

# TULLETT PREBON PENSION SCHEME

## YEAR ENDED 30 APRIL 2020

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### ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") requires the Trustee to prepare an annual statement regarding governance, which should be included in the annual Trustee's report and accounts. The governance requirements apply to all defined contribution ("DC") pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustee covers the period from 1 May 2019 to 30 April 2020 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

- The default investment arrangement;
- Processing of core financial transactions;
- Member charges and transaction costs;
  - Self-select funds
  - Additional Voluntary Contributions
  - Illustrations of the cumulative effect of these costs and charges
- The extent to which the Scheme represents good 'Value for Members'; and
- Trustee knowledge and understanding.

The statement sets out the required information and describes how the Trustee is meeting the requirements to govern the DC section and AVC arrangements.

The Company initiated wind-up of the Scheme on 30 April 2019, following discussions with the Trustee. This statement has been prepared taking into account that the Scheme is currently in the process of being wound-up. The Trustee is considering various providers in the market and current member benefits (including protected and guaranteed benefits) to ensure that the wind up is in members' interests. Generally, the Trustee aims to secure terms that are at least similar in terms of costs and charges but also offer members access to better technology, more frequent communications and a wider selection of funds. The latest Statement of Investment Principles (SIP) for the Scheme, which provides details of the funds available to members, is available on the following site:

<https://www.tpicap.com/legal-and-regulatory/Occupational%20Pension%20Schemes%20Administration%20and%20Disclosure%20Regulations%202018>

#### The Default Arrangement

The Scheme is not used as a qualifying Scheme for auto-enrolment purposes. The Scheme was also closed to further contributions before 5 April 2015 and the Trustee has always required members to choose where their DC funds are invested.

There are therefore no requirements in respect to a default arrangement for the Scheme.

An investment strategy review was started in the final quarter of 2018 and a membership analysis was completed. However, further work on this stopped when the wind-up of the Scheme was initiated. The Trustee intends to use the results of the membership analysis to move members fund appropriately as part of the Scheme wind-up.

The Trustee reviews the performance of the investment strategies and funds against its aims and objectives on a regular basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance is reviewed against target benchmarks that have been agreed with the investment managers.

#### Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. As the Scheme is closed to new contributions, core financial transactions primarily include the transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries.

#### DC Section

Core financial transactions are undertaken on behalf of the Trustee by the platform provider, Zurich, and the Scheme administrator, Mercer, which is appointed to provide administration services. Although service levels are regularly monitored, there are no contractually agreed service levels in place with the administrator or Zurich.

Zurich and Mercer provide administration reports quarterly covering the key aspects of administration in the year, including information about service levels. The administrators flag any potential issues or anomalies to the Trustee as and when they arise.

The Trustee reviews the reporting provided by Zurich and Mercer at the regular Trustee meetings.

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## ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

The Trustee has also considered the key processes adopted by the administrator and output to minimise the risks of inaccurate or late payment of core financial transactions. Key processes include:

- A full member and Scheme reconciliation being undertaken annually as part of the annual preparation of the Trustee report & Accounts
- Provision of quarterly administration reports – enabling the Trustee to check core financial transactions and review processes relative to any member complaints made
- Checks for all investment and banking transactions prior to processing
- All work processes are documented and subject to a peer review process, with work being calculated and independently checked by another member of the team.
- Mercer and Zurich also provide confirmation to the Trustee annually regarding the current position on common and conditional data as well as any amendments which may be required to rectify gaps in the data.

The Scheme's internal processes and controls are monitored via a risk register which is regularly reviewed.

The Trustee is confident that the processes and controls it has in place with Mercer and Zurich are robust and ensure that it can monitor that the financial transactions which are important to members are processed accurately and in a timely manner.

I am pleased to say there have been no issues reported with respect to core financial transactions over the period covered by this statement.

### **AVC arrangements**

The Trustee does not have a service level agreement in place with the AVC providers, Prudential and Standard Life and we believe that this is in line with current practice for relatively small AVC arrangements. The Trustee has requested information relating to core financial transactions from Prudential and Standard Life.

Prudential has provided a report detailing relevant internal controls relating to core financial transactions. Standard Life does not produce a third-party assurance report on internal controls, but they have reassured the Trustee that they are confident that their internal control framework is efficient, effective and robust.

Whilst the report produced by Mercer does not report the processing time or accuracy of core financial transactions carried out by the AVC providers, the Trustee expects Mercer to notify it of any delays or errors it encounters in the processing of core financial transactions relating to AVCs.

I am pleased to say there have been no issues reported with respect to core financial transactions for AVCs over the period covered by this statement.

Considering the above, the Trustee is satisfied that there are processes in place to monitor that core financial transactions for the DC Section are processed in an accurate and timely manner and that any issues with the processing of core financial transactions relating to the AVC arrangements would be brought to its attention by Mercer.

### **Member Borne Charges and Transaction costs**

The Trustee should regularly monitor the level of charges borne by members through the investment funds. These charges comprise:

- Charges: these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;
- Transaction costs: these are not explicit and are incurred when the Scheme's fund manager buys and sells assets within investment funds but are exclusive of any costs incurred when members invest in or sell out of funds.

The Trustee is also required to confirm, if applicable, that the charges on the default arrangement have not exceeded 0.75% p.a., (the charge cap) and produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

There is no default arrangement in the Scheme.

The Trustee has set out the costs and charges that are incurred by members, rather than the employer, over the statement year in respect of each investment fund available to members. These comprise the Total Expense Ratio and, insofar as we are able to, transaction costs.

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## ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

The charges have been supplied by Zurich, Standard Life and Prudential who are the Scheme's investment managers. Zurich has provided all charges at the Scheme year end date. Standard Life has provided charges information as at 31 March 2020 and Prudential has provided the information as at 31 December 2019. Information at later dates was not available at this time, in most cases as the managers were dependent on underlying managers who had not yet made the required information available. The Trustee continues to liaise with Standard Life and Prudential to obtain the information. Also, where transaction costs have been provided as a negative cost (i.e. a profit), these have been set to zero by the Trustee so as not to potentially understate the level of costs.

### DC Section

The DC Section offers members a selection of four lifestyle strategies. A large proportion of members are currently invested in the Annuity Lifestyle strategy which would be most suitable for those members planning to purchase an annuity at retirement. Alternatively, members can choose from two Drawdown Lifestyle strategies or a Cash Lifestyle strategy. Members can also choose to invest in one of six self-select funds.

The TERs and transaction costs (TCs) for the period are shown in the tables below. The transaction costs shown in the table above are the latest available from Zurich and cover the 12-month period to 30 April 2020.

Fund/Provider	TER (% p.a.)	TC (% p.a.)	Total (% p.a.)
<b>Zurich as at 30 April 2020</b>			
Aquila 50/50 Global Equity Index Fund <sup>ABC</sup>	0.128	0.0	0.128
Aquila UK Equity Index Fund	0.123	0.0	0.123
Aquila Corporate Bond Over 15 Year Index Fund <sup>AB</sup>	0.135	0.0*	0.135
Aquila Over 15 Years UK Gilt Index Fund <sup>A</sup>	0.124	0.0*	0.124
Aquila Index-Linked Over 5 Year Gilt Index Fund <sup>B</sup>	0.124	0.018	0.142
BlackRock Sterling Liquidity Fund <sup>AC</sup>	0.120	0.014	0.134

### Notes

- \* These costs were negative during the period and have been set to zero by the Trustee so as not to potentially understate the level of costs.
- A – funds underlying the Annuity Lifestyle  
B – funds underlying the two Drawdown Lifestyle  
C – funds underlying the Cash Lifestyle

The range of costs and charges for the four Lifestyle strategies, based on the underlying funds are as follows. The costs and charges are dependent on the duration to retirement.

Strategy	TER (% p.a.)	TC (% p.a.)	Total (% p.a.)
Annuity Lifestyle	0.127 – 0.129	0.004 – 0.010	0.128 – 0.131
Drawdown Lifestyle (5-year transition)	0.126 – 0.128	0.0 – 0.004	0.128 – 0.129
Drawdown Lifestyle (10-year transition)	0.126 – 0.128	0.0 – 0.004	0.128 – 0.129
Cash Lifestyle	0.120 – 0.128	0.0 – 0.014	0.128 – 0.134

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### ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

#### Additional Voluntary contributions

Members have access to the following Standard Life Funds:

- Managed Pension Fund
- Pension Millennium With Profits Fund
- Pension With Profits Fund

Members also have access to the Prudential With Profits Cash Accumulation Fund.

The TERs and transaction costs (TCs) on the AVC arrangements are shown in the table below:

Fund/Provider	TER (% p.a.)	TC (% p.a.)	Total (% p.a.)
<b>Prudential as at 31 December 2019</b>			
With Profits Cash Accumulation Fund <sup>1</sup>	0.94	0.09	1.03
<b>Standard Life as at 31 March 2020</b>			
Managed Pension Fund	1.02	0.111	1.131
Pension Millennium With Profits Fund	Note 2	0.082	
Pension With Profits Fund	Note 2	0.102	

#### Notes:

1. The charges on the Prudential With Profits Fund are not explicit, they are taken in to account when the annual bonus rate on the Fund is determined. Prudential currently estimates the charges to be 0.94% p.a. assuming investment returns on the underlying assets are 5% p.a.

For the Pension Millennium With Profits Fund and the Pension With Profits Fund there is no explicit management charge deducted. Discretionary deductions are made from the underlying assets to cover costs, including an allowance for the cost of guarantees provided by with-profits business and a contribution to support Standard Life's capital. These deductions may affect the proceeds the member receives, although this will not reduce the guaranteed annual bonus rate on the Pension With Profits Fund.

#### Illustrations of the cumulative effect of costs and charges

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.

To help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided two illustrations of their cumulative effect on the value of typical scheme members savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on several assumptions about the future which are set out in the appendix.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their Annual Benefit Statements.

The Trustee has decided to show illustrations for two example members – the youngest Scheme member and a Scheme member of average age. Members are assumed to be invested in the Annuity Lifestyle strategy as this is the arrangement that most of our members have their retirement savings in. The current fund values chosen for the illustrations are the median fund sizes held by members in the Scheme. Each illustration is shown as a chart and a table as follows:

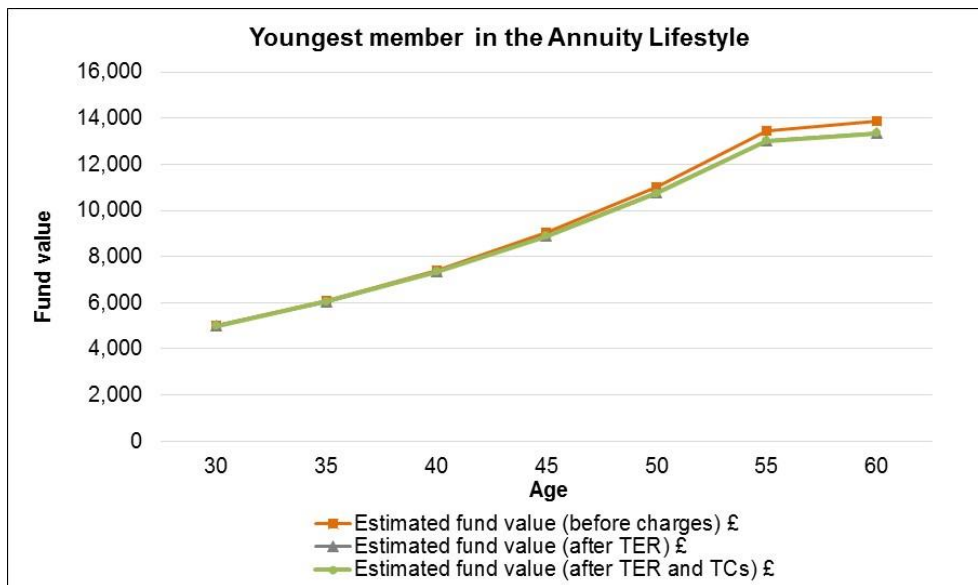
- The Charts shows a projection of the member's retirement savings at retirement age, with and without costs and charges applied.
- As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures with other investments in the Tables. For comparison purposes, we also show the projected retirement savings if the typical member were invested in a higher risk profile fund - the UK Equity Fund - which has a higher expected return and higher charges, and a lower risk profile fund – the Cash Fund - which has a lower expected return and lower charges

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All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

**Illustration A:** This illustration is based on a member in the annuity lifestyle strategy who is 30 years from their retirement age of 60. The member has a current fund value of £5,000. The estimated impact of charges on the member's projected fund is shown below. Projections are shown in current money terms.

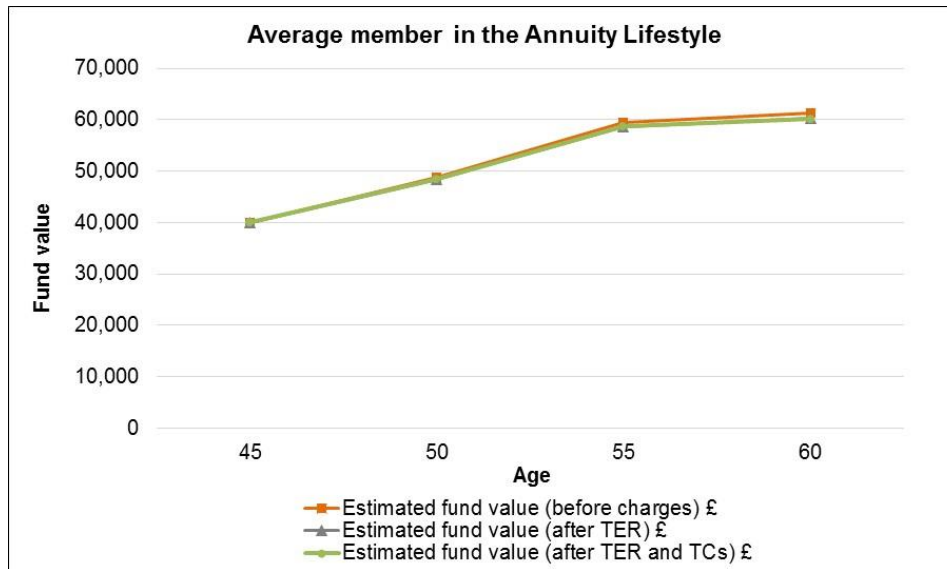


Projected Pension Account in today's money									
Age	Annuity Lifestyle			UK Equity Fund			Cash Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
30	5,000	5,000	0	5,000	5,000	0	5,000	5,000	0
35	6,090	6,050	40	6,240	6,200	40	4,630	4,600	30
40	7,420	7,330	90	7,790	7,680	110	4,290	4,230	60
45	9,050	8,880	170	9,720	9,530	190	3,970	3,890	80
50	11,020	10,750	270	12,130	11,810	320	3,680	3,580	100
55	13,430	13,020	410	15,150	14,640	510	3,400	3,290	110
60	13,860	13,350	510	18,900	18,150	750	3,150	3,030	120

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ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

**Illustration B:** This illustration is based on a member in the annuity lifestyle strategy who is 15 years from their retirement age of 60. The member has a current fund value of £40,000. The estimated impact of charges on the member's projected fund is shown below. Projections are shown in current money terms.



Projected Pension Account in today's money									
Age	Annuity Lifestyle			UK Equity Fund			Cash Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
	£	£	£	£	£	£	£	£	£
45	40,000	40,000	0	40,000	40,000	0	40,000	40,000	0
50	48,740	48,440	300	49,930	49,590	340	37,040	36,790	250
55	59,390	58,660	730	62,310	61,470	840	34,300	33,840	460
60	61,290	60,150	1,140	77,780	76,200	1,580	31,760	31,130	630

Members are advised to consider both the level of costs and charges and the expected return on investments (i.e. the risk profile of the strategy) in making investment decisions.

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### ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

Assumptions and data for illustrations:

The following assumptions have been made for the purposes of the above illustrations:

- Annual salary growth and inflation is assumed to be 2.5% per annum
- The starting fund values and future contributions used in the projections is representative of the average for the Fund
- The projected annual returns on assets are:

Fund name	Return assumption (%)
Aquila 50/50 Global Equity Index <sup>A</sup>	6.5
Aquila UK Equity Index	7.0
Aquila Corporate Bond Over 15-year Gilt Index (Passive) <sup>A</sup>	1.0
Aquila Over 15 years UK Gilt Index (Passive) <sup>A</sup>	0.4
Aquila Index Linked over 5 years Gilt Index (Passive)	-0.2
BlackRock Sterling Liquidity <sup>A</sup>	0.8

For the Annuity Lifestyle used in the projections, the projection considers the changing proportion invested in the different underlying funds.

- The transaction costs have been averaged over a 2-year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.
- Retirement is assumed at age 60.
- There are no new contributions to the Scheme.
- For the Annuity Lifestyle strategy used in the projections, the projections take into account the changing proportion invested in the different underlying funds. Funds labelled A above are underlying funds for the Annuity Lifestyle.

#### Value for Members assessment

The Administration Regulations requires the Trustee to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members.

There is no legal definition of "good value" or the process of determining this for scheme members. Therefore, working in conjunction with our advisers, Aon, the Trustee has developed their cost-benefit analysis framework to make an assessment as to whether our members receive good value from the Scheme relative to the costs and charges they pay.

The costs have been identified as TERs and are set out in section 3 of this statement. The Trustee has considered the benefits of membership under the following four categories: Scheme governance, Investments, Administration, and Member communications and engagement. Benchmarking relative to other pension arrangements or industry best practice guidelines is also undertaken. In addition, during the year the Trustee and their adviser have considered market options to complete the wind-up of the Scheme in members' interests.

The Trustee beliefs have formed the basis of the analyses of the benefits of membership. These are set out below along with the main highlights of their assessment.

Based on the profile of the Plan's DC/AVC arrangements, we believe that the TERs are competitive when compared to current market rates on a like for like basis. Although transaction cost disclosure is relatively new, the transaction costs on the Scheme's DC/AVC funds appear to be reasonable.

AVCs are generally invested in a range of funds with Prudential and Standard Life. The With Profits funds may provide guarantees which may be valuable to members. The charges on the Standard Life Managed Fund seem high in comparison to similar funds available in the market. However, given the size of the assets held the Scheme is unlikely to be able to secure better terms.



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### ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

#### **Scheme governance**

The Trustee believes in having robust processes and structures in place to support effective management of risks and ensure members interests are protected, increasing the likelihood of good outcomes for members.

- The Trustee regularly reviews and updates its governance processes and procedures to make sure that these meet industry best practice.
- The Trustee operates in accordance with their governance framework which covers the legislative and best practice standards set out by the Pension Regulator. This ensures that the Trustee operates in a way that helps deliver better member outcomes.
- Given the governance processes and procedures in place and the action taken by the Trustee, the governance arrangements for the Scheme are considered appropriate based on the assessment undertaken.

#### **Investments**

The Trustee believes that a well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes.

- Reviews of the performance of the DC funds are carried out each quarter and an annual performance monitoring report is received from the Scheme advisers.
- The Scheme was due to carry out an investment strategy review during 2018. The investment strategy review was started, and a membership analysis was completed however further work on this stopped when the wind-up of the Scheme was initiated on 30 April 2019.
- Because of the level of costs and charges and the monitoring processes and arrangements (which will continue until wind-up of the Scheme is completed) the Trustee considers the DC investments to provide Value for Members.

#### **Administration**

The Trustee believes that good administration and record keeping play a crucial role in ensuring that Fund members receive the retirement income due to them. In addition, that the type and quality of service experienced by members has a bearing on the level of member engagement.

- The review of the administration reports provided by Zurich and Mercer has confirmed that the Scheme meets all statutory requirements and the Trustee considers the scheme administration to provide Value for Members. Turnaround times were generally met for more than 86% of transactions over the period of this statement, with a level of 87% recorded for the most recent reported quarter.
- Mercer aim to achieve 90% performance levels assessed over a 12-month period and review all cases which miss performance targets to ensure that no member has been disadvantaged because of any delay.
- The Trustee gains insight in connection with the member experience through their direct interactions and quarterly administration reporting.

#### **Member communications [and engagement]**

The Trustee believes that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.

- The review of the annual benefit statements and other statutory communications sent to members by the administrator confirms that they meet the statutory requirements and the Trustee considers the quality, content and timing of the standard communications to offer Value for Members.
- The Scheme provides effective communications that are accurate, clear, informative and timely.

The Trustee's assessment concluded that the charges and transaction costs borne by Scheme members represents good value for members relative to the benefits of Scheme membership.

#### **Trustees' Knowledge and Understanding**

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as Trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.



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## ANNUAL CHAIR'S STATEMENT FOR THE TULLETT PREBON PENSION SCHEME ("THE SCHEME") (CONTINUED)

The comments in this section relate to the Scheme as a whole and not solely the DC Section.

The Scheme is managed by a Trustee board and has 4 Trustee Directors. The Chair of the Trustee is an independent trustee, appointed by the Principal Employer. There is 1 further Trustee Director appointed by the Principal Employer, and 2 member nominated Trustee Directors. The composition of the Trustee board demonstrates diversification of skills and breadth and depth of pension knowledge.

The Trustee has processes and procedure in place to meet the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- A programme for newly appointed Trustee Directors to familiarise them with key Scheme documents and governance, including encouraging the completion of the Pension Regulator's Trustees toolkit, which is an online learning programme.
- Taking personal responsibility to assess training needs and identifying gaps in knowledge.
- Undergoing regular training for the year this included training on effectively running virtual meetings; Environmental, Social and Governance (ESG) investing; climate change risk; wind-up considerations and legal pension developments

The Trustee has engaged with their professional advisers regularly throughout the year to ensure that they exercise their functions properly and take professional advice where needed. In exercising their functions this has required knowledge of key scheme documents such as the Trust Deed & Rules, Trustee Report & Accounts and Statement of Investment Principles. A few of the areas that support this statement are set out below:

- Holding four Trustee meetings with advisers who have provided specialist advice, updates on legislation, guidance and best practice developments,
- Reviewing conflicts of interest as a regular trustee meeting agenda item and regularly reviewing the Scheme risk register together with their adviser
- Updating the Statement of Investment Principles for the principles applying to Corporate Governance and ESG
- Signing off of the annual Trustee's Report and Accounts
- Review of Trust Deed & Rules for decisions taken in light of COVID-19 (e.g. additional pension flexibilities, changes permitted to pension contributions, quorum rules)
- Reviewing of quarterly administration reports to monitor service delivery against agreed service levels standards and assessing the member experience
- Reviewing quarterly investment reports to assess fund performance against benchmarks, and funds against overall Scheme aim and objectives, as set out in the statement of Investment Principles.
- Reviewing the governance structure of the Scheme and ongoing work in relation to the wind-up of the Scheme to ensure this is completed in members' interests.

The Trustee considers that it meets the Pension Regulator's Trustee Knowledge and Understanding requirements and are confident that their combined knowledge and understanding, together with the support of their advisers, enables them to properly exercise their functions as the Trustee of the Scheme.

### Conclusion

Overall, the Trustee is confident that all requirements of the Regulations as they apply are being met, in the interests of members of the Scheme.

Signed on behalf of the Trustee of the Tullett Prebon Pension Scheme:

Name Clive Gilchrist

Signature 

Date 29 September 2020