

8. Annual Governance Statement

Kaufel (UK) Limited Pension Scheme
("the Scheme")

Annual Governance Statement by the Chair of Trustees
For the Scheme Year 1 January 2021 to 31 December 2021

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustees of the Scheme are required to produce a yearly statement to describe how these governance requirements have been met in relation to:

- the investment options in which members' funds are invested (this means the "default arrangement" and other funds members can select or have assets in, such as self-select funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

This statement covers the period from 1 January 2021 to 31 December 2021.

Background

The Scheme is an occupational pension scheme established and governed by a Definitive Trust Deed dated 13 February 2001, as amended. As at 31 December 2021, there were 36 members of the Scheme.

The Trustees of the Scheme are David Lowe and Julie Henderson.

2. Default investment arrangement

The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement.

Details of the objectives and the Trustees' policies regarding the default arrangement can be found in a document called the "Statement of Investment Principles" ("SIP"). The Scheme's SIP covering the default arrangements is attached to this annual statement regarding governance at Appendix 1.

The aims and objectives of the default arrangement, as stated in the SIP, are as follows:

- optimising the value of their assets at retirement, allowing for individual members' risk tolerances
- maintaining the purchasing power of their savings in real (i.e. post-inflation) terms
- providing protection for accumulated assets in the years approaching retirement against a sudden (downward) volatility in the capital value, and fluctuations in the cost of annuities

whilst taking into account the impact that increased complexity may have on administration requirements and the overall cost of the arrangements.

We have chosen a lifestyling arrangement initially using a combination of the Legal & General UK Equity Index (100% up to the age of 30) and the Standard Life Global Absolute Returns Strategy Fund. Then, when members are within nine years of normal retirement age utilising the Standard Life Annuity Purchase Fund and the Legal & General Cash Fund as the Scheme's default arrangement.

The objective of this arrangement is to provide investment growth by investing in return seeking assets in a diversified portfolio with a moderate risk profile, with a gradual switching of assets over the nine years before the member's expected retirement date, towards a final position of 25% cash and 75% gilts.

Currently the default lifestyling arrangement is targeting 25% tax free cash plus annuity purchase at the member's retirement age.

With the introduction of Pension Freedoms, the Trustees considered amending the default investment lifestyling strategy to take into account the wider range of options now available to members upon retirement. This was discussed in depth at a meeting of the Trustees on 16 November 2017 and it was concluded that given the size of the membership of the Scheme and its demographics, amending or adding to the present default investment arrangement to cover all potential eventualities on retirement could potentially result in more uncertainty amongst members rather than appreciation of greater choice.

As noted in the Statement covering the year to 31 December 2020, the intention is to subsume the Scheme within a larger ABB arrangement. During the Scheme Year, this remained under consideration. As such, the Trustees have not reviewed or amended the default investment proposition.

Members are however encouraged to make their thoughts on this matter known to Trustees at any time, though no such thoughts were received during the Scheme Year.

As at 31 December 2021, approximately 94% of members have their assets invested in the default investment arrangement.

The Trustees regularly monitor the performance of the default arrangement and will formally review both this and the strategy at least every three years or immediately following any significant change in investment policy or the Scheme's member profile.

In addition to the above, we regularly monitor the ongoing investment performance of all the individual funds. We also consider, based on the Scheme's membership, the structure of the default fund to satisfy themselves that the mix and content remain appropriate for the membership as a whole.

At the Trustees' meeting held in September 2021, we Trustees considered the performance of the investment funds for 1, 3 and 5 year periods to 10 September 2021. It was noted that the Standard Life GARS Pension Fund had protected the members from dramatics falls caused by Covid19 in March 2020 but had failed to provide the growth expected in the more benign periods either side of this major event.

Given the intention to merge the Scheme, we felt it inappropriate to change the investments at this time. If that merger should be delayed, we will consider the appropriateness of the investments at that time.

3. Requirements for processing core financial transactions

The Trustees are required to report about the processes and controls in place in relation to the "core financial transactions". The law specifies that these include the following:

- ensuring the contributions are paid on time;
- investing contributions paid into the Scheme;
- transferring assets related to members into or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme administrator.

At the start of the Scheme Year, the Scheme administrator was Ascot Lloyd based out of the Harrogate office. On 4 June 2021, Goddard Perry and HS Admin acquired the pensions administration, consultancy and employee benefits from Ascot Lloyd based out of the Harrogate office. HS Admin (now HS Pensions) became the Scheme administrator with effect from that date. There was no change to the services provided to the Scheme as a result.

We have received assurance from the Scheme's administrator that there were adequate internal controls to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme Year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

HS Admin also manages the bank account. They undertake a daily reconciliation of all bank transactions and have a system of authorised signatories in force to control payments from that account. HS Admin also has a dedicated team for processing member transactions and updating member records.

We have a Service Level Agreement (SLA) in place with HS Admin which includes a defined level of performance (in terms of turnaround times) for all of the key specified events noted above. HS Admin reports at all Trustees' meetings their actual performance against the agreed standards and in the event of any failure to meet the required standard this is noted and discussed with remedial actions agreed where appropriate.

At the Trustees' meeting in September 2021, HS Admin provided a report covering the period 1 November 2020 to 31 July 2021. This indicated that they had met their overall SLA standards (including events in addition to those noted above) on all occasions.

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 SLA;
- 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.

4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges exclude any costs, e.g. administration and investment costs, that are not met by the members.

We are also required to separately disclose transaction cost figures that are borne by members. The charges and transaction costs have been supplied by Mobius Life, the Scheme's investment manager (Mobius Life is a so called "platform provider" that facilitates access to a range of underlying investment managers/investment funds). As the Scheme invests assets through Mobius Life, the total transaction costs for each fund is made up of two elements: the transaction costs incurred by the underlying fund when buying and selling its underlying assets, and the costs incurred by Mobius Life when buying or selling the underlying fund.

It is understood that the information provided covers all the charges applicable. However, in providing this information, Mobius Life contacted all fund managers to request their transaction cost data for the Scheme Year. Some fund managers were constrained with the data they could provide retrospectively, and the periods reported did not always match the Scheme Year. Where this happened, Mobius Life used the most up-to-date information. The Trustees, via HS Admin, understand that Mobius Life seek to obtain reports that cover the appropriate period, but are aware of the necessity to provide information to enable us to satisfy our disclosure requirements.

When preparing this section of the statement, the Trustees have taken account of relevant statutory guidance, only deviating from this approach as outlined above.

Default investment arrangement

The default investment arrangement invests as noted earlier in the following funds: the L&G Life N UK Equity Index Fund, the Standard Life GARS Pension Fund, the Standard Life Annuity Purchase Pension Fund and the L&G Life AR Cash Fund.

For the period covered by this statement, annualised charges and transaction costs are set out for each of the constituent funds in the table below.

Code	Fund	TER	Transaction Costs
P02009	L&G Life N UK Equity Index Fund	0.150%	0.054%
P02010	Standard Life GARS Pension Fund	0.755%	0.799%
P02011	Standard Life Annuity Purchase Pension Fund	0.360%	0.081%
P02012	L&G Life AR Cash Fund	0.150%	0.022%

Self-select options

In addition to the default arrangement in which members may also choose to invest, members have the option to invest in self-select funds. For the period covered by this statement, 5 further funds were used as self-select funds.

The level of charges for each self-select fund and the transaction costs over the period covered by this statement are set out in the following table:

Code	Fund	TER	Transaction Costs
P02013	Standard Life Corporate Bond Pension Fund	0.360%	0.110%
P02014	Standard Life Ethical Pension Fund	0.560%	0.062%
P02015	Standard Life Managed Pension Fund	0.560%	0.145%
P02016	Standard Life Pooled Property Pension Fund	0.522%	0.788%
P02017	BNYM Multi-Asset Growth Fund	0.695%	0.108%

Illustration of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustees have set out in Appendix 2 to this statement, illustrations of the impact of charges and transaction costs on different investment options in the Scheme. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make a number of assumptions about what these might be. The assumptions are explained below and in Appendix 2:

- The "before" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are based on those provided by Mobius Life for the previous four Scheme Years for which data is available and have been averaged. Where a fund has not been held for the full period, costs have been annualised before determining an appropriate average. They are however subject to the comments set out earlier above in this respect.
- Illustrations have been shown for the self-select option fund having the lowest charging structure and the self-select option fund having the highest charging structure in which a member is invested other than where the member is above the assumed retirement age of 65.

The information in these examples is only intended to be illustrative, designed to show the cumulative impact that investment charges and transaction costs can have on fund values at retirement age. Members should therefore exercise caution before relying on the information for the purposes of making any decisions about savings, investment and retirement choices. In particular, the values shown are estimates only, based on a number of assumptions and are not guaranteed. For further information about investment options, members should refer to the Scheme documentation available, and should consider taking independent financial advice where and when appropriate.

5. Investment Returns

The Trustees are now required to state the annual return, after the deduction of member borne charges and transaction costs, for all default arrangements and investment options that members are able, or were previously able, to select and in which members' assets were invested during the Scheme Year. When preparing this section of the statement, the Trustees have taken account of the relevant statutory guidance. However, as the intention is to subsume the Scheme into a larger ABB arrangement, the returns below only relate to the Scheme Year. If that should be delayed, we will provide returns over a longer period in future statements.

For the default arrangement, where returns vary with age, returns are shown over the Scheme Year for a member aged 25, 45 and 55 at the start of the period:

Age of member at the start of the period	1 Year (%)
25	18.39
45	1.00
55	-2.07

Self-select fund net returns over the Scheme Year were:

Fund Name		1 Year (%)
Code	Fund	
P02009	L&G Life N UK Equity Index Fund	18.39
P02010	Standard Life GARS Pension Fund	-2.07
P02011	Standard Life Annuity Purchase Pension Fund	-6.48
P02012	L&G Life AR Cash Fund	-0.12
P02013	Standard Life Corporate Bond Pension Fund	-3.45
P02014	Standard Life Ethical Pension Fund	10.34
P02015	Standard Life Managed Pension Fund	9.60
P02016	Standard Life Pooled Property Pension Fund	24.84
P02017	BNYM Multi-Asset Growth Fund	19.47

6. Value for members assessment

The Trustees are required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of "good value", but the Trustees note that value for money does not necessarily mean the lowest fee and define value for money as being a combination of the investment returns achieved, the risks applying and the annual management charges.

The Trustees have extensive experience of pension schemes, both as part of their everyday roles with the Employer and in working closely on the additional pension schemes offered by the Employer. The Trustees believe that the asset allocation and associated risks to be appropriate to the aims of the Scheme; however, this will be kept under constant review.

The Trustees also pay for and receive independent advice from HS Admin in order to specifically satisfy themselves that the Scheme provides good value for money for the members, in comparison to the wider pension scheme market, in terms of costs, risks, returns and the quality and level of service provided. HS Admin report their findings and views at each Trustees' meeting to provide comfort that the Scheme continues to provide good value for money.

In our opinion, with this advice and experience in mind, the terms that apply in the Scheme do indeed presently represent decent value for money, notwithstanding the intention to subsume the Scheme within a larger ABB arrangement.

It should be noted that the fee structure in place between the Trustee and HS Admin does not include any investment fund performance related element as the Trustee feels that doing so may drive the wrong behaviours.

7. Trustee knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as a Trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The present Trustees have an intimate working knowledge of the Scheme's documents. Relevant and comprehensive training was given on each occasion that the Rules have been amended. Further, the agreement between the Trustees and their advisers ensures that they are kept fully abreast of any changes in overriding legislation or law that de facto change the terms and conditions of the Rules and full training is given as necessary. A copy of the Trust Deed and Rules and all subsequent Deeds of Amendment is present at all Trustees' meetings and cross referred to as required.

The Trustees are also fully cognisant with the SIP, and this document is also available for all Trustees' meetings and cross referred to as required.

Any new Trustee will, in line with the practices applying to the existing Trustees, within 3 months of their appointment, receive a comprehensive training session which encompasses the duties and responsibilities of a trustee, a review of all Scheme working documents such as the Trust Deed and Rules and any amending Deeds, understanding how these work and impact on members, a review of all Scheme policies and practices, understanding how these work and impact on members, together with a session concentrating on the principles of investment and how these impact on the Scheme.

Such training will be undertaken during normal business hours. Trustees' meetings are also undertaken during normal business hours.

The Trustees undertake regular training events in order to meet this requirement. Further, each of the Trustees has extensive experience of pension schemes, both as part of their everyday roles with the Employer and in working closely on the additional pension schemes offered by the Employer, and as such have a wider knowledge of pensions than just the Scheme. All Trustees' meetings include, where possible and practicable, a training event run by the Scheme's advisers, HS Admin, and these are supplemented where appropriate in specialist areas by our legal advisers (Simmons & Simmons) and our auditors (Ernst & Young LLP). The training events run during the Trustee meetings are chosen to be relevant to current events or to re-emphasise issues relating to agenda items.

To confirm our capability, a record has been established of past training and development. That record is reviewed regularly and if any gap is identified, an action plan is agreed to ensure that gap is adequately filled.

At the Trustee meeting in September 2021, David Lowe confirmed he had completed the Pensions Regulator's Pension Scams module in the Trustee Toolkit.

This assessment and process, when combined with the training undertaken, is integral to meeting the requirements for knowledge and understanding, which includes the relevant principles relating to the funding and investment of occupational pension schemes.

As Trustees we are also cognisant of the necessity to take advice as and when required, and in particular would seek legal advice from our legal advisers, Simmons & Simmons, in any contentious cases or if we were unclear in any aspect of the operation of the Trust Deed and Rules. We can confirm that there were no contentious cases to consider in the 2021 Scheme Year, and therefore we did not seek any additional legal advice in this period.

Taking into account the knowledge and experience of the Trustees combined with the specialist advice available and received from the appointed professional advisors, the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

We trust that this information has been informative and useful. If you have any questions about any of the matters above, or any suggestions about what can be improved, please contact the Trustees c/o Julie Priestley, ABB Limited, Daresbury Park, Daresbury, Warrington, WA4 4BT.

Date.....22 JULY 2022

David Lowe
Chair of Trustees