W JONES & SONS LIMITED PENSION SCHEME (1983)

ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 31ST AUGUST 2019

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

Introduction

As the Chair of the Trustee, I am required to provide a yearly statement which explains what steps have been taken by the trustee board to ensure that the Scheme if properly governed. The law sets out what information must be included in my statement and this is covered in sections 1 to 4 below.

I welcome this opportunity to explain what the Trustee has done to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact by email on nickboyes@able-governance.co.uk.

1 Post-Year End Development

You will be aware that the Scheme was originally managed by Equitable Life and invested in their with profits fund. Equitable Life has recently sold its business to Utmost Life and Pensions (“Utmost”), with a Court and member-approved arrangement whereby each member’s policy was transferred to Utmost on the 1st January 2020. The arrangement allows for the guaranteed growth rates that applied to the original with profits policies to be exchanged for non-guaranteed unit-link funds, with individually calculated uplifts to compensate for the remove of the guarantees. The uplifts were determined by the members’ age and ranged from 75% to 102% of the original values.

2 Default investment arrangement

At the applicable date of this Statement, the Scheme was a fully insured, with profits, scheme insured with Equitable Life. The nature of a with profits scheme is that all contributions paid by and on behalf of the members are invested in the with profits fund. As this was the only fund available to member, it represented the ‘default fund’. It is important to emphasise that the Scheme is not used as a qualifying scheme for auto enrolment purposes by the Employer.

<u>Setting an appropriate investment strategy</u>

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme’s default arrangement. As the Scheme has less than 100 members, there is no obligation to prepare a formal Statement of Investment Principles, but we do closely monitor the investment strategy to ensure that it continues to serve the needs of the membership.

Equitable Life calculated a ‘Policy Value’ for each member. This was the value derived from a ‘smoothed’ investment return, net of charges, that represents the long-term growth of the assets within the with profits fund. The Policy Value could not be below the ‘Guaranteed Benefits’, which accrue from the application of a guaranteed investment return of 3.5% per annum.

Equitable Life also added, when it felt that it was prudent to do so, a ‘Capital Distribution Amount’ to each member’s Policy Value. This represented the member’s share of the solvency capital earmarked for the policyholder. This amount was reviewed, and applied to the policies, annually in the Spring.

The investment policy objective was to closely match the guaranteed liabilities, which were closely aligned to interest rates. The with profits fund was, therefore, mainly invested in fixed interest securities such as gilts and corporate bonds, with very limited exposure to assets such as equities and property.

Although this strategy limited the potential returns that could be achieved in a period of strong economic growth, it did reduce the solvency capital required, enabling earlier capital distribution.

The Trustee had reviewed the investment strategy of the Scheme and is conscious that the current asset mix in the with profits fund was very different from that which pertained before Equitable Life ran into difficulties. We recognised that Equitable Life has been necessarily restrained in its investment strategy due to historical circumstances.

Although the transfer to Utmost occurred after the year end covered by this Statement, it is important to note the current default investment strategy. The change from with profits to unit linked policies required the Trustees to determine which of the funds offered by Utmost should be adopted as the default fund. The Trustees informed Equitable that the funds should be invested in the Multi-Asset Moderate fund. This investment review took place on 11th December 2019. It was felt that the asset strategy in this fund, with its diversified mix of asset classes, would be the most appropriate compromise in view of the likelihood that they would access their pension funds via drawdown rather than by annuity purchase.

As the transfer to Utmost has been completed, the Scheme will be put into wind up and members will be provided with options in relation to their funds. As Utmost do no offer an individual replacement policy when a scheme goes into wind up, members will be offered a choice as to how their fund should be treated; either though a transfer to another pension policy or possibly by receiving a winding up lump sum. They will be able to determine their own investment strategy appropriate for their needs and attitude to risk.

2 Charges and transaction costs paid by members

I am required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer.

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

The Trustee has examined the PPFM published by the insurer in April 2019. This document sets out Equitable's policies on running the fund, including how charges are levied.

The nature of a with profits fund, where investment returns are added to members' policies by way of bonuses determined by the insurance company in a smoothed manner, means that it is virtually impossible to obtain any information as to the transaction costs incurred in managing the fund.

Equitable Life has confirmed that they make a 1% per annum deduction from policies to cover costs, and an additional 0.5% charge to cover the guarantee minimum return. Although not relevant for the period covered by this Statement, it is worth noting that Utmost levies an annual management charge of 0.75% in respect of all of their funds.

The following table shows the impact of charges for the with Equitable with profits fund. The fund is projected over several years and shown before and after cost and charges have been deducted. The first column shows the total funds.

Term	With-Profits	
	Before Charges	**After Costs and Charges Deducted**
1	1,010	995
3	1,030	985
5	1,050	975
10	1,102	951
15	1,157	927
20	1,214	905
25	1,275	882
30	1,338	860
35	1,405	900
40	1,475	945

Notes:

1) Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2) The starting pot size is assumed to be £1000 for a Male aged 50
3) Inflation is assumed to be 2.5% p.a.
4) Values shown are estimates and are not guaranteed
5) The projected growth rate for each fund are as follows:
   With-Profits 3.5% p.a.
6) The Scheme has an underlying guarantee of 3.5% p.a. for With-Profits

Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when this is compared to other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. I have considered regulatory guidance on how to assess good value from our advisers.

The Trustee is cognisant of the fact that the investment strategy of the with profits fund may not be aligned to each member's attitude to risk and intentions as to how they will access their pensions savings. They are also aware that an equivalent investment strategy could be adopted at a significantly lower cost in an alternative arrangement.

It acknowledges, however, that the charges levied by Equitable include the cost of the administration of the Scheme and the guaranteed investment return, which could be a valuable benefit when investment markets are volatile. Another positive aspect of the Scheme from which the members derive value is that the policies are eligible for the Financial Services Compensation Scheme (FSCS), which would act as a lifeboat if the insurer became insolvent. It should also be borne in mind that the impending transfer of business to Reliance will make a material difference to the value of the members' policies.

All things considered, the Trustee considers that the Scheme has provided 'reasonable' value for members, but the inherent disadvantages of the investment strategy adopted by Equitable and level of charges, has influenced the Principal Employer's intention to terminate the Scheme once the transfer to Reliance has taken place.

3 Core financial transactions

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

- 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 the Trustee delegates responsibility for this to the Scheme administrator, Equitable Life.

Prior to the cessation of contributions, they were deducted from member's salaries on the 9th of the month and paid to Equitable within two days. Payment was by cheque with an accompanying list of the amounts to be applied to member's individual policy. The application of contributions to members' policies took place either on the date of receipt or the day after.

As this Scheme has been in place for many years, the formal terms are enshrined in the original policy document, and there is no separate Service Level Agreement that sets out services standards that can be monitored. The Trustees are comfortable, however, that the core financial transactions have been conducted promptly and within reasonable expectations. Utmost has a Service Level Agreement. They aim to make any payments within five days "where possible".

4 Trustee knowledge and understanding

The law requires the trustee board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. Following a review, it was concluded that the previous Trustees did not have sufficient knowledge to enable the Scheme to be run in line with current governance expectations. This was an important factor in the Principal Employer's decision to move to wind up the Scheme after the transfer to Reliance.

The appointment of Able Governance Ltd as sole corporate trustee to the Scheme, in the period after the end of the financial year, is intended to address this knowledge gap.

I represent Able Governance and have over 25 years' experience in the pension trustee industry. I am able to bring knowledge from other pension schemes that Able Governance is involved with, and expertise in pension scheme governance and winding up.

I maintain a log of the training activities that I undertake, both as a recipient and as a contributor. This demonstrates that my knowledge is appropriate and up to date.

On taking on the appointment I have studied the Declaration of Trust and subsequent amending deeds, and the Rules of the Scheme. I have also spoken to the administration team at Equitable Life. This has enabled me to understand the principles of the Scheme and the actions required to run it properly until wind up is formally triggered.

Signed for and on behalf of Able Governance Ltd

NB

……………………………………………………………… Date 5th April 2020

Chair of Trustees