

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

ANNUAL CHAIR'S STATEMENT FOR THE SCHEME YEAR ENDING 31 MARCH 2021

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 2020 to 31st March 2021. 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 <http://www.fca.org.uk/consumers/finding-adviser>.

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, which is taken to be the Scheme's lifestyle strategy due to historic contributions, and the performance of the default arrangement were not subject to a formal strategy review during this Scheme Year. The last strategy review was completed in 2012; as the Scheme is not being used for automatic enrolment purposes, the Trustees have no intention to review this in the near term.

- 1.5 The Trustees consider the performance of all funds on a quarterly basis against each funds' respective aims, objectives and policies. The performance reviews that the Trustees undertook during the year concluded that the Scheme's investments are performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP.
- 1.6 Within the default arrangement, a member is invested in the Legal & General Multi Asset fund during the growth phase of the strategy and at 9 years to retirement, the protection phase begins. During the protection phase, investments are transferred periodically to the Legal & General Over 15 Year Gilt Index Fund (until there is a 75% allocation at retirement) and the Legal & General Cash Fund (until there is a 25% allocation at retirement).
- 1.7 During the growth phase, the lifestyle arrangement invests in funds that are structured to maximise real returns over the long term, with some downside protection and protection against inflation erosion. The protection phase begins at 9 years to retirement, where investments switch in order 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, in line with current legislation.
- 1.8 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.

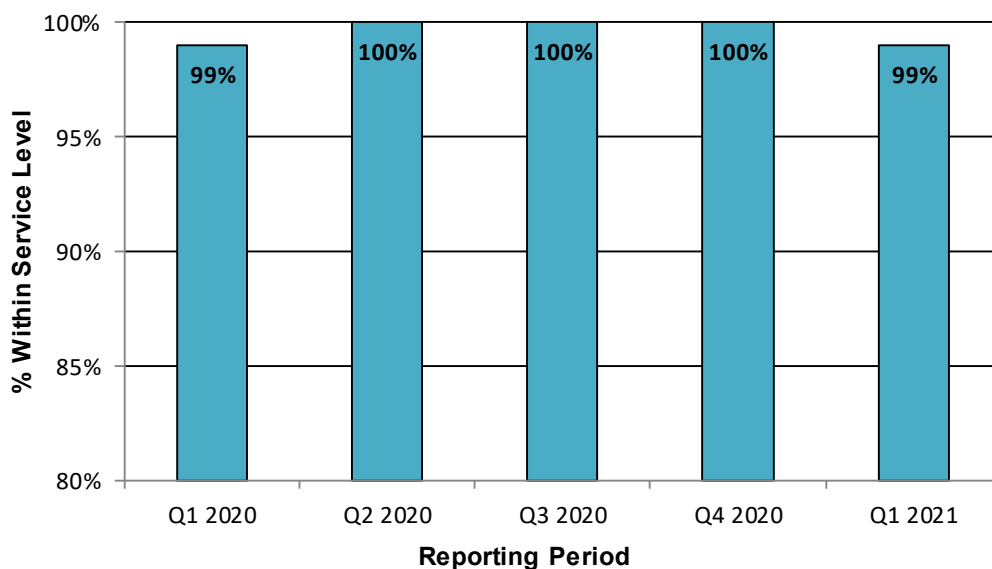
2. Core Financial Transactions

- 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.

Task	Q2 2020		Q3 2020		Q4 2020		Q1 2021		Total		
	Completed in	Outside SLA	Completed in	Outside SLA	Completed in	Outside SLA	Completed in	Outside SLA	Completed in	Outside SLA	%
CRC contact	14	0	10	0	7	0	17	0	48	0	100.0
Data Change	10	0	28	0	12	0	17	0	67	0	100.0
Death Quotation	1	0	3	0	0	0	2	0	6	0	100.0
Death Settle	4	0	5	0	1	0	1	0	11	0	100.0
Divorce	2	0	1	0	2	0	3	0	8	0	100.0
DWP	0	0	1	0	2	0	2	0	5	0	100.0
Enquiry / Query	34	0	40	0	33	0	50	0	157	0	100.0
Pensioner Change	12	0	8	0	7	0	4	0	31	0	100.0
Retirement Quotation	24	0	18	0	15	0	35	0	92	0	100.0
Retirement Settle	11	0	10	0	9	0	10	0	40	0	100.0
Transfer Out - Quotation	12	0	11	0	6	0	23	0	52	0	100.0
Transfer Out - Settlement	3	0	2	0	2	0	2	1	9	1	88.9
Total	127	0	137	0	96	0	166	1	526	1	99.8

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 investment funds 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	Total Expense Ratio	Transaction Cost – 2019 (%)	Transaction Cost - 2020 (%)	Transaction Cost – 2021 (%)	Average Transaction Cost (%)
Legal & General Multi-Asset (formerly Consensus)	0.26%	0.0307%	*	0.0058%	0.0283%
Legal & General Over 15 Year Gilt Index	0.10%	0.0187%	*	0.0007%	0.0097%
Legal & General Cash Fund	0.12%	0.0031%	*	-0.0019%	0.0006%

Source: Legal and General (April 2021) *The provider was unable to confirm the transaction cost for this period.

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	Total Expense Ratio	Transaction Cost – 2019 (%)	Transaction Cost – 2020 (%)	Transaction Cost – 2021 (%)	Average Transaction Cost (%)
Aviva BlackRock (50:50) Global Equity Index (Aquila C) *	0.58%	-0.0590%	0.0231%	*	-0.0179%
Aviva Cash *	*0.58%	0.0042%	0.0084%	*	0.0063%
Aviva Pre-retirement Fixed Interest *	0.58%	0.0279%	0.1925%	*	0.1102%
Clerical Medical UK Growth Pension	0.50%	0.5000%	*	0.3900%	0.4450%
Clerical Medical Balanced Pension	0.50%	0.2500%	0.2000%	0.4400%	0.2967%
Clerical Medical With Profit Funds	0.50%	0.1800%	*	0.4100%	0.2950%
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%	*	0.0198%	0.0213%	0.0205%

Source: Aviva, Clerical Medical, Legal and General and Utmost Life (2021), figures are per annum. *The provider was unable to confirm the transaction cost for this period.

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.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following (with the Scheme's relevant funds/strategies listed in brackets):

- **The fund or strategy with the most members invested:** Legal & General Multi-Asset
- **The most expensive fund:** Clerical Medical UK Growth Pension
- **The least expensive fund:** L&G Over 15yr Gilt Index Fund
- **The fund with the highest expected return:** Clerical Medical UK Growth Pension
- **The fund with the lowest expected return:** L&G Cash Fund

The illustrations that follow take into account the following elements:

- Initial savings pot size;
- Contributions, where applicable;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical deferred member's pension pot, we have provided the below illustrations, which accounts for all estimated member costs, including the TER, transaction costs and inflation.

Illustration 1: A typical average deferred member invested in the DC and AVC fund range

Year End	Most popular fund: Legal & General Multi-Asset		Highest cost fund & Highest expected return fund: Clerical Medical UK Growth Pension		Lowest cost fund: L&G Over 15yr Gilt Index Fund		Lowest expected return fund: Aviva Cash	
	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	£7,956	£7,934	£8,029	£7,953	£7,625	£7,617	£7,625	£7,580
2	£8,157	£8,111	£8,306	£8,151	£7,492	£7,476	£7,492	£7,404
3	£8,364	£8,293	£8,594	£8,354	£7,362	£7,338	£7,361	£7,232
4	£8,575	£8,478	£8,891	£8,562	£7,234	£7,202	£7,233	£7,065
5	£8,792	£8,668	£9,199	£8,776	£7,108	£7,069	£7,107	£6,901
6	£9,015	£8,862	£9,517	£8,994	£6,984	£6,938	£6,983	£6,741
7	£9,242	£9,060	£9,846	£9,218	£6,863	£6,810	£6,861	£6,584
8	£9,476	£9,263	£10,187	£9,448	£6,743	£6,684	£6,741	£6,431
9	£9,716	£9,470	£10,540	£9,683	£6,626	£6,561	£6,624	£6,282
10	£9,962	£9,682	£10,904	£9,924	£6,510	£6,439	£6,508	£6,137
11	£10,214	£9,898	£11,282	£10,171	£6,397	£6,320	£6,395	£5,994
12	£10,472	£10,120	£11,672	£10,424	£6,286	£6,204	£6,283	£5,855
13	£10,737	£10,346	£12,076	£10,684	£6,176	£6,089	£6,174	£5,719

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. To make this analysis representative of the membership, the Trustees have based this assumed member on data sourced from Aviva, Clerical Medical, Mercer and Utmost. The assumed member is age 54, with a normal retirement age of 65, using a starting pot size of £7,760. The member is assumed to be making no further contributions to the Scheme.
4. Inflation is assumed to be 2.5% per annum.
5. Charges, transaction costs and estimated growth rates are assumed as follows:

Fund	TER	Transaction costs	Growth rate assumptions
Legal & General Multi-Asset	0.26 p.a.	0.0283% p.a.	5.00% p.a. before inflation
Clerical Medical UK Growth Pension	0.50% p.a.	0.4450% p.a.	5.50% p.a. before inflation
L&G Over 15 Year Gilt Index	0.10% p.a.	0.0097% p.a.	0.75% p.a. before inflation
L&G Cash Fund	0.12% p.a.	0.0006% p.a.	0.75% p.a. before inflation

Charge and costs figures provided by Aviva, Clerical Medical, Legal & General Investment Management, and Utmost. Growth rate assumptions were provided by Mercer. The Regulations state that where possible, fund transaction costs should be assumed. These illustrations are based on an average of the previous five years' transaction costs for each fund, where available. As the providers were unable to provide five historic transaction costs for these funds, the transaction costs shown above are an average of the costs provided for the two or three years period to 31st March 2021.

Illustration 2: A typical youngest deferred member invested in the DC and AVC fund range

Year End	Most popular fund: Legal & General Multi-Asset (formerly Consensus)		Highest cost fund & Highest expected return fund: Clerical Medical UK Growth Pension		Lowest cost fund: L&G Over 15yr Gilt Index Fund		Lowest expected return fund: Aviva Cash	
	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	£6,237	£6,219	£6,293	£6,234	£5,977	£5,971	£5,977	£5,942
2	£6,395	£6,358	£6,511	£6,390	£5,873	£5,860	£5,873	£5,804
3	£6,556	£6,500	£6,737	£6,549	£5,771	£5,752	£5,770	£5,669
5	£6,892	£6,795	£7,211	£6,879	£5,572	£5,541	£5,571	£5,409
10	£7,809	£7,589	£8,548	£7,779	£5,103	£5,048	£5,102	£4,810
15	£8,847	£8,477	£10,133	£8,797	£4,675	£4,598	£4,672	£4,278
20	£10,024	£9,469	£12,012	£9,949	£4,282	£4,189	£4,279	£3,804
25	£11,358	£10,576	£14,239	£11,250	£3,922	£3,816	£3,918	£3,383

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. To make this analysis representative of the membership, the Trustees have based this assumed member on data sourced from Aviva, Clerical Medical, Mercer and Utmost. The assumed member is age 40, with a normal retirement age of 65, using a starting pot size of £6,470. The member is assumed to be making no further contributions to the Scheme.
4. Inflation is assumed to be 2.5% per annum.
5. Charges, transaction costs and estimated growth rates are assumed as follows:

Fund	TER	Transaction costs	Growth rate assumptions
Legal & General Multi-Asset (formerly Consensus)	0.26% p.a.	0.0283% p.a.	5.00% p.a. before inflation
Clerical Medical UK Growth Pension	0.50% p.a.	0.4450% p.a.	5.50% p.a. before inflation
L&G Over 15 Year Gilt Index	0.10% p.a.	0.0097% p.a.	0.75% p.a. before inflation
L&G Cash Fund	0.12% p.a.	0.0006% p.a.	0.75% p.a. before inflation

Charge and costs figures provided by Aviva, Clerical Medical, Legal & General Investment Management, and Utmost. Growth rate assumptions were provided by Mercer. The Regulations state that where possible, fund transaction costs should be assumed. These illustrations are based on an average of the previous five years' transaction costs for each fund, where available. As the providers were unable to provide five historic transaction costs for these funds, the transaction costs shown above are an average of the costs provided for the two or three years period to 31st March 2021.

4. Value for Members

- 4.1 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 value for members, compared to other options available in the market.
- 4.2 In August 2021, the Trustees with support from their advisers, Mercer Ltd, undertook a value for members assessment. The Trustees concluded that the Scheme's overall benefits and options represent good value for money in comparison to the costs payable by members. The reasons underpinning this conclusion include:
 - Charges for the default investment option and other funds treated as default investment arrangements are significantly below the charge cap of 0.75% per annum;
 - Charges on all of the funds have been assessed by our advisers as comparing favourably with those of peer funds;
 - The funds used by the Scheme are highly rated by Mercer Ltd as having good prospects of achieving their risk and return objectives.
 - The performance of the Scheme's funds over the last year to 31st March 2021 compares favourably relative to the benchmark
 - Transaction costs seem reasonable.

- 4.3 The non-financial benefits of membership were also considered and included (amongst other things):
- Investments (net performance and charges for the default and self-select options);
 - Communications;
 - Scheme governance;
 - Administration services; and
 - At-retirement services.
- 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 unit-linked investment options represent reasonable 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;
 - Performance figures are within expected tolerance ranges for the majority of the funds, and the majority of underlying funds.
- 4.6 Members of the Scheme also have access to with-profits investment options, however, 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.
- 4.7 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.
- 4.8 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 and updates on:
- Environmental, Social and Corporate Governance (ESG) related issues – ESG monitoring updates took place in December 2020 and March 2021
 - Pension legislation – Pension legislation updates took place in June 2020, September 2020, December 2020 and March 2021
- 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 2020 to bring the SIP in line with the regulations required from October 2020.
- 5.9 The Trustees receive advice from professional advisers (Mercer Ltd) 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 reviewed the AVC arrangements in August 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.

Signed for and on behalf of the Trustees of the Princes Pension Scheme

Date

By

.....

S Cardall, Chair of Trustees

Appendix

2020 Statement of Investment Principles