

PRINCES PENSION SCHEME – ADDITIONAL VOLUNTARY CONTRIBUTIONS AND SHIPPAM MONEY PURCHASE SECTION

ANNUAL CHAIR'S STATEMENT FOR THE SCHEME YEAR ENDING 31 MARCH 2020

Regulations effective from 6th April 2015 require the Trustees to prepare a statement showing how they have met certain minimum governance standards in relation to defined contribution benefits. These standards cover five principal areas relating to the Scheme's defined contribution benefits, namely:

1. *The investment strategy relating to the Scheme's default investment arrangement;*
2. *The processing of core financial transactions;*
3. *Charges and transaction costs within the Scheme;*
4. *Value for Members assessment; and*
5. *The Trustees' compliance with the statutory knowledge and understanding (TKU) requirements.*

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these minimum standards over the period 1st April 2019 to 31st March 2020. This statement also includes information regarding defined contribution (DC) governance and the Trustees' assessment of the Scheme against the DC Code of Practice.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, a list of local regulated financial advisers can be obtained on-line at www.unbiased.co.uk.

1. **Default Investment Arrangement**

- 1.1 A copy of the Scheme's latest Statement of Investment Principles (SIP), prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is available on request. A copy of the SIP is attached to this statement.
- 1.2 The SIP covers the following key matters in relation to the Scheme's investments, including:
 - (a) the Trustees' aims and objectives in relation to the investments held;
 - (b) the Trustees' policies on issues such as: the kinds of investments to be held; the balance between different kinds of investments; risks, including the ways in which risks are to be measured and managed; the expected return on investments; the realisation of investments; and the extent (if at all) to which social, environmental or ethical considerations are taken into account when selecting, retaining or realising investments;
 - (c) an explanation of how these aims, objectives and policies are intended to ensure that assets are invested in the best interests of members.
- 1.3 No money purchase contributions have been made into the Scheme since 6 April 2015, and the Scheme closed to accrual on 31st March 2019. As such, all members are treated as paid up from that date and there is no legislative requirement for the Scheme to have a default investment option for future contributions. The Scheme is not being used as a qualifying scheme for automatic enrolment purposes.
- 1.4 The default strategy and the performance of the default arrangement were not reviewed in this Scheme Year. The last review was completed in 2012, and the Trustees will be reviewing this during the next Scheme Year.

- 1.5 The Trustees consider the performance of all funds on a quarterly basis against their aims, objectives and policies. The reviews that the Trustees undertook during the year concluded that the default arrangements were performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP.
- 1.6 Due to historic contributions, the Scheme's lifestyle strategy is considered the Scheme's default arrangement. The DC members are invested in a lifestyle arrangement with Legal & General, which invests in the Legal & General Multi Asset fund (formerly the Consensus Index fund) and over the 9 years to the members' retirement date transfers to the Legal & General Over 15 Year Gilt Index Fund (75% at retirement) and the Legal & General Cash Fund (25% at retirement). This lifestyle arrangement invests initially in investments that are structured to maximise real returns over the long term, with some downside protection and some protection against inflation erosion. The Default then moves into a Protection Phase where investments aim to provide some protection from inflation and changes in annuity prices. The Trustees believe that the structure of the Lifestyle arrangement is suitable for members who wish to purchase a non-increasing annuity at retirement and take 25% of their pot as cash.
- 1.7 The Scheme has Additional Voluntary Contribution (AVC) policies with Aviva, Clerical Medical and Utmost Life and Pensions (Utmost) (formerly Equitable Life) in a mixture of unit linked, deposit and with profit funds.

2. Core Financial Transactions

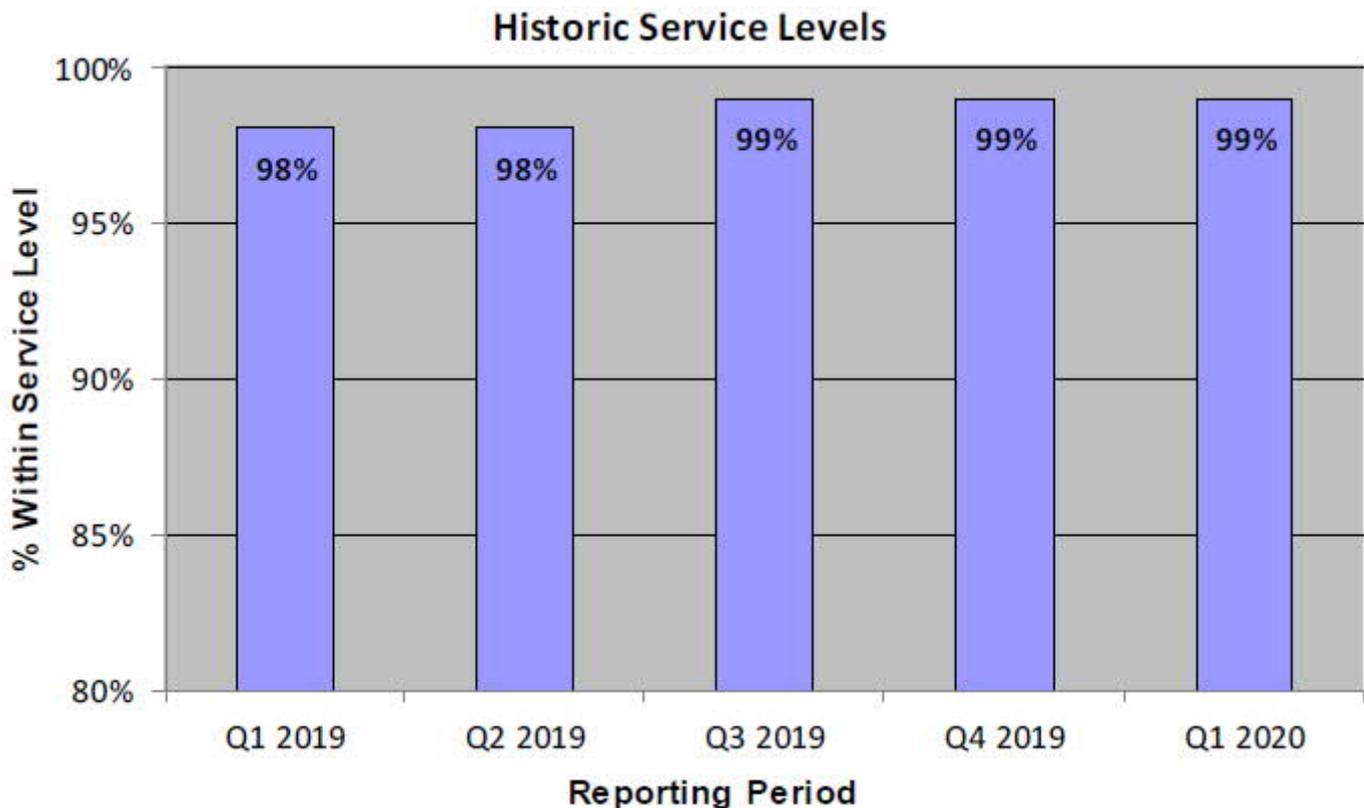
- 2.1 The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:
- Having in place Service Level Agreements (SLAs) with the administrators which cover all core administration processes. These SLAs are monitored on a regular basis, with a quarterly Trustees' Administration report.
 - Ensuring that detailed disaster recovery plans are in place with the administrators, other relevant third parties, and within the sponsoring Employer.
 - Maintaining and monitoring a risk register which includes risks and controls in relation to core financial transactions.
 - Appointing a professional firm to undertake an annual audit to confirm that contributions and benefit payments have been made in a timely manner and in line with the required timescales.

The table below details the service levels for key processes and the Scheme administrator's level of performance against them.

	Service Level (days)	Percent in target (Q2 2019)	Percent in target (Q3 2019)	Percent in target (Q4 2019)	Percent in target (Q1 2020)
CRC Contact	1	100%	100%	100%	100%
Data Change	15	100%	100%	100%	100%
Death Quotation	5	-	100%	100%	100%
Death Settle	2	100%	0%	75%	100%
Divorce	15	-	-	-	100%
DWP	28	-	100%	-	-
Enquiry / Query	10	93%	100%	100%	100%
Leaver – Deferred	10	-	-	-	100%
Pensioner Change	10	100%	100%	100%	100%

Retirement Quotation	10	96%	100%	97%	96%
Retirement Settle	15	83%	100%	100%	100%
Transfer Out Quotation	20	100%	100%	100%	100%
Transfer Out Settlement	20	100%	-	100%	100%
	Total	98%	99%	99%	99%

The chart below shows the Scheme administrator's historic service levels.



The Trustees are satisfied that over the period covered by this Statement:

- The administrator was operating appropriate procedures, checks and controls and operating within the agreed SLAs;
- There have been no material administration errors in relation to processing core financial transactions; and
- All core financial transactions have been processed promptly and accurately during the Scheme year.

3. Charges and Transaction Costs

3.1 As required by the Administration Regulations, the Trustees are required to report on the charges and transactions costs for the investments used in the default arrangements and their assessment on the extent to which the charges and costs represent good value for members. The Trustees have followed statutory guidance when preparing this section of the Statement.

3.2 The transaction costs, as defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, should be based on an average of the previous 5 years' transaction costs

or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available.

- 3.3 Depending on whether prices are rising or falling, and whether a fund is buying or selling, implicit transaction costs calculated using the slippage methodology can be positive or negative (negative costs benefit members).
- 3.4 The total charges payable (quoted in the following table as Total Expense Ratio) under the default strategy are highlighted in bold below:

Fund	Effective Member Charge	Transaction Cost - 2019 (%)	Transaction Cost – 2020 (%)	Average Transaction Cost (%)
Legal & General Multi-Asset (formerly Consensus)	0.25%	0.0100%	0.0307%	0.0204%
Legal & General Over 15 Year Gilt Index	0.10%	-0.0200%	0.0187%	-0.0007%
Legal & General Cash Fund	0.13%	0.0000%	0.0031%	0.0016%

Source: Legal and General (April 2020)

AVC Charges

- 3.5 The Scheme has Additional Voluntary Contribution (AVC) policies with Aviva, Clerical Medical and Utmost Life and Pensions (Utmost) (formerly Equitable Life) in a mixture of unit linked, deposit and with profit funds.
- 3.6 When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for members.

Fund	Effective Member Charge	Transaction Cost – 2019 (%)	Transaction Cost – 2020 (%)	Average Transaction Cost (%)
Aviva BlackRock (50:50) Global Equity Index (Aquila C)	0.58%	-0.0590%	0.0231%	-0.0180%
Aviva Cash	0.58%	0.0042%	0.0084%	0.0063%
Aviva Pre-retirement Fixed Interest	0.58%	0.2790%	0.1925%	0.2358%
Clerical Medical UK Growth Pension	0.50%	0.3900%	0.5000%	0.4450%
Clerical Medical Balanced Pension	0.50%	0.1900%	0.2500%	0.2200%
Clerical Medical With Profit Funds	0.50%	0.2100%	0.1800%	0.1950%
Clerical Medical Halifax	0.50%	0.0000%	0.0000%	0.0000%
Utmost Life Money Market	0.50%	0.0000%	0.0000%	0.0000%
Utmost Life Managed	0.75%	0.0092%	0.0084%	0.0088%
Utmost Life Secured Cash	0.50%	*	0.0000%	0.0000%

Source: Aviva, Clerical Medical, Legal and General and Utmost Life (2020), figures are per annum. *Fund not in use in 2019.

3.7 Reporting Costs and Charges

In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustees have based this on the average member age of 53, using a starting pot size of £8,209 based on the average for the age band of members between 51 – 55. As all members are deferred it also assumes no additional contributions. We have also assumed an annual inflation of 2.5% per annum.

Projected Pot sizes in Today's Money (£)											
	Default Fund		Most Expensive Fund		Least Expensive Fund		Highest Expected Growth		Lowest Expected Growth		
	Legal & General Multi-Asset (formerly Consensus)		Clerical Medical Lifestyle UK Growth		L&G Over 15 year Gilt Index		Aviva BlackRock (50:50) Global Equity Index (Aquila C)		Aviva Cash		
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	
1	£ 8,410	£ 8,390	£ 8,490	£ 8,410	£ 8,130	£ 8,120	£ 8,450	£ 8,400	£ 8,130	£ 8,080	
2	£ 8,620	£ 8,570	£ 8,770	£ 8,610	£ 8,050	£ 8,030	£ 8,700	£ 8,600	£ 8,050	£ 7,960	
3	£ 8,830	£ 8,760	£ 9,070	£ 8,820	£ 7,970	£ 7,950	£ 8,950	£ 8,800	£ 7,970	£ 7,830	
5	£ 9,270	£ 9,140	£ 9,700	£ 9,250	£ 7,820	£ 7,780	£ 9,480	£ 9,210	£ 7,820	£ 7,590	
10	£ 10,460	£ 10,190	£ 11,450	£ 10,420	£ 7,440	£ 7,370	£ 10,950	£ 10,340	£ 7,450	£ 7,020	
11	£ 10,720	£ 10,410	£ 11,840	£ 10,670	£ 7,370	£ 7,290	£ 11,270	£ 10,580	£ 7,370	£ 6,910	
12	£ 10,980	£ 10,640	£ 12,240	£ 10,930	£ 7,300	£ 7,210	£ 11,600	£ 10,820	£ 7,300	£ 6,810	

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £8,209.
3. No future contributions are assumed for deferred members.
4. Values are estimates and are not guaranteed.
5. The projected growth rate for each fund are as follows:
 - A. Legal & General Multi-Asset (formerly Consensus) (Default Fund): 2.44% p.a. net expected real return above inflation.
 - B. Clerical Medical Lifestyle UK Growth (Most Expensive Fund): 2.93% p.a. net expected real return above inflation.
 - C. Legal & General over 15 Year Gilt Index (Cheapest Fund): -0.98% p.a. net expected real return above inflation.
 - D. Aviva BlackRock (50:50) Global Equity Index (Highest Expected Growth Fund): 2.93% p.a. net expected real return above inflation.
 - E. Aviva Cash (Lowest Expected Growth Fund): -0.98% p.a. net expected real return above inflation.
6. The Transaction Costs relate to the actual transaction costs incurred in the Scheme year. Except where the transaction cost is negative, which could be due to slippage. In such instances, the transaction cost can be considered 0%.

The projected growth rates use the same underlying assumption as the Statutory Money Purchase Illustration (SMPI) assumptions plus any transaction costs.

Due to the diverse Scheme demographics, a further illustration is set out below to reflect the position for younger members of the Scheme.

This is based on a member age of 39, using a starting pot size of £5,483. As all members are deferred, it also assumes no additional contributions. We have also assumed an annual inflation of 2.5% per annum.

Youngest Member

Projected Pot sizes in Today's Money (£)										
	Default Fund		Most Expensive Fund		Least Expensive Fund		Highest Expected Growth		Lowest Expected Growth	
	L&G Consensus Index Fund - Lifestyle		Clerical Medical Lifestyle UK Growth		L&G Over 15 Year Gilt Index		Aviva BlackRock (50:50) Global Equity Index (Aquila C)		Aviva Cash	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	£ 5,610	£ 5,600	£ 5,670	£ 5,610	£ 5,430	£ 5,420	£ 5,640	£ 5,610	£ 5,430	£ 5,400
2	£ 5,750	£ 5,720	£ 5,860	£ 5,750	£ 5,370	£ 5,360	£ 5,810	£ 5,740	£ 5,370	£ 5,310
3	£ 5,890	£ 5,850	£ 6,060	£ 5,890	£ 5,320	£ 5,310	£ 5,980	£ 5,870	£ 5,320	£ 5,230
5	£ 6,190	£ 6,100	£ 6,470	£ 6,170	£ 5,220	£ 5,190	£ 6,330	£ 6,150	£ 5,220	£ 5,070
10	£ 6,990	£ 6,800	£ 7,650	£ 6,960	£ 4,970	£ 4,920	£ 7,310	£ 6,900	£ 4,970	£ 4,690
15	£ 7,890	£ 7,580	£ 9,030	£ 7,840	£ 4,730	£ 4,660	£ 8,450	£ 7,740	£ 4,740	£ 4,340
20	£ 8,910	£ 8,440	£ 10,670	£ 8,830	£ 4,500	£ 4,420	£ 9,760	£ 8,690	£ 4,510	£ 4,010
25	£ 10,060	£ 9,400	£ 12,600	£ 9,940	£ 4,290	£ 4,180	£ 11,270	£ 9,750	£ 4,300	£ 3,710
26	£ 10,310	£ 9,610	£ 13,030	£ 10,180	£ 4,250	£ 4,140	£ 11,600	£ 9,970	£ 4,250	£ 3,650

Notes:

- 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 starting pot size is assumed to be £5,483.
- No future contributions are assumed for deferred members.
- Values are estimates and are not guaranteed.
- The projected growth rate for each fund are as follows:
 - Legal & General Multi-Asset (formerly Consensus) (Default Fund): 2.44% p.a. net expected real return above inflation.
 - Clerical Medical Lifestyle UK Growth (Most Expensive Fund): 2.93% p.a. net expected real return above inflation.
 - Legal & General over 15 Year Gilt Index (Cheapest Fund): -0.98% p.a. net expected real return above inflation.
 - Aviva BlackRock (50:50) Global Equity Index (Highest Expected Growth Fund): 2.93% p.a. net expected real return above inflation
 - Aviva Cash (Lowest Expected Growth Fund): -0.98% p.a. net expected real return above inflation.
- The Transaction Costs relate to the actual transaction costs incurred in the Scheme year. Except where the transaction cost is negative, which could be due to slippage. In such instances, the transaction cost can be considered 0%.

The projected growth rates use the same underlying assumption as the Statutory Money Purchase Illustration (SMPI) assumptions plus any transaction costs.

4. Value for Members

- In accordance with regulation 25(1)(b), the Trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent moderate value for members when this is compared to other options available in the market.
- In July 2020, the Trustees carried out a review of the extent to which investment charges represent good value for members. The Trustees agreed that all the funds offered to members represent good value for

money. The Trustees conducted a Value for Members assessment in order to arrive at this conclusion, incorporating consideration of:

- Annual management charges
- Transaction costs
- Net of cost performance
- Governance arrangements
- Fund range available to members
- Administration services performance

4.3 The non-financial benefits of membership were also considered and included (amongst other things): the efficiency of administration processes; the communications delivered to members; and the quality of Scheme governance.

4.4 The Trustees note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the assessment of value to members.

4.5 The Trustees concluded that the Scheme's overall range of investment options represent moderate value for money in comparison to the member-borne charges for those options. The reasons underpinning this conclusion include:

- The fees for the DC funds are below the median comparator for their peer group;
- The fees for the AVC funds are more expensive, but generally we consider them to be reasonable value compared to other AVC arrangements;
- Providing a comparison between one with-profits fund and its peers is extremely difficult. Each with-profits fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through pay-outs. Indeed, a specific with-profits fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of with-profits funds is not sufficiently alike to enable relative assessments based on just past or potential performance;
- Performance figures are within expected tolerance ranges for the majority of the funds, and the majority of underlying funds.

4.6 The Trustees acknowledge that the other services that members receive are outdated compared to those currently available with other providers on more modern platforms. However, given the size and longevity of the Scheme, they believe the services offered remain appropriate.

4.7 Furthermore, additional services such as trustee governance, adviser fees and additional communications that are paid for by the Company provide additional good value for members at a Scheme-wide level. Whilst not a member deduction, the Trustees recognise the contribution to value for members.

5. Trustee Knowledge and Understanding

5.1 In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme (not just the Shippam Money Purchase Section or AVC policies). This requirement has been met during the course of the Scheme year as follows:

5.2 A Trustees' training log is maintained including training undertaken at each meeting and the areas of the Pension Regulator's Trustee Toolkit. The log is reviewed regularly.

5.3 The Trustees also undertake ongoing training, both as a group and individually to keep abreast of relevant developments. For the Scheme year, this included training on:

- Environmental, Social and Corporate Governance related issues
- Updates in pension legislation

- 5.4 The Trustees undertake an annual Trustee Knowledge and Understanding (TKU) analysis. Any potential knowledge gaps are identified by this self-evaluation during the Scheme year and an analysis report is produced and discussed. Ongoing training needs are recorded on the Trustees' training log.
- 5.5 The Trustees also reviewed the Scheme's annual plan during the Scheme year.
- 5.6 The Trustees' meetings held in the period for this statement which were attended by the Scheme advisers. Training and advice delivered as part of the business at these meetings is incorporated by the Trustees into their decision making processes.
- 5.7 The Trustees are conversant with, and have a working knowledge of, the Trust Deed and Rules. An example of how this has been used is in relation to application of death benefits in this Scheme year. If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Scheme's legal advisors.
- 5.8 The Trustees are conversant with, and have a working knowledge of, the current SIP. The Trustees undertake regular training on investment matters and review the investments held by the Scheme at each meeting. The Trustees have sufficient knowledge of investment matters to be able to challenge their advisor. An example of this is shown through the updates made to the SIP in 2019 to bring the SIP in line with the regulations required from October 2019. A further update to the SIP is due this year to ensure it is in line with the new regulations required from October 2020.
- 5.9 The Trustees receive advice from professional advisers (Mercer) to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules (Mercer and DWF), and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustees along with their own experience allows them to properly exercise their function as Trustees.
- 5.10 The Trustees obtained advice regarding its AVC arrangements with Utmost in relation to the transfer of assets from Equitable Life to Utmost. The Trustees will review its arrangements with Utmost and consider the best approach regarding this transaction for the affected members. The Trustees are reviewing the AVC arrangements in 2020.
- 5.11 The Trustees will also review and assess, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.
- 5.12 Taking account of actions taken individually and as a group of Trustees, and the professional advice available to them, the Trustees consider they are enabled properly to exercise their function as a Trustee Board.
- 5.13 This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustees to the best of my knowledge.

Appendix

2020 Statement of Investment Principles