

# Princes Pension Scheme

Value for Members Assessment - Annual Report  
Scheme Year to 31 March 2023

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**September 2023**

A business of Marsh McLennan



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# Agenda

# Introduction



# Introduction

## Value for Members assessment



This presentation is addressed to the Trustees of the Princes Pension Scheme (the "Scheme"). The purpose of this presentation is to review whether members are, in the opinion of Mercer, receiving value for members for the charges incurred when investing in the funds offered by the Scheme.

### Objectives

Our analysis in this presentation is split between three main factors, the three Ps (as explained on the following slide).

- **Regulatory compliance:** There is a statutory duty to assess, at least annually, the extent to which member borne charges and transaction costs (to the extent identifiable) provide good value.
- **Focus on member welfare:** The statutory requirements focus only on charges and costs borne by members. This covers investment management costs, platform costs, and anything else paid for by members. We believe that value is about more than member borne deductions, and therefore have also assessed whether wider features deliver good value.
- **Building member engagement:** By identifying the main value drivers, this assessment provides a foundation for ongoing engagement with members, particularly how they can be helped to plan for retirement.

### Regulatory Requirements

#### Minimum Governance Standards

- Since 6 April 2015, governance standards have applied to occupational DC Schemes, including a requirement to assess at least annually the extent to which schemes offer good value for members in relation to member borne deductions.

#### Chair's Statement

- The statement reports, the level of charges and transaction costs in the default arrangement and the range of costs and charges in other funds together with your assessment of the extent to which the charges represent good value. From 1 October 2021, the statement must also disclose net investment performance for all investment options available to members during the year.
- The Statement is due within seven months (October 2024) of Scheme year end (March 2023).
- From 6 April 2018 regulations now require closer attention to ensure meaningful information is provided to members in relation to the disclosure of charges and transaction costs. This builds on regulations that came into force on 3 January 2018 requiring firms managing funds to provide information about transaction costs calculated according to the 'slippage' cost methodology, information about administration charges and appropriate contextual information to support disclosures.

# Introduction

## Three Ps framework

Mercer assesses value using a **“the three Ps” framework**. These factors are based on the premise that the pursuit of good value is about:

- Making sure desired outcomes are being achieved in a cost effective way; and,
- Periodically reviewing whether the desired outcomes are (and remain) the right ones.

### Price

**Was the price paid competitive against comparable alternatives?**

- Value is not simply about reducing costs, but rather comparing the price paid with the overall worth.

### Performance

**Did each component achieve its desired aim and outcome?**

- Net performance of an investment option relative to expectations of that fund against objectives/targets. Value is not just about low cost but a comparison of price to value provided. Forward looking rating assessments are also included.

### Productivity

**Does the overall investment strategy and each investment fund deliver?**

- Could this be achieved more effectively, or are better outcomes possible for the same costs? This is more of a strategic assessment covering ‘softer’ elements of value such as admin, online services etc.

# **Executive summary**

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# Executive summary

## Value for Members assessment

GOOD
REASONABLE
POOR

We believe the value for members across a range of factors (3Ps) is present as summarised below. More detail is contained in corresponding sections of this report.

	<div>Price</div> <div>Overall rating:</div> <div>GOOD</div> <div>Charges are generally competitive relative to other funds available in the market.</div>	<div>Performance</div> <div>Overall rating:</div> <div>GOOD</div> <div>There are concerns over the performance for some of the funds, but funds are mostly highly rated.</div>	<div>Productivity</div> <div>Overall rating:</div> <div>GOOD TO REASONABLE</div> <div>The Scheme offers a broad range of online tools and support, timely communications and administration response times largely within agreed SLAs.</div>	
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# Executive summary

## Fund by fund value assessment

Rating	Meaning
	Offers poor value
	Offers reasonable value
	Offers good value
	Not possible to assess

Fund*	Price	Performance	Productivity
LGIM Multi-Asset (formerly Consensus) Fund			
LGIM Over 15 Year Gilts Index Fund			
LGIM Cash Fund			

Source, notes and assumptions for each fund are shown in the relevant sections.

Overall
While the funds are not expensive, long term performance has been mixed. We do not have any concerns however, despite the sub-benchmark performance. We do not believe this is a concern due to challenging market conditions through 2022, which have led to a drag on long term performance numbers.



# Price assessment

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# Price assessment

## Summary

- Charges are generally competitive relative to other funds available in the market.
- The Scheme benefits from below median fee arrangements in respect of all three of the funds offered to members.
- The default investment option is compliant with the charge cap.
- None of the funds are in the mid to upper quartile range and there are no funds are in the top quartile.
- We note that fees are a function of the underlying characteristics of the funds chosen by the Trustees and form only one part of the overall value for members assessment.
- At this stage it is not possible to benchmark transaction costs against other arrangements. However, based on our review of the data, we consider the transaction costs to be broadly as expected and similar to those observed by other schemes. Transaction costs are shown in the appendix.

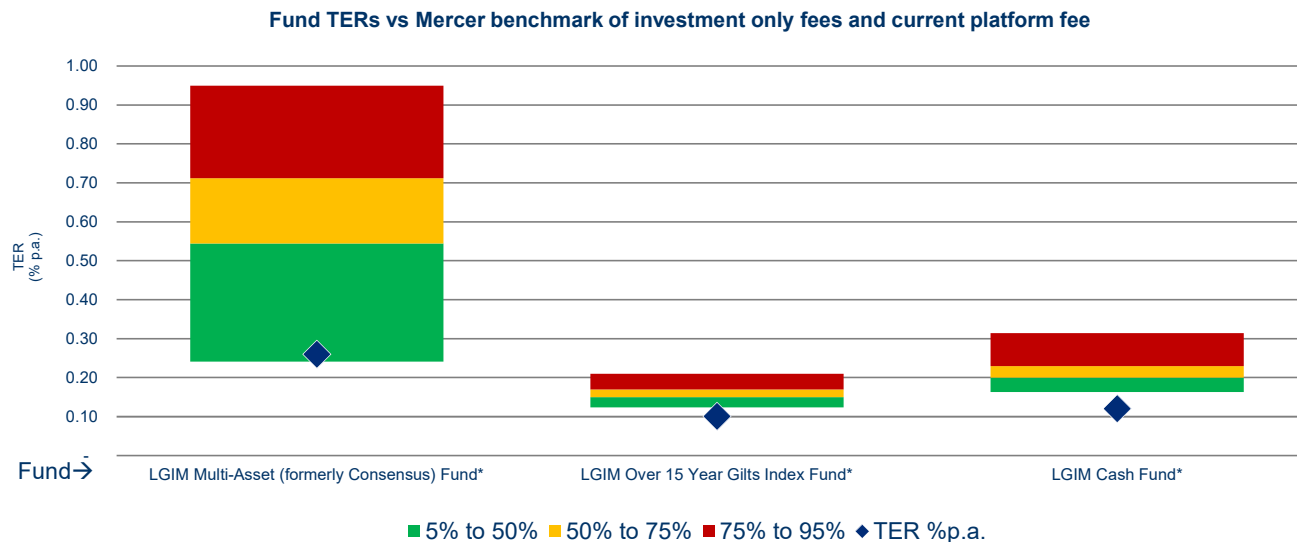
# Price assessment

## Fund by fund rating

Rating	Meaning
<span style="color: red;">■</span>	Fee in upper quartile range
<span style="color: orange;">■</span>	Fee within median-upper quartile
<span style="color: green;">■</span>	Fee is at or below median

Fund	TER (% p.a.)	Lower Quartile	Median	Upper Quartile
LGIM Multi-Asset (formerly Consensus) Fund	0.26	0.40	0.55	0.71
LGIM Over 15 Year Gilts Index Fund	0.10	0.14	0.15	0.17
LGIM Cash Fund	0.12	0.19	0.20	0.23

## Price – ongoing charges



Source: Current fee data from LGIM, as at 30 June 2023, and Mercer calculations in August 2023.

# Performance assessment

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# Performance assessment

## Summary

- Backward looking performance has had a number of challenges over the 5 year period to 31 March 2023. This is reflected in one of your three funds being rated red, and underperforming versus its benchmark over the period.
- We note that 2022 was a challenging year and heavily dictated returns over the period assessed. While poor performance doesn't automatically necessitate a sell in our view, managers should not expect a free pass on account of difficult market conditions.
- Our forward looking assessment of managers, assessed through Mercer research ratings showed two funds are rated A. The research team does not currently rate the LGIM Cash Fund.
- Overall, we are generally comfortable with the performance of the funds. The Trustees should continue to monitor the performance of the funds.
- In the appendix, we set out net investment performance, in the format required for disclosure in the Chair's Statement.

# Performance assessment

## Methodology

The next slide shows a summary of fund performance. This summary is based on two factors: **net performance of the fund** up to year end (compared to each manager's chosen benchmark), and the **Mercer Research Team's** rating for the fund's performance and prospects.

The Mercer Research Team's rating for each fund's ESG (Environmental, Social and Governance) values are also included. ESG values are applicable to different asset classes in different ways and this space continues to evolve. The ESG ratings have not been factored into the overall assessment of each fund, however, they are shown for information.

Our ratings system for these factors is described in the table below:

Rating	Key for Performance		Mercer Rating
	Passive Funds	Active Funds	
	Fund has performed outside of its tracking error tolerance range* (before fees)	Fund has underperformed its benchmark	Fund is rated C, blend is half or more red.
	n/a	Fund has met or outperformed its benchmark but underperformed its target	Fund is rated B, blend is not green or red.
	Fund has performed within its tracking error tolerance range* (before fees)	Fund has met or outperformed its target	Fund is rated B+ or A, blend is half or more green.
	Fund performance is not available over this time period.	Fund performance is not available over this time period.	Fund is rated N or R (unrated at this time). This included blended funds.

\* Tracking error tolerance range assumed to be 0.5% p.a. whenever information from the investment manager is not available.

Additional information, including a full explanation of Mercer ratings, can be found in the Appendix.

# Performance assessment

## Performance assessment - 5 years to 31 March 2023

Rating	Passive	Active	Rating
	Outside TE	< B'mark	C
	-	> B'mark	B
	Within TE	> Target	B+ or A
	N/A	N/A	Not rated

Fund	Active / Passive	1 YEARS (% P.A.)		3 YEARS (% P.A.)		5 YEARS (% P.A.)		Mercer Rating	Mercer ESG Rating	Overall
		Fund Performance	Benchmark	Fund Performance	Benchmark	Fund Performance	Benchmark			
LGIM Multi-Asset (formerly Consensus) Fund*	Active	-29.8%	-29.7%	-16.5%	-16.4%	-6.5%	-6.4%	A	ESG2	
LGIM Over 15 Year Gilts Index Fund	Passive	-4.7%	-4.2%	6.2	8.4%	3.8%	4.0%	A	N	
LGIM Cash Fund	Active	2.1%	2.2%	1.1%	1.2%	1.1%	1.2%	N	N	

**Source:** Data from LGIM, as at 30 June 2023, and Mercer calculations in August 2023. See performance assessment methodology slide for full explanation of colour coding.

Fund performance is net of fees. Benchmarks and tracking tolerances for each fund are in the Appendix. Cash funds are assessed as passive.

\*The benchmark for the LGIM Multi-Asset (formerly Consensus Fund) is the ABI Mixed Investment 40-85% Shares Sector. Funds within the same peer group may exhibit significant dispersion of risk and return characteristics. A fund benchmarked against an ABI sector may have returns that differ vastly from its sector. See Appendix K for further information.

# Productivity assessment

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# Productivity assessment

## Summary

### Introduction

- As noted previously, we believe that value is about more than member-borne deductions, and therefore we have also commented on whether the wider features of the pension arrangement deliver good value for members in line with our “three Ps” framework.
- Two closely related measures that are implicit when considering value as part of the additional features on the next slides are:
  - **Participation**, or the extent to which value reached all member cohorts; and
  - **Perception**, or the extent to which members recognise value as having been delivered. The latter is particularly important to facilitate further engagement with members on planning, saving and investing for retirement.

### Summary

- Our overall assessment of the Scheme indicates that it offers good value for money across the range of additional features for members, including scheme governance and management, administration, and communications.

*Notes:*

# Productivity assessment

Feature	Price	Performance	Overall assessment	Productivity comments
<b>Legal &amp; General DC Funds</b>	0.10% - 0.25% p.a. Very competitive for DC funds	The DC funds have shown good performance over the 1 and 5 year time periods to 31 <sup>st</sup> March 2023. One of the three funds has underperformed versus its benchmark over the 5 year period to 31 <sup>st</sup> March 2023.	<b>Good</b>	The Legal & General funds are competitively priced and have performed in line with expectations over the 5 year time period. We are comfortable with the continued use of these funds. Generally, Legal & General are responsive to queries and as a DC provider, offer a wide range of funds, Lifestyle investments and online services such as online access and member tools.
<b>Online Access &amp; Member Tools</b>	Available with Aviva and Legal & General. Online access unavailable through Clerical Medical and Utmost Life.	N/A (as not evident the option has been used yet)	<b>Reasonable</b>	Aviva and Legal & General can provide online access for members in relation to assets it holds if the members contact the helpline to activate the service. The Trustees would need to highlight this facility to member. This is not available from Clerical Medical or Utmost Life, however this is not uncommon for AVC policies.
<b>Member services/ Communications</b>	Within providers' AMCs, unless provided by Trustees.	Communication and education is relatively limited. Members only receive annual statements.	<b>Reasonable</b>	Communications are generally limited to basic, sometimes complex, annual statements. This is fairly typical in the AVC market.

# Productivity assessment

Feature	Price	Performance	Overall assessment	Productivity comments
<b>Scheme governance</b>	Costs met by the Company.	Active oversight by Trustees. Trustees have enhanced value for members through active engagement.	<b>Good</b>	Annual review of funds and strategies available for members, as well as monitoring of performance and provider changes.  The Trustees recently undertook a review of its AVC arrangement.
<b>At / To Retirement Solution</b>	Members would need to pay for any personal financial advice.	Option to draw up to 100% of AVC funds as tax free cash at retirement.	<b>Reasonable</b>	The Trustees should look to make members aware of mismatching of investment options with retirement decisions.
<b>Administration</b>	Within provider's AMC.	Mercer provides the administration services to the Scheme and has set SLAs which are reported to the Trustees through quarterly reporting. Performance against Mercer's SLAs for the 2023 year, at a scheme level, was 97.5% for the scheme year.	<b>Reasonable</b>	The Trustees have very limited options with Clerical Medical and Utmost Life but more choices and services available via Aviva. Performance against SLAs are not readily reported to the Trustees, however this is not uncommon in the AVC market.

# **Additional Voluntary Contributions**

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# Additional Voluntary Contributions

## Summary

The assessment so far has considered the DC arrangements. This assessment also needs to consider any other money purchase benefits provided, such as the Additional Voluntary Contribution (AVC) facilities offered to members who have accrued or who are accruing Defined Benefit-related benefits.

The Trustees undertook a recent AVC review dated August 2023. The outcome of this review was:

- An annual review of the AVC arrangements be conducted and member communications should be issued with the same frequency.
- Clerical Medical and Utmost do not offer online services however, the lack of online services is not too dissimilar from other AVC providers
- Aviva however offers online services for members upon request, but the service is very limited. As previously noted, there are a limited number of AVC providers which offer any online services.

## Arrangements in place

### With Profits Fund

- The Scheme has With Profits investments with Clerical Medical. It should be noted that it is hard to compare With Profits funds due to a number of factors, these have been outlined on the following page. It is therefore difficult to assess whether With Profits fund offer value for members.

### Unit Linked Funds

- The Scheme has unit-linked funds with Aviva, Clerical Medical and Utmost. Some of the unit-linked AVCs offer much poorer value for members versus the main DC arrangement.

# Additional features

## Additional Voluntary Contributions – With-Profits

### Assessing Value

- Providing a comparison between one with profits fund and peers is extremely difficult. Each fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of available funds is not sufficiently alike to enable relative assessments based on just past or even potential performance.
- Pay-outs on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of ‘smoothing’. ‘Smoothing’ is an additional comfort factor within with-profits funds. In years when investment performance is high, some of the return is held back to ‘top-up’ returns in years when lower performance occurs. Hence, at the point a specific member disinvests, smoothing may reduce or increase the pay-out relative to the underlying investment performance of the assets. Insurers are required to stipulate that the pay-out in the event of early disinvestment will fall within a specified percentage of the underlying share of the assets attributable to the specific investor. These ranges are targets, they not guaranteed.
- Assessing the value for money of with profits funds is directly related to an individual’s attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a fund provides guarantees; whether that is a guaranteed pension, investment return or “just” capital security. Therefore, we consider it inappropriate to reach a general conclusion on value for members for the with-profits funds as this will vary from policy to policy and by member.

Fund	TER (% p.a.)	Aggregate Transaction Costs (% p.a.)
Clerical Medical With Profit Funds	0.50	0.003

Source: Data provided by provider as at 30 June 2023.\* Information has been requested for this fund but was not available at time of writing. \*\* There is no explicit fee for this fund as it is incorporated into payout rates.

# Additional features

## Additional Voluntary Contributions – Unit linked

The Scheme has unit-linked AVCs with Aviva, Clerical Medical and Utmost.

Fund	TER (% p.a.)	Aggregate Transaction Costs (% p.a.)
Aviva BlackRock (50:50) Global Equity Index (Aquila C)	0.58%	0.039%
Aviva Cash	0.58%	0.001%
Aviva Pre-retirement Fixed Interest	0.58%	0.030%
Clerical Medical UK Growth Pension	0.50%	0.004%
Clerical Medical Balanced Pension	0.50%	0.004%
Clerical Medical Halifax	0.50%	0.000%
Utmost Life Money Market	0.50%	0.020%
Utmost Life Managed	0.75%	0.100%

**Some of the unit linked AVC funds offer much poorer value for members versus the DC arrangement on offer at Legal & General. We recommend that an annual review of the AVC arrangement be conducted and member communication should be issued with the same frequency.**

*Source: Data provided by providers as at 30 June 2023.\* Information has been requested for this fund but was not available at time of writing.*

# Summary

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# Summary

## Actions and recommendations



### Price

We believe that the funds within the Scheme are competitively priced.



### Performance

Over the three year period to 31<sup>st</sup> March 2023, the LGIM Over 15 Year Gilts Index fund performed outside of its respective tracking error. The default growth fund, the LGIM Multi-Asset fund and LGIM Cash Funds also underperformed against its benchmark over three years period. We do not have any concerns however, despite the sub-benchmark performance. We do not believe this is a concern due to challenging market conditions through 2022, which have led to a drag on long term performance numbers. The Trustees should continue to monitor performance regularly.



### Productivity

We believe that the Scheme offers reasonable productivity due to a good governance structure, active oversight of the AVC investments.



### AVCs

The Trustees undertake annual reviews of the AVC and DC provider services to consider the Value they offer members. The Trustees should consider issuing a communication, where members are reminded of their unit linked funds, with profits investments and at / to retirement options.

# Appendix

# Appendix A

## Price assessment methodology

- The price paid by members in a DC pension scheme generally is comprised of the following – some of which may be covered by the employer.
  - Investment fee - this is the fee paid to fund manager(s) for their services in managing a fund.
  - Provider fee - this is the fee paid to the provider to cover platform services, administration, communications etc.
- The investment fee itself can be categorised as either of the following:
  - **Annual Management Charge (“AMC”)** - this is the core charge that covers the cost of managing a fund.
  - **Total Expense Ratios (“TER”)** - this is the annual management charge plus variable costs associated with managing a fund such as administrative, audit and legal fees.
- For the purposes of investment fee benchmarking we focus on TERs rather than AMCs as TERs offer a fuller view of the fees members pay. Additional expenses will vary over time however and are sometimes hard to calculate. Therefore the additional expenses added to the AMC to arrive at the TER may be several months out of date – we view this as an acceptable position to achieve a more holistic assessment.
- Our benchmarking of investment fees is based on a wide-ranging Mercer survey of TERs for underlying funds held on the majority of the universe of DC investment platforms in the market. Our analysis compares each fund’s TER against the TERs for the funds in its relevant peer group, based on their region, asset class and fund management style.
- We benchmark the total member fee against a combination of:
  - Benchmark investment fee (TER), as described above, plus
  - Benchmark provider fee, based on fees provided by our two preferred providers based on schemes in the market with a similar asset size, number of members and annual contributions.

# Appendix B

## Transaction costs (shown in % terms)

The data below has been lists the total transaction costs per fund as calculated by slippage cost methodology. There is currently no agreed framework for assessing transaction costs as part of the value for money assessment, just requirements on the information shown in the Chair's Statement. We also believe transaction costs should be viewed in conjunction with overall performance, as well as individual fund characteristics.

Fund	Total	Implicit Costs	Indirect Costs	Anti-Dilution Offset
LGIM Multi-Asset (formerly Consensus) Fund	<b>0.044%</b>	-0.010%	0.044%	-0.010%
LGIM Over 15 Year Gilts Index Fund	<b>0.189%</b>	0.000%	0.189%	0.000%
LGIM Cash Fund	<b>0.042%</b>	0.000%	0.042%	0.000%

Source: Current fee data from LGIM, as at 30 June 2023, and Mercer calculations in August 2023.

# Appendix C

## Breakdown of transaction costs

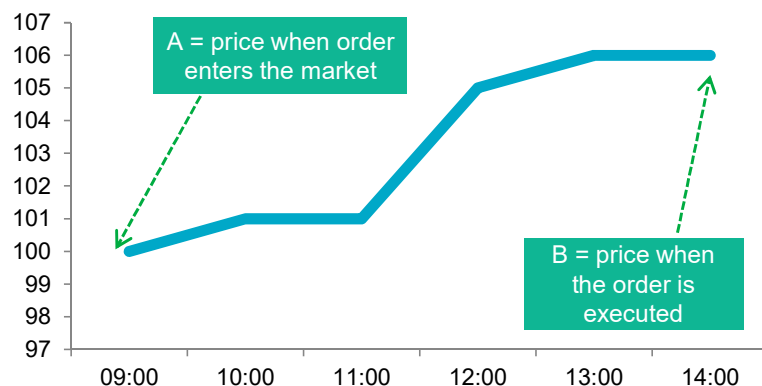
Transaction costs are broken down into the following elements:

- **Percentage not obtained:** percentage of underlying investments for which transaction cost data has not been available during the reporting period.
- **Total costs:** the sum of all transaction costs noted below.
- **Implicit costs:** embedded in the difference between buy/sale prices (bid/offer spread) and response of the market to a trade.
- **Indirect costs:** incurred within an underlying investment vehicle within a fund manager's fund.
- **Anti-dilution offset:** adjustments a fund manager has made to protect existing investors from other investors who are trading units. This reduces the total transaction cost incurred by existing investors and so is deducted from the costs incurred.

# Appendix D

## Slippage cost method

- Since April 2015, there has been a need to calculate and assess transaction costs as part of the DC value for money requirements and legislative disclosures in the annual Chair Statement.
- However, until 2018/2019 there was limited guidance as to how these costs should be calculated.
- It has now been clarified that in calculating of the transaction costs associated with buying and selling, managers must use the 'slippage cost methodology', as shown below.



$$\text{Slippage costs} = (\text{Execution price} - \text{Arrival price}) \times n$$

*Arrival Price = A*

*Execution Price = B + all charges, commissions, taxes and other payments associated with the transaction*

### EXAMPLE

A fund manager wishes to buy 1,000 shares. If the order goes in at 9am but the shares are not purchased until 2pm, the price of those shares could have moved in those 5 hours.

In the chart, the price has moved from 100p to 106p, meaning the price change is £60 for 1,000 shares. Also, some commissions and taxes will have been experienced (e.g. £5).

**Therefore, the overall 'slippage cost' is £65.**

- Slippage costs seek to capture the change in value when an investment is traded. This takes account of explicit and implicit costs associated with market movements. However, slippage costs can be positive or negative depending on how the market moves between arrival and execution and depends on the time period used.
- This makes comparisons across peers meaningless. At this stage it is therefore not possible to benchmark transaction costs against other arrangements. However, based on our review of the data we consider the transaction costs to be broadly as expected and similar to those observed by other pension schemes in the market.

# Appendix E

## A guide to Mercer research ratings

A

Strategies assessed as having “above average” prospects of outperformance / tracking.

B+

Strategies assessed as having “above average” prospects of outperformance / tracking, but which are qualified by at least one of the following: There are other strategies in which Mercer has greater conviction that outperformance / tracking will be achieved; Mercer requires more evidence to support its assessment.

B

Strategies assessed as having “average” prospects of outperformance / tracking.

C

Strategies assessed as having “below average” prospects of outperformance / tracking.

N

No rating, strategies not currently rated by Mercer.

R

The R rating is applied in two situations:

1. Where Mercer has carried out some research but has not completed its full investment strategy research process.
2. Mercer has in the past carried out its full investment strategy research process on the strategy but we are no longer maintaining full research coverage.

W

**Watch:** where there is some uncertainty about a rating that we do not expect to be resolved soon but consider it unlikely that it will lead to a rating change.

P

**Provisional rating:** where there is uncertainty about a rating that we expect to resolve quickly.

T

**Tracking error:** Potential for high tracking error or high volatility.

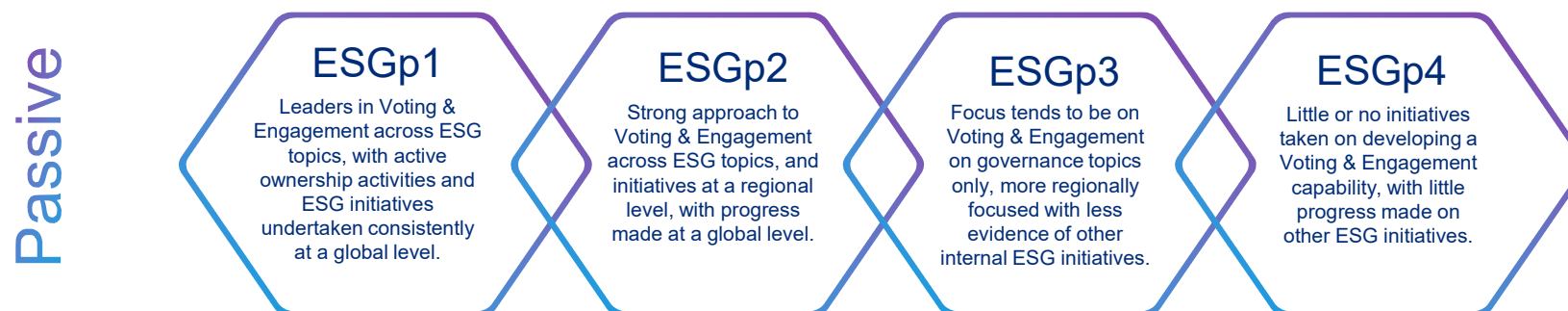
# Appendix F

## Mercer's ESG rating scale

ESG ratings are undertaken by Mercer's global manager research team. They are on a scale from 1 (highest) to 4 (lowest) and assess how well managers integrate ESG factors into investment processes.



Ratings for passive equity strategies differentiate how well firms undertake their stewardship activities such as voting, engagement, industry collaboration and reporting.





# Appendix G

## Benchmark Information

The below table describes the nature of each fund (passive/active) and its performance objective.

Fund	Active / Passive	Mercer Peer Group Universe	Benchmark	Tracking Error	Target (% p.a.)
LGIM Multi-Asset (formerly Consensus)	Active	Multi Asset - Core	Consensus Fund (PB) Chain linked to ABI (ABI Mixed Investment 40-85% Shares Sector)	-	-
LGIM Over 15 Year Gilts Index	Passive	Gilts - Passive	FTSE A UK Gilts > 15 Years	-	-
LGIM Cash	Active	Cash	SONIA	-	-

# Appendix H

## Chair's Statement investment return disclosures

The table below show performance, net of all charges and transactions costs, of all funds available to members during the Scheme year. The format of the data shown is consistent with that required to be shown in the Chair's Statement. For the avoidance of doubt, performance shown earlier in this report is also net of all charges and transaction costs.

Default Annualised returns to year end	1 Year	5 Year (p.a.)
25 year old member	0.5%	5.1%
45 year old member	0.5%	5.1%
55 year old member	0.5%	4.0%

*Source: Data from LGIM, as at 30 June 2023, and Mercer calculations in August 2023.*

*Fund performance is net of all charges and transaction costs. Performance of standalone self-select options is independent of age, therefore performance is shown in a different format to the lifestyle performance on the previous page. Funds marked N/A have insufficient performance history.*

Self Select Fund - Net Performance	1 Year (p.a.)	5 Year (p.a.)
LGIM Multi-Asset (formerly Consensus) Fund*	-29.8%	-6.5%
LGIM Over 15 Year Gilts Index Fund*	-4.7%	3.8%
LGIM Cash Fund*	2.1%	1.1%

# Appendix I

## Risk warnings

The value of stocks and shares, including unit trusts, can go down as well as up and members may not get back the amount they invested.

The value of gilts, bonds, and other fixed income investments including unit trusts can go down as well as up and members may not get back the amount they invested.

Investments denominated in a foreign currency will fluctuate with the value of the currency.

The value of investments in real estate can go down as well as up, and members may not get back the amount they invested. Valuation is generally a matter of a valuer's opinion, rather than fact. It may be difficult or impossible to realise an investment because the property concerned may not be readily saleable.

Certain investments, such as illiquid, leveraged or high-yield instruments or funds and securities issued by small capitalisation and emerging market issuers, carry additional risks that should be considered before choosing an investment manager or making an investment decision.

For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.

Where investments are not domiciled and regulated locally, the nature and extent of investor protection will be different to that available in respect of investments domiciled and regulated locally. In particular, the regulatory regimes in some domiciles are considerably lighter than others, and offer substantially less investor protection. Where an investor is considering whether to make a commitment in respect of an investment which is not domiciled and regulated locally, we recommend that legal advice is sought prior to the commitment being made.

# Appendix J

## Caveats

The information, advice and recommendations contained in this report are not intended to constitute investment advice or investment recommendations. A fund's value score indicates how its price and performance compare against criteria set by the Trustees for the purposes of determining whether good value for members has been achieved. It does not indicate whether the investments are well suited to the needs of the Trustees or the Scheme's membership.

If the Trustees wish to receive information on Mercer's own ratings and views on particular investment strategies or managers, they can do so by contacting their Mercer investment consultant.

None of the information, advice or recommendations contained in this report is intended to constitute legal advice. For example, the fact that a fund has a favourable value score on either or both price or performance criteria does not indicate the Trustees has limited legal exposure in relation to the use of that fund.

The value assessments in this report are as at the date of this report and may change. Mercer's remit does not include keeping these assessments under review or alerting the Trustees to any change.

# Appendix K

## What are ABI sector benchmarks?

The Association of British Insurers (“ABI”) maintains a range of sector benchmarks for unit-linked life and pension funds. As at October 2022, there were 34 ABI sector benchmarks. ABI sector benchmarks are **peer group benchmarks**. The ABI has full discretion to set and update ABI sector definitions. An independent third party, Refinitiv, categorises unit-linked life and pension funds into the sectors and monitors sectors to ensure that funds are categorised correctly on an ongoing basis. The ABI sector benchmarks are designed to facilitate comparisons between similar unit-linked life and pension funds.

## What are the drawbacks of ABI sector benchmarks?

- In order to create peer groups, ABI sets minimum and maximum exposure limits to certain asset classes within each sector benchmark. In practice, ABI sector definitions are **very broad**, for example:
  - Equity sector benchmarks are typically required to invest at least 80% of assets in equities. The benchmark does not specify how the remainder is to be invested so up to 20% of the fund could be invested in any other asset class.
  - “Mixed Investment” sector benchmarks are even broader. Funds within the Mixed Investment 40-85% Shares benchmark may invest anywhere between 40% and 85% of their assets in equities with the remainder unspecified.
  - “Flexible Investment” sector has no asset class limits and affords managers significant asset allocation discretion – the dispersion of funds in this sector may be sufficiently broad as to reduce its value for relative performance assessment purposes.
- ABI sector criteria may at times **overlap**. One fund may meet the requirements of more than one benchmark.
- ABI reserves the right to **change sector definitions at any time** and without prior notice.

Due to these factors, **funds within the same peer group may exhibit significant dispersion of risk and return characteristics**. A fund benchmarked against an ABI sector may have returns that differ vastly from its sector.

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