

Chair's DC Governance Statement, covering 6 April 2021 to 5 April 2022

1. Introduction and members' summary

The **Forticrete Retirement Benefits Scheme** (the "Scheme") is an occupational pension scheme providing defined contribution ("DC") benefits. The Scheme was established in 1988 with the sole purpose to receive contracted-out National Insurance rebates for members of a defined benefit pension arrangement called the Forticrete Pension Fund which has since been wound up. The Scheme closed to further contributions (National Insurance rebates) in April 1997.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustees of the Scheme, are required to produce a yearly statement (signed by the Chair of Trustees) covering:

- the investment options in which members can invest;
- processing of core financial transactions (ie administration of the Scheme, such as investment of contributions);
- the charges and transaction costs borne by members for each investment option members can select or have assets in, such as "legacy" funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- how the value members obtain from the Scheme is assessed; and
- Trustee knowledge and understanding.

The key points that we would like members reading this Statement to take away are as follows:

- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Scheme year, and we remain comfortable with the administrator's performance.

- Fees can have a material impact on the value of your pension savings and the fee impact is greater the more time passes, since fees reduce the amount of money that can grow with future investment returns.
- Fees for the investment options are set out in this Statement, and we remain comfortable that these fees are reasonable given the circumstances of the Scheme and represent value for the benefits members obtain.

2. Default arrangements

The Scheme's benefit holdings are invested 100% in Royal London's Crest Secure Fund (the "RL Fund"). The RL Fund contains certain guarantees and can also apply an exit penalty called a 'market value reduction' if funds are disinvested other than on death or at normal retirement age.

The Scheme has never been used as a Qualifying Scheme for auto-enrolment purposes and the RL Fund is not classified as a default arrangement. The Trustees are not therefore required to provide a statement on the Scheme's default investment strategy or details of any review of the default strategy as part of this Statement.

3. Requirements for processing core financial transactions

The Scheme is a fully insured arrangement which means that Royal London carries out the administration on behalf of the Trustees. The processing of core financial transactions is carried out by Royal London with case by case authorisation from the Trustees. Core financial transactions include (but are not limited to): 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.

The Scheme closed to further contributions in April 1997 so in practice very few core financial transactions are now carried out. During the 2021/22 Scheme year there were four core financial transactions including retirements, , and transfer payments. As at Scheme year end there were 61 members invested in the Scheme.

We recognise that delay and error can cause significant issues for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future outcomes. We have received assurance from Royal London that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately. Royal London aims to complete 95% disinvestments within 5 to 10 working days from the date the last piece of information is received. Royal

London has confirmed that 3 of the 4 disinvestments were completed within 10 working days, with the other being completed within 15 working days.

The Scheme has a service level agreement (“SLA”) in place with Royal London which covers the accuracy and timeliness of all core financial transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:

- Scheme administration is dealt with by a single team at Royal London which is familiar with the Scheme and the features of the RL Fund and the Royal London Crest pension product.
- Royal London has a five to ten working day turnaround on all disinvestments (including transfers out and retirements), which we believe is consistent with other providers in the market.
- Royal London monitors its service levels on a daily basis to ensure disinvestments do not fall outside of the agreed five to ten-day timescale.
- All disinvestment work is checked by a second team member at Royal London before paperwork is issued and before monies are disinvested.
- Royal London has a separate Quality Assurance team which regularly monitors the team’s work
- The team is also subject to periodic internal audit.

All instructions to Royal London are directed through the Trustees who monitor turnaround, disinvestment and payment to beneficiaries. Based on our review processes, we 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 issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Scheme year.

4. Member-borne charges and transaction costs

We are required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus 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 also include any costs, eg administration and investment costs, since members incur these costs.

We are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme’s fund managers buy and sell assets within investment funds, but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by Royal London which is the Scheme’s investment manager. When preparing this section of the Statement we have taken account of the relevant statutory guidance.

Fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (% pa)
Royal London Crest Secure Fund	1.45	0.10

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member’s pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by Royal London over the past three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past two years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Scheme year.

The illustration is shown for the Royal London Crest Secure Fund which holds 100% of Scheme benefits.

Projected pension pot in today's money

Royal London Crest Secure Fund		
Years invested	Before costs	After costs
1	£7,000	£6,900
3	£7,000	£6,600
5	£6,900	£6,400
10	£6,900	£5,800
15	£6,800	£5,300

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from the fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual inflation is assumed to be 2.5%.
- The starting pot size used is £7,000. This is the approximate average pot size for the Scheme.
- The projection is for 15 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The Scheme is closed to new contributions, so the projected pension pot values assume no further contributions will be paid.
- The projected annual returns used are as follows:
 - Royal London Crest Secure Fund: 0.15% pa below inflation.
- No allowance for active management outperformance has been made.

5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the scheme year.

The RL Fund returns stated are the guaranteed annual returns credited to members' accounts. Royal London does not publish the return of the underlying assets and have been unable to provide them on request. The RL Fund is designed to smooth the returns members receive over their investment term. Once the annual return has been added to a member's account it is guaranteed if taken at retirement age or earlier death.

Fund name	1 year (%)	5 years (% pa)
Royal London Crest Secure Fund	1.05%	3.38%

6. Value for members assessment

We are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. Our general policy in relation to value for member considerations is set out below.

We review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was: 20 February 2023. We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. Our investment advisers have confirmed that the fund charges are competitive for the type of fund available to members.

Our assessment included a review of the performance of the Scheme's investment fund (after all charges and transaction costs and with reference to any contractual guarantees) in the context of their investment objectives. The returns on the investment fund members can choose during the period covered by this statement have been consistent with its stated investment objectives. The Scheme members' return on the Royal London Crest Secure Fund, which holds 100% of the Scheme's investments, was 0.25% for the 2021/22 and 2020/2021 Scheme years. However, the Scheme has an enhancement applied of 0.8%,

which increased the return to 1.05% pa. From the 2012/13 scheme year to the 2018/19 Scheme year, the fund returned 5% (5.8% with the enhancement) per annum and generated 2.5% (3.3% with the enhancement) return during the 2019/20 Scheme year. Once the growth rate has been credited to a member's account it cannot be reduced if the RL Fund is held until retirement age or earlier death. Although the annual return has reduced this year, the Trustees believe that over the long-term, the fund has strong returns for members, backed by a valuable capital guarantee. The returns shown above are net of fees.

In carrying out the assessment, we also consider the other benefits members receive from the Scheme, which include:

- the options made available for drawing retirement benefits, including communications and guidance as members approach retirement;
- the quality of communications delivered to members;
- the quality of support services; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, we are comfortable with the quality and efficiency of the administration processes.

We believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expect this to lead to greater investment returns net of costs over time.

Overall, we believe that members of the Scheme are receiving reasonable value for money for the charges and cost that they incur, for the reasons set out in this section. The Trustees acknowledge that members do not have access to other investment options within the Scheme but believes that the annual returns granted to date and the guarantees in place more than make up for a lack of investment flexibility.

The Trustees have commenced work on the process to wind up the Scheme and a project plan is in place to achieve full wind up by the end of June 2023.

7. Financial security of pension assets

This section describes our understanding of the protections that generally apply to members' assets, should Royal London, experience financial difficulties. This a

complex area which is untested in practice. Whilst the wording below represents our understanding, we are not legal experts and a future situation may lead to an unexpected outcome.

There are several safeguards designed to prevent default by a DC platform provider, or a fund manager used by it, and potential protections that apply should this happen:

- To prevent default, there is internal oversight carried out by the provider and fund managers. This comprises several elements such as independent internal audits, as well as the work conducted by compliance and risk functions.
- There is external oversight, carried out by the relevant regulatory bodies, whose role it is to ensure that the provider and fund managers discharge their financial liabilities in a responsible manner.
- A custodian will normally be appointed to each of the investment funds offered by the provider. The custodian's primary function is the safekeeping of assets. In practice this means keeping investors' funds legally separate from the provider's / fund manager's own monies, so they may not be used for meeting creditors' demands not relating to the investment funds.

Thus, the only circumstances in which a default would occur appear to be in the event of dishonesty, fraud or negligence. If a valid claim arose, in the first instance, we would expect Royal London to make good any shortfall. The Financial Services Compensation Scheme may be able to pay compensation if a firm is unable to pay claims against it. Our understanding is that this would cover 100% of the claim in the event of the provider defaulting.

8. Trustee knowledge and understanding

We are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively.

We are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out our policies, including the Trust Deed & Rules. In particular, we refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme. Further, we believe that we have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil our duties.

Considering our knowledge and experience and the specialist advice received from the appointed professional advisors (eg investment consultants, legal advisors), we believe that we are well placed to exercise our functions as Trustees of the Scheme properly and effectively.

Robert Tyrrell

Date: 17.07.2023

Signed by the Chair of Trustees of the Forticrete Retirement Benefits Scheme