

# TREMCO ILLBRUCK UK PENSION PLAN (THE "PLAN") – MONEY PURCHASE SECTION AND DEFINED BENEFIT ADDITIONAL VOLUNTARY CONTRIBUTIONS

## ANNUAL GOVERNANCE STATEMENT FOR THE PLAN YEAR ENDING 5 APRIL 2020

### PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME ADMINISTRATION) REGULATIONS 1996 (THE "REGULATIONS")

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Regulations effective from 6 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 the following areas relating to the Plan's defined contribution benefits, namely:

1. *The default investment arrangement*
2. *Core financial transactions*
3. *Charges and transaction costs,*
4. *Value for members,*
5. *AVCs within the DB Section*
6. *The Trustees' knowledge, understanding, and,*
7. *Statement of DC Governance*

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these standards over the period from 6 April 2019 to 5 April 2020 in relation to the Money Purchase Section of the Plan and the Additional Voluntary Contributions (AVCs) within the Defined Benefit (DB) Section. Members who have paid AVCs in the DB Section are able to invest in either the funds available through the Money Purchase Section or a separate AVC policy with either Phoenix Life or Royal London.

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 independent financial advisers can be obtained on-line at [www.unbiased.co.uk](http://www.unbiased.co.uk).

#### 1. **Default Investment Arrangement in the Money Purchase Section**

- 1.1 Throughout this Statement, the "default investment arrangement" will refer to the Mercer Drawdown Retirement Path.
- 1.2 A copy of the Plan's latest Statement of Investment Principles ("SIP"), dated September 2020 is appended to this Statement. The SIP has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation dated October 2016 is attached. The SIP covers our aims and objectives in relation to the default investment arrangement, as well as our policies relating to matters such as risk and diversification. In addition to the default funds and the wider fund range, the SIP covers alternate investment choices under the Plan, covering a range of funds that our members can choose which was designed with their needs in mind.
- 1.3 The Trustees updated the SIP in 2019 to set out their approach on financially material considerations, including their policy on Environmental, Social and Governance ("ESG") policies and climate change. The Trustees updated the SIP again in 2020, to set out their policy on engaging with investment managers.
- 1.4 The last review of the default investment arrangement was during 2017. The review involved analysis of the profile of members' ages and pot sizes to help determine whether other de-risking patterns and at-retirement allocations would be more suited to members' needs. Following the review, the Trustees agreed to change the default arrangement from targeting annuity at retirement to targeting flexible drawdown. The Trustees believe that allocation strategy targeting flexible drawdown is more suited to how members of the Plan will take benefits when they retire. The Trustees believe that this will

ultimately improve members' retirement outcomes. The Trustees' next strategy review is due to take place in 2020.

- 1.5 The default investment arrangement uses a target date fund approach, which invests in equities and other growth-seeking assets during the 'growth' phase of the strategy. Eight years prior to each member's selected retirement year (or the Plan's default normal retirement age of 65 where none is selected), investments are transferred to a Target Drawdown Retirement Fund based on the targeted retirement year.
- 1.6 The default lifestyle path's growth phase invests predominantly in equities, with modest allocations to property, bonds and cash. Overall these investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility. Long-term returns in excess of earnings inflation are generally required for members' attaining an adequate income in retirement. Younger members can withstand the potential downside of equities as they have sufficient time for markets to recover.
- 1.7 As members' funds grows, investment risk will have a greater impact on retirement outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the eight-year period prior to a member's retirement date. In addition, falls in the values of equity investments could potentially inflict significant losses to members' savings at a time when they have insufficient years of accumulation remaining to recover from such losses, particularly if they choose to make early withdrawals from savings. Investments are switched into a mix of less volatile assets and a diversified growth fund to match the targeted retirement outcome.
- 1.8 The default investment arrangement has been adopted in light of the Plan's current demographic and is kept under regular review. Members are also able to access alternative lifestyle strategies and a range of self-select funds, and are supported by clear communications.
- 1.9 Elements of the investment governance of the Plan have been delegated to Mercer Workplace Savings ('MWS'). This includes strategic and tactical asset allocations along with manager selection. On an annual basis MWS review the continued appropriateness and suitability of the investment solutions underlying the Plan. The most recent review was completed in August 2019. This included a change in the asset allocations of Mercer Growth Fund to improve efficiency and diversification.
- 1.10 The Trustees continue to review the performance of all funds available with assistance from their investment adviser. Risk based reviews are reported on a quarterly basis. Investment is a standing agenda item at Trustee meetings.
- 1.11 There are no default investments in place for the DB Section AVCs, which are held in separate arrangements to the Money Purchase Section benefits.

## 2. **Core Financial Transactions**

- 2.1 As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. This includes:
  - Investment of contributions paid to the Plan;
  - Transfer of members' assets into and out of the Plan;
  - Transfers of members' assets between different investment options available in the Plan; and
  - Payments from the Plan to, or in respect of, members.
- 2.2 The Trustees recognise that delay and errors can cause significant loss for members. Delays and errors can also cause members to lose faith in the Plan, which may in turn reduce their propensity to save and impair future retirement outcomes.

- 2.3 The Trustees have delegated the administration of member records, in respect of the Money Purchase section to Aviva. The DB section administration is undertaken by Mercer Limited with the AVCs administered by Phoenix Life and Royal London.
- 2.4 Regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:
- Appointing a reputable professional pension administration provider, Aviva.
  - Having in place Service Level Agreements (SLAs) with Aviva that cover core administration processes. These SLAs are monitored on a quarterly basis, with penalties applying under certain circumstances for underperformance.
  - The Plan's Schedule of Contributions sets out timescales for all participating employers to remit monthly contributions to the Plan in accordance with legislative requirements. Once received, contributions are invested in accordance with the timescales set out in the administration agreement with Aviva.
  - The Trustees receive administration reports, which are reviewed by the Trustees quarterly, enabling them to monitor that the requirements for processing financial transactions are met.
  - 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, including the material financial transactions that have taken place during the Plan year.
- 2.5 From 6 April 2019 to 5 April 2020, Aviva met or exceeded their agreed service levels for cases relating to core financial transactions. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements
- 2.6 The Trustees challenge Aviva with regard to the processing of core financial transactions. Aviva is aware of statutory deadlines for the processing of all member-related services, including core financial transactions (such as investment switches and benefit payments), and have confirmed that there have been no reportable breaches of statutory deadlines over the Plan year. The Trustees will continue to seek the relevant details to support effective monitoring of these processes
- 2.7 As a wider review of Aviva in general, Aviva employs an independent auditor to prepare an annual report on their internal controls (AAF01/06/ ISAE 3402) which the Trustee has sight of.
- 2.8 The Trustee is satisfied that the Plan's core financial transactions have been processed promptly and accurately during the period of time to which this Statement relates.

### 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 investment arrangement as well as funds available as self-select options to members and their assessment on the extent to which the charges and costs represent good value for members.
- 3.2 The range of the levels of charges and transaction costs applicable to default arrangement during the period are detailed in this section. In relation to transaction costs, when buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy

Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

3.3 Charges relating to investment management are deducted from members' funds. The Plan is used as a qualifying arrangement for auto enrolment and as such must comply with regulations on charge controls introduced from April 2015. Specifically, all of the default investment arrangements under the Plan must have a total expense ratio equal to, or below the charge cap of 0.75% p.a. of savings. The Trustees can confirm that this threshold is adhered to.

3.4 The table below shows the total expense ratio (TER) in each of the funds in which members held investments as at the date of this Statement. The funds underlying the Plan's default lifestyle arrangements are in bold text.

The transaction costs shown in the table have been provided by Aviva, who are the Plan's investment platform provider, in addition to being the administrator.

Fund	TER (%)	Transaction Costs (%)
<b>Mercer Growth / Balanced Risk</b>	<b>0.48</b>	<b>0.17</b>
Mercer High Growth / Higher Risk	0.49	0.17
<b>Mercer Diversified Retirement Fund</b>	<b>0.50</b>	<b>0.13</b>
Mercer Cash Retirement Fund	0.36	0.01
<b>Mercer Target Drawdown 2020 Retirement Fund</b>	<b>0.53</b>	<b>0.11</b>
<b>Mercer Target Drawdown 2021 Retirement Fund</b>	<b>0.53</b>	<b>0.11</b>
<b>Mercer Target Drawdown 2022 Retirement Fund</b>	<b>0.54</b>	<b>0.13</b>
<b>Mercer Target Drawdown 2023 Retirement Fund</b>	<b>0.54</b>	<b>0.14</b>
<b>Mercer Target Drawdown 2024 Retirement Fund</b>	<b>0.53</b>	<b>0.15</b>
<b>Mercer Target Drawdown 2025 Retirement Fund</b>	<b>0.52</b>	<b>0.15</b>
<b>Mercer Target Drawdown 2026 Retirement Fund</b>	<b>0.51</b>	<b>0.16</b>
<b>Mercer Target Drawdown 2027 Retirement Fund</b>	<b>0.49</b>	<b>0.16</b>
<b>Mercer Target Drawdown 2028 Retirement Fund</b>	<b>0.48</b>	<b>0.17</b>
Mercer Active UK Equity	0.93	0.09
Mercer Active Global Equity	0.94	0.18
Mercer Sustainable Global Equity	0.99	-0.01
Mercer Passive Overseas Equity Hedged	0.34	-0.26
Mercer Active Emerging Markets Debt	1.08	1.11

Source: Aviva, TER as at April 2020, transaction costs up to 31 March 2020.

### Impact of Costs and Charges

3.5 In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Aviva have prepared an illustration on behalf of the Trustees showing the impact of the costs and charges typically paid by a member of the Plan 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:

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

In order to produce these illustrations, Aviva have assumed a starting pension of £0, and contributions of £100 per month. The figures are shown in 'today's money', which means they take into account

inflation (assumed to be 2.5% each year). Seeing figures in this way shows what the money could be worth today.

Illustration of effect of cost and charges for typical funds within your scheme – The tremco illbruck UK Pension Plan										
	Av MyM Mercer Growth / Balanced Risk		Av MyM Mercer Target Drawdown 2026		Av MyM Mercer Target Drawdown 2025		Av MyM Mercer Target Drawdown 2022		Av MyM Mercer Target Drawdown 2024	
	Assumed growth rate 4.6%		Assumed growth rate 3.4%		Assumed growth rate 3.3%		Assumed growth rate 2.8%		Assumed growth rate 3.2%	
	Assumed costs and charges 0.75%		Assumed costs and charges 0.77%		Assumed costs and charges 0.78%		Assumed costs and charges 0.76%		Assumed costs and charges 0.78%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,200	£1,190	£1,190	£1,190	£1,190	£1,190	£1,190	£1,180	£1,190	£1,190
2	£2,420	£2,400	£2,390	£2,380	£2,390	£2,370	£2,380	£2,360	£2,390	£2,370
3	£3,670	£3,630	£3,610	£3,570	£3,600	£3,560	£3,580	£3,530	£3,600	£3,550
4	£4,950	£4,870	£4,830	£4,760	£4,820	£4,750	£4,770	£4,700	£4,810	£4,740
5	£6,250	£6,130	£6,070	£5,950	£6,050	£5,930	£5,980	£5,860	£6,040	£5,920
10	£13,200	£12,700	£12,400	£11,900	£12,300	£11,900	£12,000	£11,600	£12,300	£11,800
15	£20,800	£19,600	£19,000	£17,900	£18,900	£17,800	£18,200	£17,200	£18,700	£17,700
20	£29,300	£27,100	£25,900	£24,000	£25,700	£23,700	£24,400	£22,600	£25,400	£23,500
25	£38,700	£35,000	£33,200	£30,100	£32,800	£29,700	£30,800	£28,000	£32,300	£29,300
30	£49,000	£43,400	£40,700	£36,200	£40,100	£35,600	£37,200	£33,200	£39,500	£35,100
35	£60,500	£52,400	£48,600	£42,300	£47,700	£41,500	£43,700	£38,300	£46,900	£40,800
40	£73,200	£62,000	£56,800	£48,500	£55,700	£47,500	£50,400	£43,200	£54,600	£46,500
45	£87,300	£72,200	£65,400	£54,700	£63,900	£53,400	£57,100	£48,100	£62,500	£52,200
50	£103,000	£83,100	£74,400	£60,900	£72,500	£59,400	£63,900	£52,800	£70,700	£57,900

Illustration of effect of costs and charges for funds with different growth rates and charges within your scheme – The tremco illbruck UK Pension Plan								
	Av MyM Mercer Cash Retirement		Av MyM Mercer Passive Overseas Equity Hedged		Av MyM Mercer Active Global Equity		Av MyM Mercer Active Emerging Markets Debt	
	Assumed growth rate 1.5%		Assumed growth rate 5%		Assumed growth rate 5%		Assumed growth rate 3%	
	Assumed costs and charges 0.37%		Assumed costs and charges 0.08%		Assumed costs and charges 1.08%		Assumed costs and charges 1.86%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,180	£1,180	£1,200	£1,200	£1,200	£1,200	£1,190	£1,180
2	£2,350	£2,340	£2,430	£2,430	£2,430	£2,410	£2,390	£2,340
3	£3,510	£3,490	£3,700	£3,690	£3,700	£3,630	£3,590	£3,490
4	£4,650	£4,620	£4,990	£4,980	£4,990	£4,880	£4,790	£4,620
5	£5,790	£5,730	£6,310	£6,300	£6,310	£6,140	£6,010	£5,730
10	£11,300	£11,100	£13,400	£13,400	£13,400	£12,700	£12,200	£11,100
15	£16,500	£16,100	£21,500	£21,300	£21,500	£19,700	£18,500	£16,100
20	£21,500	£20,800	£30,500	£30,200	£30,500	£27,200	£24,900	£20,700
25	£26,300	£25,200	£40,700	£40,300	£40,700	£35,200	£31,500	£25,100
30	£30,800	£29,200	£52,300	£51,500	£52,300	£43,800	£38,300	£29,200
35	£35,100	£33,100	£65,300	£64,200	£65,300	£52,900	£45,300	£32,900
40	£39,200	£36,600	£79,900	£78,400	£79,900	£62,700	£52,400	£36,500
45	£43,200	£40,000	£96,500	£94,400	£96,500	£73,100	£59,700	£39,800
50	£46,900	£43,100	£115,000	£112,000	£115,000	£84,300	£67,200	£42,900

- 3.6 The Trustees acknowledge the requirement to publish these illustrations on a website and this page is available at [www.vfm.aviva.co.uk/tremco-illbruck](http://www.vfm.aviva.co.uk/tremco-illbruck). The 2020 benefit statements include the web address in order to inform members where they can access this information. These illustrations will be published on the Aviva site.
4. **Value for Members**
- 4.1 In accordance with regulation 25(1)(b), the Trustees assessed the extent to which the charges under the Money Purchase Section represent good value for members and concluded that the Plan offers good value for money relative to peers and alternative arrangements that are available.
- 4.2 The Trustees have assessed the extent to which the charges set out above represent, alongside other elements of the Plan, represent good value for members and has concluded, in consultation with their DC advisers that the Plan offers good value. We have based this conclusion on the competitive fees, range of investment choice and overall favourable investment performance for underlying funds. The Trustees' assessment framework includes benchmarking against peers, and consideration of the Plan relative to alternative options available to the Trustees with different investment managers, governance structures and providers.
- 4.3 The Trustees conducted a detailed Value for Money assessment in order to arrive at this conclusion, incorporating consideration of:
- Investment charges
  - Net cost of performance
  - Transaction costs
  - Investment design and range
  - Member communication
  - Investment manager and platform provider ratings
  - Additional services available to members
- 4.4 In August 2020, the Trustees assessed the extent to which the charges under the Plan represent good value for members and concluded that the Plan offers good value for money relative to peers and alternative arrangements that are available. The reasons underpinning this conclusion include:
- Charges for the Plan's default investment arrangement are below the charge cap of 0.75% per year.
  - The Trustees are satisfied that Aviva has provided a good service during the Plan year.
  - The Trustees' investment adviser rates the funds used by the Plan as having good prospects of achieving their objectives over the long term.
  - The performance of the Plan's funds over the period covered by this statement is reasonable relative to their benchmarks.
- 4.5 Additionally, the Company pays for member communications and advisory costs associated with operating the Plan, which further enhances the value that members receive.
- 4.6 The non-financial benefits of membership were also considered and included (amongst other things): the efficiency of administration processes and the extent to which Aviva met its service level agreements for the year; the communications delivered to members; and the quality of Plan governance.
- 4.7 The Trustees will continue to monitor the administration and performance of the Plan's investment funds.

## 5. **AVCs within the DB Section**

- 5.1 As noted above, there are additional voluntary contribution monies invested in Phoenix Life (NELEX Guaranteed Growth fund) and Scottish Life/Royal London (CREST Secure Fund).
- 5.2 The Phoenix Life investment offers guaranteed growth that has been at a much higher level than could be obtained in a regular deposit account over recent times however a penalty may be imposed on early disinvestment.
- 5.3 The Royal London investment is classed as a “deposit administration fund” with a standard growth rate declared annually; this was at 3.25% over 2019/20 and it has been announced that there will be capital protection applied.
- 5.4 Providing a comparison between these types of funds and its peers is quite difficult as the funds offer different terms and guarantees and, hence, will invest very differently from one another, which in turn affects the performance received through bonus announcements. There may also be penalties applied for early disinvestment.
- 5.5 Assessing value for members is directly related to an individual’s attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that there are some guarantees, whether that is a certain level of investment return or “just” capital security. Therefore, we consider it inappropriate to reach a general conclusion on value for members for these “deposit administration” funds as this may vary by member.

## 6. **Trustee Knowledge and Understanding**

- 6.1 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, enables them to properly exercise their functions and duties in relation to the Plan.
- 6.2 This requirement has been met during the course of the Plan year and the Trustees have undertaken regular training throughout the year, including:
- Training on financially material considerations (including ESG matters and climate change) in July 2019, the subsequent discussions enabled the Trustees to update the Plan’s SIP.
  - In September 2019, the Trustees attended a training session on the outcome of the Competition and Market Authority’s investigation into investment consultancy. The Trustees discussed the suggestions put forward in the review the suggestions mean for the future governance of the Plan.
  - At each meeting, the Trustees receive topical updates regarding DC pensions from their adviser at each meeting.
- 6.3 The Trustees are conversant with, and has a working knowledge of, the Trust Deed and Rules and the policies and documents setting out the Trustee’s running of the Plan. If there are any ambiguities over the interpretation of the Rules, legal advice is sought from the Plan’s legal advisers. The Trustees are conversant with, and have a working knowledge of, the current SIP. The Trustees undertake regular training on investment matters and they review the investments held by the Plan at each meeting. The Trustees have sufficient knowledge of investment matters to be able to challenge their advisers
- 6.4 The Trustee meetings held during the period to which this statement relates were attended by the Plan’s advisers. Training and advice delivered as part of the business at these meetings is incorporated by the Trustees into their decision making processes.
- 6.5 The Trustees receive professional advice from Mercer to support them in reviewing the performance of the Plan and in governing the Plan in line with the Trust Deed and Rules, and the relevant skills and experience of Mercer is a key criterion when evaluating adviser 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.

- 6.6 The Trustees also review and assess, on an ongoing basis, whether the systems, processes, policies and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.
- 6.7 The Trustees are required to have a robust training programme in place for newly appointed Trustees. For the Plan, upon appointment, a Trustee is required to undertake completion of the Pensions Regulator's online training programme. The Trustee toolkit is expected to be completed within six months of appointment.
- 6.8 The Trustees undertook a number of activities over the Plan year demonstrating how they have a working knowledge of pension & trust law, funding & investment principles, Trust Deed and Rules and the SIP. These activities include:
- The conflicts of interest policy is considered at each meeting.
  - The Trustees went through the process of appointing a new legal adviser, demonstrating their knowledge of their powers under the deed and rules, and their knowledge of trust law.
  - The Trustees worked with their legal adviser to appoint a new Trustee, demonstrating the Trustees' knowledge of trust law.
  - The SIP was updated to include the Trustees' policy on financially material matters.
  - The Trustees are in the process of incorporating a new employer into the Plan, demonstrating their knowledge of the deed and rules, trust law and the powers that they hold under the deed and rules.
  - The Risk Register is reviewed and updated regularly. This demonstrates that the Trustee holds relevant knowledge on DC specific internal controls and the regulatory requirements.
- 6.9 The Trustees believe that the best run pension plans utilise the combined skill and knowledge of both the Trustees and their professional advisers. The relevant skills and experience of those advisers are key criteria when evaluating adviser performance and selecting new advisers. Additionally, the following measures have applied during the period:
- The Trustee's professional advisers attend their formal meetings;
  - The Trustee board contains trustee directors with wide ranging skills and experience, including pension experience;
  - The Trustees receive briefings from their advisers on all legislative and regulatory developments at each meeting;

7. **Statement of DC Governance**

- 7.1 The Trustees undertake regular assessments of the Plan against the DC Code of Practice 13 and related guidance.
- 7.2 The Trustees consider that our systems, processes and controls across key governance functions are consistent with those set out in the Pension Regulators Code of Practice 13.

Signed for and on behalf of the Trustees of the Tremco Illbruck UK Pension Plan

Date .....

By

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Peter Paes, Chair of Trustees

## **Appendix A - Statement of Investment Principles**