheme is assessed; and
- Trustee knowledge and understanding.

### 2. Background

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 is not being used as a qualifying scheme for automatic enrolment purposes.

As at 31 March 2021, the Scheme held around £2.9m in DC assets and around £1.3m in AVC assets in respect of members.

In 2019, Equitable Life, one of the Scheme's AVC providers, announced it would be selling its business to Utmost Life: as part of this process it converted existing with profits funds into unit linked funds. This was completed on 1 January 2020 and resulted in Scheme members' with profits holdings being switched into the Utmost Life Secure Cash Fund on a temporary basis. Following this, the Trustee agreed, based on advice from the Scheme's investment advisers, to transfer these members' AVC assets into the Scheme's main DC/AVC policy with L&G, and invest in L&G's Cash Fund. This was implemented at the start of July 2020.

### 3. Default arrangements

The Scheme does not offer a 'default' fund 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 is not being used as a 'Qualifying Scheme' for auto enrolment purposes.

Instead, the Scheme offers members the opportunity to invest in a range of 'self-select' funds 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 section 5 of 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") (see section 4).

The Trustee's 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.

The Trustee reviews the appropriateness of the fund range, for both the DC and AVC arrangements, on an annual basis, as part of the process to complete this Statement. The Trustee last reviewed the Scheme's DC and AVC arrangements at its 18 August 2021 Investment Sub-Committee ("ISC") meeting. This review covered the period 1 April 2020 to 31 March 2021.

The review included an assessment of the performance of each fund option relative to its respective objective, the member-borne charges and transaction costs associated with each fund option and more qualitative factors such as the governance and administration arrangements, in order to help the Trustee determine whether it believes members are receiving good value, compared to an alternative arrangement.

#### **4. Requirements for processing core financial transactions**

The processing of core financial transactions is carried out by the Scheme's administrator, Capita. 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 Trustee has 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.

The Trustee receives 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.

The Trustee is aware that Capita's most recent 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. There were no exceptions noted for the accuracy of core financial transactions. The Trustee has previously met with Capita to discuss the results of its 2019 report (which also included a qualified opinion) and understand what steps it is taking to remedy the exceptions identified going forwards.

In particular the Trustee notes the following statements from Capita, issued alongside its 2020 report, regarding the exceptions noted and steps taken by Capita to address these:

*"Last year, following the finalisation of our 2019 AAF report, we issued a business action plan to close the exceptions raised in that audit. Also, we commissioned our AAF auditor, Grant Thornton, to opine on the design adequacy of the control enhancements and produce a report of their findings and conclusions.*

*We anticipated and communicated last year that there may be some related exceptions identified against our overall control environment in this assurance report, due to the enhancements to our controls being made during the 2020 reporting period. Whilst this has indeed been the case, we believe that the conclusions from this report demonstrate the improvements we have made in our control environment.*

*The majority of exceptions raised in the 2020 report can be principally grouped into four different themes; however, it is noted that 50% of the exceptions have been closed prior to this report being published and the remaining open exceptions will be closed by the end of 2021”*

The Trustee is satisfied that Capita is taking appropriate actions.

The Trustee has a service level agreement (“SLA”) in place with Capita which covers the administration of 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 the Trustee monitor whether SLAs are being met, the Trustee receives quarterly reports about Capita’s performance and compliance with its SLAs. These quarterly reports cover the administration of the DB, DC and AVC assets. Based on these reports, the Trustee believes that over the period covered by this Statement, for the DC and AVC assets:

- Capita operated appropriate procedures, checks and controls, within the agreed SLAs;
- Capita has delivered on average a 90% performance against the SLAs in relation to the Scheme’s DC arrangements over the period;
- 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.

The Trustee acknowledges 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). The Trustee expects Capita to liaise with the investment managers to try and improve the reporting/response times.

More generally, the Trustee and pensions management team at Informa discuss individual member cases on a day-to-day basis with Capita.

## **5. Member-borne charges and transaction costs**

The Trustee is required to set out the on-going charges incurred by Scheme 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 exclude any costs, eg administration and investment costs, since these are not met by the members.

The Trustee is 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 the Trustee has 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).

## Legal & General DC and AVC fund options

Fund name	TER	Transaction costs
Multi-Asset (formerly Consensus) Index	0.097% pa	0.026%
Global Equity 70:30 Index	0.116% pa	-0.002%
Global Equity 50:50 Index	0.107% pa	0.003%
UK Equity Index	0.095% pa	-0.020%
World (ex UK) Equity Index	0.123% pa	-0.012%
North America Equity Index	0.100% pa	-0.022%
Europe (ex UK) Equity Index	0.103% pa	-0.008%
Japan Equity Index	0.100% pa	0.012%
Asia Pac (exJap) Dev Equity Index	0.100% pa	0.007%
World Emerging Markets Equity Index	0.464% pa	0.019%
Ethical UK Equity Index	0.210% pa	0.024%
Managed Property	1.564% pa*	0.187%
Overseas Bond Index – GBP Hedged	0.175% pa	-0.026%
AAA-AA Fixed Interest Over 15y Target Duration Fund	0.071% pa	-0.061%
Over 5y Index-Linked Gilts	0.030% pa	0.022%
Over 15y Gilts Index	0.030% pa	-0.003%
All Stocks Gilts Index	0.100% pa	-0.036%
Cash	0.070% pa	-0.002%

\* The Property Fund TER includes the Property Expense Ratio ("PER"); these are non-recoverable charges relating to the management of the underlying properties held in the fund).

## Clerical Medical DC fund options

Fund name	TR	Transaction costs
With-profits*	1.0% pa	0.41%
Cash Fund	1.0% pa	0.01%

## Prudential DC and AVC fund options

Fund name	TER	Transaction costs
With-profits*	1.2% pa	0.11%

## Aviva AVC fund options

Fund name	TER	Transaction costs
Aviva Global Equity	0.875% pa	0.099%
Aviva UK Equity	0.875% pa	0.087%
Aviva US Equity	0.875% pa	0.030%
Aviva European Equity	0.875% pa	0.354%
Aviva Pacific Equity	0.875% pa	0.067%
Aviva Mixed Invest (40-85% Shares)	0.875% pa	0.087%
Aviva Property	0.875% pa	0.090%
Aviva Global Bond	0.875% pa	0.228%
Aviva Gilt	0.875% pa	0.094%
Aviva Deposit	0.875% pa	0.000%
Aviva With-Profits*	0.875% pa	0.075%
Aviva With-Profits Guaranteed*	0.875% pa	0.075%

\* 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.

## 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 Trustee has 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 those provided by the managers over the past year (as 5 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 five 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 the highest after costs expected return – the L&G UK Equity Index Fund;
  - the fund with the lowest after costs expected return – the L&G Overseas Bond Index Fund;
  - the fund with highest annual member borne costs – the L&G Managed Property Fund; and
  - the fund with lowest annual member borne costs – the L&G Over 15 Year Gilts Index Fund.

Years invested	L&G Global Equity 50:50 Index Fund		L&G UK Equity Index Fund		L&G Overseas Bond Index Fund		L&G Managed Property Fund		L&G Over 15 Year Gilts Index Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£11,300	£11,300	£11,300	£11,300	£10,700	£10,700	£11,300	£11,100	£10,700	£10,700
3	£12,300	£12,200	£12,300	£12,200	£10,300	£10,200	£12,300	£11,700	£10,300	£10,200
5	£13,300	£13,200	£13,300	£13,200	£9,900	£9,800	£13,300	£12,200	£9,900	£9,800
10	£16,100	£16,000	£16,100	£16,000	£8,900	£8,700	£16,100	£13,600	£8,900	£8,900
15	£19,600	£19,400	£19,600	£19,400	£8,100	£7,800	£19,600	£15,200	£8,100	£8,000

## 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 projected value of investments, in today's terms, in the L&G Overseas Bond Index Fund and L&G Over 15 Year Gilt Index Fund is expected to fall in value – this is because the projected annual nominal investment returns are lower than the assumed rate of inflation (see return and inflation assumptions below).
- The starting pot size used is £10,900. This is the approximate average (median) pot size for a DC Section member.
- The projection is for 15 years, which the Trustee believes to be reasonable, given the majority of the members with DC benefits are expected to retire within the next 15 years.
- Annual inflation is assumed to be 2.5%.
- 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: 4.0% above inflation
  - L&G UK Equity Index Fund: 4.0% above inflation
  - L&G Cash Fund: 2.0% **below** inflation
  - L&G Managed Property Fund: 4.0% above inflation
  - L&G Over 15 Year Gilts Index Fund: 2.0% **below** inflation

## 6. Value for members assessment

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

The Trustee undertakes an annual review of the arrangements. This includes performance of the funds (after all charges) in the context of their investment objectives, administration and all member-borne charges (including transaction costs where available), with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was 18 August 2021, covering the Scheme year 1 April 2020 to 31 March 2021. The Trustee notes 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 returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives.

The Trustee's 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.

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

- the oversight and governance of the Trustee, 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 range of investment options;
- the quality of communications delivered to members; 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 Trustee is satisfied with the quality and efficiency of the administration processes but will continue to work with Capita to try to improve the administration service provided to Scheme members.

The Trustee believes 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 Trustee believes that the majority of the members of the Scheme are receiving good value for money. In particular, the Trustee believes the Legal & General fund range is competitively priced, given the Trustee has been able to secure fee discounts with Legal & General. Furthermore, the Trustee undertook a consolidation exercise of the DC and AVC arrangements in 2017/2018, with the majority of unit-linked holdings, where possible, being transferred to Legal & General. As a result of this consolidation exercise, the average annual management fee for those members transferred to the L&G fund range fell from around 0.76% pa to around 0.12% pa, based on around £2.3m of unit-linked fund holdings that were moved to L&G.

The Trustee did consider options to move members' AVC/DC holdings with Aviva/Clerical Medical respectively to the Scheme's main DC/AVC policy with L&G at the time of the consolidation. However, as all of the members invested with Aviva or Clerical Medical have a mixture of unit-linked **and** with profits investments: both providers stated that it would not be possible to transfer just the unit-linked holdings to L&G and leave behind the with-profits holdings. The Trustee believes the unique features of the with-profits funds (such as minimum guaranteed bonuses), and the potential for an early termination charge to be applied on transfer, outweigh the potential benefits of transferring members' holdings from Aviva and Clerical Medical to L&G.

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 funds) higher than equivalent L&G fund options. However these funds are actively managed and therefore short-term underperformance is not unexpected.

## 7. Trustee knowledge and understanding

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee has 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 Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's pensions, investment and legal advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material.

During the period covered by this Statement, the key training the Trustee received covered:

- introductions to new asset classes such as secure income and low carbon equities and "sustainable" versions of existing funds invested in; and
- an update on Responsible Investment issues, with a focus on climate risk considerations, for example on the new UK Stewardship Code 2020, the Pensions Scheme Bill, and climate guidance issued by the Pensions Climate Risk Industry Group ("PCRIG").

Additionally, the Trustee receives quarterly updates on topical pension issues from its investment advisers.

All the Trustee Directors are familiar with and have access to copies of the Scheme governing documentation, including the Trust Deed & Rules and SIP. In particular, the Trustee would 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 at least triennially and as part of making any change to the Scheme's investments. Further, the Trustee Directors 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.

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

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

D McCall

Date: 28 October 2021

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