DC Governance statement from 1 April 2019 to 31 March 2020

Spirent Communications plc Retirement Cash and Life Assurance Plan ("the Plan")

Chair's statement regarding the governance of defined contribution arrangements

Plan year - 1 April 2019 to 31 March 2020

1. Introduction

1.1. This statement has been prepared by the Trustees of the Spirent Communications plc Retirement Cash and Life Assurance Plan ("the Trustees") and reports on how the Trustees comply with defined contribution (DC) governance standards, which are designed to help members achieve good outcomes from their pension savings.

1.2. The reporting period covered by this statement is 1 April 2019 to 31 March 2020 (the "Plan year").

1.3. As required by regulation, the Trustees will publish this statement on a publicly accessible website, and draw it to the attention of members in an annual communication. The web address will be:

https://corporate.spirent.com/about-us/pension_plans_chairs_statements

2. The Plan's DC arrangements

2.1 The Plan's DC arrangements comprise:

2.1.1 Pension Retirement Accounts ("PRAs") for members who had not left the Old Section of the Plan prior to 1 January 1992. The PRAs serve as a DC underpin to a defined benefit entitlement. This arrangement is administered by Barnett Waddingham and has been closed to new joiners since 1 October 2002.

2.1.2 Additional Voluntary Contributions ("AVCs") provided through 'bundled' service arrangements (administration, investment and communications services) with Aviva and Utmost Life & Pensions ("Utmost") (formerly Equitable Life). These provide additional benefits for members of the Old Section.

2.2 The Pensionbuilder Section of the Plan was used for automatically enrolling new members until June 2016, however since this date a Group Personal Pension ("GPP") with Legal & General has been used for this purpose. The Cashbuilder Section of the Plan also previously held members with DC benefits.

2.3 All members in the Pensionbuilder Section and the the Cashbuilder Section have been transferred out to the GPP, a buy-out plan or an alternative arrangement chosen by the members prior to this Plan year.

3. Default investment arrangement

3.1 There is one default investment arrangement ("the default") for the PRAs, into which the contributions for one remaining active member are invested.

3.2 Under the default, contributions are invested in funds managed by Legal & General Investment Management ("LGIM") in the following proportions:

3.2.1 50% in the LGIM Cash Fund

3.2.2 25% in the LGIM World Equity Index Fund

3.2.3 25% in the LGIM World Equity Index Fund – GBP Currency Hedged

3.3 No active changes to the allocation of the funds within the default, such as lifestyle switching or re-balancing, are undertaken following the initial investments of contributions.

Review of the default

3.4 No formal review of the default was undertaken in the Plan year. However, the Trustees monitor all of the investment options on a quarterly basis with assistance from their investment advisers, considering both fund performance and any developments at the investment manager.

3.5 The default was last formally reviewed in March 2017 and the Trustees will review this every three years or after a significant change in the Plan's demographic profile. The next review is due to take place in the following Plan year, and to prepare for this, the Trustees held a training session with their investment advisers during the Plan year to highlight and discuss areas of focus for the review.

3.6 The Trustees have monitored the performance of the LGIM funds during the Plan year and are satisfied that the funds continue to meet their stated aims and objectives.

Further information on the default

3.7 Details of the investment strategies provided through the Plan, their aims and objectives and the Trustees' investment policies are set out in the 'statement of investment principles' (SIP), which is appended to this statement. The SIP covers the investment policy in relation to the whole Plan and was updated in September 2019 to document the Trustee's policy on the financial materiality of Environmental, Social and Governance (ESG) factors. The most recent version of the SIP was signed in September 2020.

4 Core financial transactions

4.1 The Trustees have a specific duty to ensure that 'core financial transactions' are processed promptly and accurately and must describe to members how this obligation is met.

4.2 Core financial transactions comprise the following, in relation to each of the Plan's DC arrangements:

4.2.1 Investment of contributions

4.2.2 Transfers out of the Plan

4.2.3 Other payments out of the Plan

PRAs Administration

4.3 Over the Plan year, the administration functions in relation to the PRAs were outsourced to Barnett Waddingham LLP ("Barnett Waddingham"), who undertake core financial transactions on behalf of the Trustees.

4.4 To ensure the accuracy and timeliness of processing of core financial transactions, the Trustees have established robust reporting and monitoring processes and controls.

4.5 The processes and controls in place in relation to ensuring the promptness of core financial transactions in relation to the PRAs which include the following:

4.5.1 In relation to the PRAs, the Trustees have a Service Level Agreement (SLA) in place with Barnett Waddingham covering the promptness of transactions, under which Barnett Waddingham aim to process 95% of transactions within service levels for each type of transaction.

Core Financial Transactions	Service Level Agreement
Investment of Contributions	5 working days
Transfer out payments	5 working days

Other payments out of the Plan	5 working days

4.5.2 The Trustees receive regular administration reports from Barnett Waddingham which are reviewed at each trustee meeting. The reports assess performance against the SLA for each type of transaction, and identify any issues that have occurred over the period in relation to accuracy. Over the Plan year, 93% of tasks in respect of core financial transactions for the Plan as a whole were processed within SLA. Where tasks miss their target, the administrators undertake to complete the outstanding action promptly and to ensure no financial detriment to members, and report the outcome to the Trustees at the next meeting.

4.5.3 The Trustees also reviewed their annuity broking provider during the Plan year in response to previous poor service performance, and agreed to switch to a service provided by HUB Financial Solutions for all future cases. Given that HUB Financial Solutions has an established partnership with Barnett Waddingham, the Trustees are confident that this change should improve the promptness of such transactions going forward, and will monitor this closely.

4.6 The processes and controls in place in relation to ensuring the accuracy of core financial transactions for the PRAs include the following:

4.6.3 The Trustees monitor the quality of the data held by Barnett Waddingham on an ongoing basis. Both common data and scheme-specific data scores are produced quarterly, and the Trustee will take action to improve data quality wherever possible. As at 31 March 2020, the common data score for the DC Section was 87.38%, and the scheme-specific data score for the DC Section was 70.52%. Under the methodology used, both of these scores indicate "very good data with minimal cleansing requirements".

4.6.4 The pooled investments are reconciled on a monthly basis.

4.6.5 Barnett Waddingham operate a pooled banking facility. The Barnett Waddingham pension administration system is updated daily to show reconciled balances to the pooled banking system. Financial Conduct Authority regulations for holding client monies mean that Barnett Waddingham must carry out an internal and external reconciliation every day. Barnett Waddingham's internal controls are audited annually and this is evidenced to the independent auditor.

4.6.6 Barnett Waddingham's processes are subject to internal controls procedures and adhere to AAF standards. Information about Barnett Waddingham's administration procedures and controls can be found in its AAF report which is published online: www.barnett-waddingham.co.uk/aaf-0106-report.

4.6.7 Barnett Waddingham has also achieved accreditation in respect of ISO 27001 and ISO 9001 standards, which detail Quality Management and Information Security Management procedures.

4.6.8 Administration risks are captured as part of the Plan's risk register, which also includes details of the controls established by the Trustees to mitigate such risks.

4.6.9 Kreston Reeves LLP have been appointed by the Trustees to undertake an annual external audit of the report and accounts.

4.6.10 Any issues uncovered regarding inaccuracies with core financial transactions are included within the quarterly reporting and considered at each trustee meeting, with any remedies required then being implemented.

AVC administration

4.7 Core financial transactions for the AVC arrangements are undertaken by Aviva and Utmost, co-ordinated by Barnett Waddingham, to whom the Trustees have delegated day-to-day administrative oversight. For example, in respect of payments out of the AVC arrangements, the role of Equitable Life (and then Utmost following the sale) and Aviva is to disinvest the appropriate funds and transfer the funds to the trustee bank account. Barnett Waddingham will then distribute the funds as required.

4.8 Barnett Waddingham report back to the Trustees as part of quarterly trustee meetings with any specific issues relating to the administration of the separate AVC policies. There were no issues reported to, or identified by, the Trustees in connection with the promptness or accuracy of the processing of core financial transactions for the AVC policies.

Assessment

4.9 There were no issues reported to the Trustees in connection with either the promptness or accuracy of core financial transactions processed during the Plan year for any of the Plan's DC arrangements, and there were no such issues outstanding at the end of the Plan year.

4.10 In view of the controls and monitoring arrangements, and the absence of issues experienced during the Plan year, the Trustees believe that core financial transactions have been processed promptly and accurately.

5. Member-borne charges and transaction costs

5.1 Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:

5.1.1 Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).

5.1.2 Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.

Charges in relation to the PRAs

5.2 The following table provides details of the charges and transaction costs for each of the investment options provided over the Plan year (data sourced from each relevant investment manager):

Investment option	TER (p.a.)	Transaction costs (p.a.)
Default investment arrangement *	0.170%	0.017%
LGIM Cash Fund **	0.125%	0.003%
LGIM World Equity Index Fund **	0.204%	-0.006%
LGIM World Equity Index Fund – GBP Currency Hedged **	0.227%	0.068%

* The quoted charges and transaction costs for the default are calculated as a composite of the underlying fund charges and transaction costs, based on the proportions in which contributions were invested. These fund holdings and therefore the charges will also vary depending how members are actually invested.

** These funds are not investment options in their own right.

Charges in relation to AVCs

5.3 The sole member in the Aviva AVC policy is invested in the Aviva With Profit (NU) Fund. There is no explicit annual management charge applied to this fund however Aviva have stated that a charge of approximately 0.875% p.a. is taken into account before bonuses are declared. Aviva have stated that transaction costs for this fund over the year were 0.037% p.a.

5.4 Plan members that held AVC benefits with Utmost (formerly Equitable Life) during the Plan year were invested wholly in the Equitable Life With Profits Fund until 31 December 2019. From 1 January 2020, when the purchase of Equitable Life by Utmost took effect, these members' AVCs investments received a one-off uplift and were switched into the Utmost Secure Cash Fund. Details of the charges and transaction costs for these funds are provided in the table below:

Fund name	TER	Transaction costs	Effective date
Equitable Life With Profits Fund	1.50% *	1.036%	31/12/2019
Utmost Secure Cash Fund	0.50%	0.070%	31/03/2020

* This is an implicit cost that was taken into account by Equitable Life before annual bonuses were declared, and includes a 0.5% p.a. cost for the guarantees that were attached to the fund.

Equitable Life have confirmed that the transaction costs for this fund stated above include the costs incurred from closing the With Profits fund as at 31 December 2019 and transitioning it to Utmost. Although we have requested them, Equitable Life has been unable to provide a breakdown of these costs between the transition costs and the "ordinary" transaction costs. We will continue to try and obtain this information.

Impact of costs and charges

5.5 To demonstrate the impact of member-borne costs and charges on the value of members' pension savings, the Trustees have produced illustrations in accordance with statutory guidance. These show the impact of charges and transaction costs for representative cross-sections of the membership and investment options.

Parameters used for the illustrations

5.6 To determine the parameters used in these illustrations, Plan members with PRAs (which make up the majority of DC arrangements in the Plan) and the investment options offered were analysed. The AVC arrangements in the Plan were not considered in this analysis due to their proportionately small asset size compared to the overall DC arrangements in the Plan.

5.7 **Pot size:** starting pot sizes of £4,000, £7,000 and £12,000 have been selected as they reflect the 25th percentile, median and 75th percentile of pot values respectively (rounded to the nearest £1,000) as at 31 March 2020.

5.8 **Contributions:** future contributions have not been included in these illustrations as only one active member remains in the Plan and all other members are not paying contributions.

5.9 **Timeframe**: the illustrations are shown over a 30 year timeframe as this covers the time it will take the youngest Plan member to reach retirement age.

5.10 **Investment options:** There is only one investment option available to members with PRAs, and therefore this has been used in the illustrations.

Investment option	Rationale for inclusion	Assumed return above inflation*	TER	Transaction cost**
Default Investment Arrangement	Most popular choice Highest/Lowest charged option Highest/Lowest assumed investment return	0.25%	0.170%	0.018%

* Projected growth rates, gross of costs and charges, for each investment option are in line with the 2020 Statutory Money Purchase Illustrations (SMPIs).

** The statutory guidance requires trustees to use an average of the last five years' transaction costs (insofar as they are able) when producing the illustrations. As we have data for the last three years only, the figures are three year averages.

Guidance to the illustrations

5.11 For each individual illustration, each savings pot has been projected twice: firstly for the assumed investment return gross of the costs and charges; and secondly for the assumed investment return net of the costs and charges.

5.12 Projected pot sizes are shown in today's terms, so do not need to be reduced further for the effects of future inflation. Inflation is assumed to remain constant throughout the term of the illustrations, at 2.5% per year.

5.13 Values shown are estimates and not guaranteed.

5.14 The starting date for the illustrations is 31 March 2020.

5.15 The illustrations should be read based upon the number of future years that a member expects to be invested in those funds.

Default investment arrangement

5.16 This has been included as it is the default investment arrangement and only investment option for the PRAs, which hold the vast majority of members and assets of a DC nature in the Plan. It is therefore the only investment option that provides a representative illustration.

Years of investment	**Starting pot size £4,000**		**Starting pot size £7,000**		**Starting pot size £12,000**	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£4,000	£4,000	£7,000	£7,000	£12,000	£12,000
2	£4,020	£4,005	£7,034	£7,008	£12,059	£12,015
5	£4,049	£4,012	£7,086	£7,021	£12,147	£12,036
10	£4,099	£4,024	£7,173	£7,042	£12,296	£12,073

Years of investment	Starting pot size £4,000		Starting pot size £7,000		Starting pot size £12,000	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
15	£4,149	£4,036	£7,261	£7,064	£12,447	£12,109
20	£4,200	£4,049	£7,349	£7,085	£12,599	£12,146
25	£4,251	£4,061	£7,440	£7,107	£12,754	£12,183
30	£4,303	£4,073	£7,531	£7,128	£12,910	£12,219

Note on how to read this table: If a member had £4,000 invested in this strategy on 31 March 2020, when they came to retire in 20 years, the fund could be worth £4,200 if no charges are applied but £4,049 with charges applied.

Value for members

5.17 The Trustees are required to assess annually the extent to which the charges and transaction costs borne by members represent good value.

5.18 Analysis was undertaken by the Trustees' professional advisers, Barnett Waddingham LLP, and the findings set out in a report in August 2020. The Trustees considered the report and confirmed its value for members' assessment as outlined in this statement.

5.19 Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.

5.20 Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.

5.21 Other services paid for by Spirent Communications plc ("the Company") were excluded but nevertheless deliver value to members, e.g. the services of professional advisers and the operation of the trustee board, with a duty to act in the best interest of members.

PRAs

5.22 The member-borne charges and transaction costs for the PRAs relate to investment services. All other charges, including the costs of administration and communication services are met by the Company.

5.23 The assessment considered in relation to the investment services:

5.23.1 the investment strategy, e.g. the design of the default and range of alternative options

5.23.2 the arrangements for monitoring the performance of the investment options and reviewing the investment strategy

5.23.3 the investment governance arrangements

5.24 The Trustees concluded that the PRAs offer good value in relation to the charges and transaction costs borne by members, and due to the actions taken by the Trustees during the year, there has been a slight increase in value provided since last year.

5.25 In reaching this conclusion, the Trustees recognised:

5.25.1 The Plan has an appropriate investment governance structure, where investment matters are considered by the Trustees at regular meetings with assistance from professional advisers, and the governing documentation is reviewed and updated when necessary.

5.25.2 A single investment strategy is offered to members, and no de-risking strategies or self-select funds are available.

5.25.3 The investment options are regularly monitored, taking into account both short and long-term performance, and long-term market conditions, and are reviewed in line with statutory timescales.

5.25.4 Investments are held directly with LGIM, and as such receive competitive pricing, which is in line with the market. Alternatives would generally involve moving to an investment platform, which may result in a small increase in price.

5.26 The Trustees note that they have assessed the value for members solely from the point of view of the Plan providing DC benefits. However, in the Plan the PRAs serve as an underpin to a DB guarantee, albeit an underpin that is now expected to 'bite' for the majority of members.

5.27 The Trustees recognise therefore that the design of the investment strategy (the area where the Plan scores lowest based on the criteria for a traditional DC scheme) may differ from best practice guidelines due to the historic relationship between the DB and DC benefits for each member. Given that benefits are now expected to be DC in nature for the majority of members, the next strategic review of the investment strategy will focus more on its suitability in respect of member needs and demographic profile.

AVCs

5.28 In relation to AVCs, the member-borne charges and transaction costs relate to:

5.28.1 investment services

5.28.2 administration services

5.28.3 communication services

5.29 The assessment considered the broad value for members of these services, taking a proportionate approach that reflects the relatively low value of the AVC pension savings concerned.

5.30 The Trustees concluded that the AVC arrangements offer reasonable value in relation to the charges and transaction costs borne by members.

5.31 In reaching this conclusion, the Trustees recognised:

5.31.1 Former Equitable Life members now have a greater degree of investment choice with Utmost following the transfer of business effective from 1 January 2020, albeit these now only include unitlinked funds (whereas previously a with-profits fund was used by Equitable Life) , and this range is still fairly limited relative to a 'best of breed' modern DC scheme. The Aviva policy has a wider range of funds and lifestyle strategies for members to choose from, albeit assets are only currently invested in one fund, a with-profits fund.

5.31.2 Aviva and Utmost provide basic administration and communication services via legacy platforms, albeit these are supplemented by services from Barnett Waddingham LLP, the lead administrator, for which the members do not pay the cost.

5.31.3 The costs are broadly in line with AVC arrangements of a similar size, nature and age and there is likely to be limited opportunity for the Trustees to change the service providers or obtain more competitive charges.

5.31.4 They regularly monitored the transfer of business from Equitable Life to Utmost that occurred during the Plan year, and reviewed the suitability of Utmost's investment arrangements once this was completed. After the end of the Plan year, the Trustees decided to make a change to the investments of members close to their retirement age as they felt that Utmost's default approach was less suitable for this group. Members were communicated with throughout this process and the changes took place in June 2020.

6. Trustee knowledge and understanding

The Trustee Board

6.1 As at 31 March 2020, the Trustees comprised four individual trustees, one of whom is nominated by the members and three of whom are appointed by the Company. One further employer-nominated trustee retired during the Plan year, and there remains an outstanding vacancy for a second member-nominated Trustee.

6.2 One of the Company-appointed trustees, Apex ATL Pension Trustees Limited, represented by Jane Fryer, is the Chair and is a professional trustee.

Trustee knowledge and understanding requirements

6.3 Trustees are required to be conversant with a scheme's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets to enable them to properly exercise their functions.

Approach

6.4 The Trustees have a working knowledge of the Plan's trust deed and rules as well as all other Plan documents such as the SIP, the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Plan, as well as specific activities over the Plan year and access to professional advice – see sections 6.13 to 6.16 for more details.

6.5 The Trustees aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational plans and investment of Plan assets through a combination of training and taking professional advice.

6.6 The inclusion of a professional trustee as chair enhances the knowledge of the trustee board by way of the significant experience gained through appointments on other trustee boards, associated access to a wide range of professional advisers, and the ongoing Continuous Professional Development (CPD) requirements that must be adhered to in order that professional status is maintained.

6.7 The majority of trustee training is undertaken at regular trustee meetings by the Trustee's professional advisers, and this is supplemented with training activities such as attending seminars and conferences, and reading pensions-related articles. A training log is maintained in relation to training undertaken and is reviewed and updated at each trustee meeting.

6.8 An induction process is in place for newly appointed trustees. Although no new trustees were appointed during the Plan year, the Trustees aim to review this process in time for the next appointment is made.

6.9 The Trustees consult with professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the Trustees on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Plan's documents, attending trustee meetings and often in the delivery of training at these meetings.

6.10 The Trustees recognise the importance of carrying out a self-assessment exercise to identify knowledge gaps and training needs in relation to emerging legislation, Plan changes and upcoming matters in the Plan's business plan. During the year, the Trustees completed questionnaires, which were then analysed in order to identify any gaps in governance processes, and the Trustees intend to carry out a similar exercise in the next Plan year to identify any skills and knowledge gaps.

6.11 A Governance Working Party ("GWP") sub-committee was set up by the Trustees in 2019 to consider all matters relating to the good governance of the Plan, e.g to review and maintain the Trustees' business plan and risk register, and to monitor the DC benefits within the Plan in line with the Pension Regulator's DC Code of Practice. A formal Terms of Reference was adopted which outlined the authorities that had been delegated, and this sub-committee reports back to the full trustee board at the following meeting.

Activities over the Plan year

6.12 The Trustees reviewed and updated the Plan's Statement of Investment Principles (SIP) over the Plan year, with assistance from their investment advisers, to ensure that all DC benefits within the Plan were covered, and to comply with new legislative requirements to document the Trustees' policy on the financial materiality of Environmental, Social and Governance ("ESG") factors in the investment process.

6.13 The Trustees, either through the full board or the GWP, reviewed the following Plan documents during the year:

6.13.1 Draft Terms of Reference for the GWP

6.13.2 Risk register

6.13.3 Business Strategy Plan

6.13.4 Data Protection Policy and Incident Response Plan

6.13.5 Information Protocol between the Trustees and the Company.

6.13.6 Annual report and accounts.

6.13.7 Annual Chair's Statement.

6.13.8 The Trustees set and documented objectives for their investment advisers.

6.14 The Trustees received training at trustee meetings over the Plan year on the following topics:

6.14.1 New requirements on Trustees in respect of financially material factors in the investment process, e.g. ESG factors.

6.14.2 New requirements on Trustees as set out by the Competition and Markets Authority (CMA).

6.14.3 The proposals for the transfer of business between Equitable Life and Utmost, and the impact this would have on Plan members.

6.14.4 Legislative updates and market developments in respect of DC pension provision.

6.15 In addition, the Trustees set aside half a day on 24 July 2019, to receive training on pertinent topics relating to their governance of the Plan as a whole. This included sessions from their advisers on the Pension Regulator's approach to 21st Century Trusteeship, expectations of trustees of DC benefits, investment beliefs and objectives, and responsible investing with reference to ESG factors.

6.16 During the Plan year, the Trustees took professional advice on the following DC matters:

6.16.1 The underlying assumptions for the Statutory Money Purchase Illustrations.

6.16.2 Undertaking the annual value for members' assessment.

6.16.3 Completion of the annual governance statement

6.16.4 Quarterly investment performance monitoring.

6.16.5 Whether to vote for the proposal to transfer Equitable Life's AVC business to Utmost.

Assessment

6.17 The Trustees consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly exercise their trustee functions.

Signed by Jane Fryer, on behalf of Apex ATL Pension Trustees Limited, Chair of Trustees on 30 September 2020