

# The Salvation Army Employees' Defined Contribution Scheme

Annual Governance Statement for the period 1 April 2020 to 31 March 2021

## 1. Introduction

- 1.1 This statement is required for inclusion in the Trustees' Annual Report and Financial Statements. It is required by regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Regulations") as amended. It covers the year from 1 April 2020 to 31 March 2021.

## 2. Default Arrangement

- 2.1 The Statement of Investment Principles ("SIP") for the default arrangement forms part of the overall Scheme SIP which is attached in the Appendix. It was required by regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 as amended.
- 2.2 A review of the default strategy and the performance of the constituent funds was undertaken as at 30 September 2020. The review considered the appropriateness of the default strategy for members with different periods to retirement and the benefits targeted at retirement. The investment performance and fees paid by members were also considered. Following this review the Trustees decided that the default option remained appropriate. However further consideration is currently being given to the allocation to UK and Overseas equities in the growth phase as part of a wider review on the investment implications of climate change on the Scheme.

## 3. Core Financial Transactions

- 3.1 The requirements of regulation 24 of the Regulations were met and core financial transactions were processed promptly and accurately by the Scheme's administrator Aviva. A Service Level Agreement is in place which requires Aviva to process transactions within 3-5 days, dependent on the nature of the transaction.

The Trustees receive quarterly reports from Aviva enabling them to monitor the efficiency of these transactions. These are reviewed at quarterly meetings.

## 4. Charges and Transaction Costs

- 4.1 The level of fund charges applicable to the default arrangement during the Scheme year were:

Fund	Scheme AMC (%pa)	Additional fund expenses (%pa)	Total charge (%pa)*
AP BlackRock (50:50) Global Equity Index Tracker Fund	0.50	0.00	0.50
AP BlackRock Over 15 Year Corporate Bond Index Tracker Fund	0.50	0.00	0.50
AP BlackRock Sterling Liquidity Fund	0.50	0.00	0.50
<b>Overall (for any member age)</b>	<b>0.50</b>	<b>0.00</b>	<b>0.50</b>

\*The total charge represents the total cost borne by members for these funds before transaction costs.

- 4.2 The levels of transaction costs applicable to the default arrangement during the Scheme year were:

<b>Fund</b>	<b>Buying &amp; Selling (%)</b>	<b>Lending &amp; Borrowing (%)</b>	<b>Total transaction costs (%)</b>
<b>AP BlackRock (50:50) Global Equity Index Tracker Fund</b>	0.0815	0.0041	0.0856
<b>AP BlackRock Over 15 Year Corporate Bond Index Tracker Fund</b>	0.1443	0.0002	0.1445
<b>AP BlackRock Sterling Liquidity Fund</b>	0.0144	0.0000	0.0144

- 4.3 The levels of charges applicable to the Scheme's other investment funds during the Scheme year were:

<b>Fund</b>	<b>Scheme AMC (%pa)</b>	<b>Additional fund expenses (%pa)</b>	<b>Total charge (%pa)*</b>
<b>AP BlackRock Pacific Rim Equity Index Tracker Fund</b>	0.50	0.00	0.50
<b>AP BlackRock Emerging Markets Equity Index Tracker Fund</b>	0.68	0.06	0.74
<b>AP Baillie Gifford International Fund</b>	0.70	0.03	0.73
<b>AP BlackRock UK Equity Fund</b>	0.70	0.03	0.73
<b>AP BlackRock UK Equity Index Tracker Fund</b>	0.50	0.00	0.50
<b>AP BlackRock World (ex-UK) Equity Index Tracker Fund</b>	0.50	0.00	0.50
<b>AP Stewardship UK Equity Income Fund</b>	0.50	0.00	0.50
<b>AP Stewardship International Fund</b>	0.50	0.00	0.50
<b>AP Property Fund</b>	0.50	0.00	0.50
<b>AP HSBC Islamic Global Equity Index Fund</b>	0.50	0.30	0.80

\* The total charge represents the total cost borne by members for these funds before transaction costs.

The AP Stewart Investors Global Emerging Markets Leaders Fund was closed on 18 February 2021 and no longer forms part of the Scheme's fund range.

- 4.4 The levels of transaction costs applicable to the Scheme's other investment funds during the Scheme year were:

<b>Fund</b>	<b>Buying &amp; Selling (%)</b>	<b>Lending &amp; Borrowing (%)</b>	<b>Total transaction costs (%)</b>
<b>AP BlackRock Pacific Rim Equity Index Tracker Fund</b>	0.1002	0.0000	0.1002
<b>BlackRock Emerging Markets Equity Index Tracker Fund</b>	0.0107	0.0139	0.0246
<b>AP Baillie Gifford International Fund</b>	0.0736	0.0000	0.0736
<b>AP BlackRock UK Equity Fund</b>	0.3918	0.0026	0.3944
<b>AP BlackRock UK Equity Index Tracker Fund</b>	0.2494	0.0054	0.2548
<b>AP BlackRock World (ex-UK) Equity Index Tracker Fund</b>	0.0399	0.0021	0.0420
<b>AP Stewardship UK Equity Income Fund</b>	0.0915	0.0000	0.0915
<b>AP Stewardship International Fund</b>	0.1809	0.0000	0.1809
<b>AP Property Fund</b>	0.1244	0.0000	0.1244
<b>AP HSBC Islamic Global Equity Index Fund</b>	0.0248	0.0000	0.0248

- 4.5 The Trustees assessed the extent to which the charges together with the additional transaction costs represented good value for members and have concluded that they did.
- 4.6 The Trustees' assessment included identifying all member-borne expenses and the services to which they related. The performance and breadth of services were considered based on administration reports on performance against service level agreements, investment performance reports and feedback from member nominated trustees. In addition, statistics on members' fund selections and website usage were analysed. The member-borne expenses and services were then considered in the light of the experience of the Trustees and their advisors.

4.7 An illustration of the cumulative effect of charges and transaction costs over time is provided in the table below.

It shows the difference between pension pot size with and without annual charges being deducted from the pot. Projections are displayed for a member using the default arrangement, as well as for a member investing in a single fund until retirement (three different funds have been illustrated).

It should be noted that the purpose of this illustration is purely to provide an example of how charges affect the pension pot size over time, and should not be used as a guide as to expected future returns.

Years projected	Projected pension pot in today's money							
	Default arrangement		AP Baillie Gifford International Fund		AP Stewardship UK Equity Income Fund		AP BlackRock Sterling Liquidity Fund	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Start	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500	£3,500
1	£5,444	£5,413	£5,444	£5,401	£5,444	£5,412	£5,234	£5,207
3	£9,591	£9,455	£9,591	£9,405	£9,591	£9,454	£8,677	£8,571
5	£14,103	£13,805	£14,103	£13,695	£14,103	£13,802	£12,088	£11,871
10	£27,186	£26,161	£27,186	£25,790	£27,186	£26,151	£20,481	£19,850
15	£43,278	£40,935	£43,278	£40,100	£43,278	£40,912	£28,694	£27,472
20	£63,019	£58,559	£63,019	£56,992	£63,019	£58,516	£36,740	£34,768
25	£87,187	£79,539	£87,187	£76,894	£87,187	£79,467	£44,633	£41,766
30	£116,721	£104,474	£116,721	£100,303	£116,721	£104,359	£52,386	£48,494
35	£152,759	£134,064	£152,759	£127,798	£152,759	£133,891	£60,012	£54,977
40	£191,192	£164,321	£196,681	£160,050	£196,681	£168,884	£67,523	£61,239
45	£217,585	£182,986	£250,157	£197,842	£250,157	£210,304	£74,930	£67,301

Notes:

- Projected pension pot values are in today's terms and do not need to be reduced further for the effect of inflation
- The starting pot size is assumed to be £3,500
- Monthly contributions are assumed until retirement, starting at a rate of £150 per month and increasing annually at 0.5% pa above inflation
- Inflation is assumed to be 2.5% each year
- The projected fees and growth rates (gross of fees) above inflation for the funds are as follows:

Fund	Assumed growth rate above inflation (% pa)	Assumed total charge ** (% pa)
AP BlackRock (50:50) Global Equity Index Tracker Fund*	4.00	0.5856
AP BlackRock Over 15 Year Corporate Bond Index Tracker Fund*	1.25	0.6445
AP BlackRock Sterling Liquidity Fund*	-1.00	0.5144
AP Baillie Gifford International Fund	4.00	0.8036
AP Stewardship UK Equity Income Fund	4.00	0.5915

\*Included within the default arrangement

\*\*Including assumed future transaction costs in line with the level reported above for the Scheme year

**5. Trustees' Knowledge and Understanding**

- 5.1 The requirement under section 247 of the Pensions Act 2004 (requirement for knowledge and understanding) was met during the Scheme year as follows.
- 5.2 A suitable induction process was in place for new Trustees, consisting of a variety of methods, including the Trustee Training Toolkit, face to face learning and meeting with the Pensions Officer/Manager.
- 5.3 The Trustees individually completed a trustee knowledge assessment survey. The aggregated results were considered in a report at a Trustees' meeting to identify any gaps in knowledge and help prioritise training topics. Regular training was carried out at Trustees' meetings by external advisers. This included training on updated investment disclosure regulations, DC investment governance, and death in service claims. In addition, the Trustees attended relevant conferences and have completed the Trustee Training Toolkit made available by the Pensions Regulator. A log was also maintained to evidence training received.
- 5.4 The Trustees are conversant with the Scheme's documentation including the Trust Deed and Rules, SIP, and all documents setting out their current policies. The Trustees also have sufficient knowledge of the law relating to pensions and trusts, and investments for occupational schemes.
- 5.5 The combined knowledge and understanding of the Trustees, together with advice from their advisors, enabled them to properly exercise their functions as trustees.

**6. Other Trustee actions**

- 6.1 The Trustees hold meetings quarterly, and apply a Governance Checklist to ensure all responsibilities are carried out as required.

Signed on behalf of:  
The Trustees of The Salvation Army Employees' Defined Contribution Scheme

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Chair of the Trustees

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Date