

JSB Electrical Staff Pension Scheme

Chair's statement regarding the governance of defined contribution arrangements

Scheme year - 1 January 2020 to 31 December 2020

1. Introduction

- 1.1. This statement has been prepared by Cooper Pensions Limited ("the Trustee"), the Trustee of the JSB Electrical Staff Pension Scheme ("the Scheme"), to report on compliance with governance standards.
- 1.2. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.3. This statement covers the Scheme year 1 January 2020 to 31 December 2020.
- 1.4. The information contained in this statement regarding the costs incurred by members will also be made available on a publicly accessible website by the Trustee.

2. The Scheme's DC arrangements

- 2.1. The Scheme only provides benefits on a DC basis. The Scheme is run on an insured basis with Utmost Life and Pensions ("Utmost") as the sole provider. In previous Scheme years, all Scheme DC benefits were held with Equitable Life Assurance Society ("Equitable Life") and invested exclusively in the Equitable Life With-Profits Fund.
- 2.2. The Scheme is closed to new joiners and was closed to future accrual prior to 6 April 2015. The Scheme is not being used as a qualifying scheme for auto enrolment purposes.

3. The Scheme's investment arrangements

- 3.1. As the Scheme is closed to new joiners, there is no default investment arrangement in place for the purposes of the governance standards. As there is no default investment arrangement, the requirement for a statement prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 does not apply.
- 3.2. On 1 January 2020, assets previously held with Equitable Life were transferred to Utmost and the Equitable Life With-Profits Fund was closed, as part of the wider transfer of business.
 - 3.2.1. On the 1 January 2020 the Scheme assets invested with Equitable Life were transferred to Utmost. The decision to transfer was led by the two providers and upon provision of proposals that were considered at a Policyholders' Meeting and Extraordinary General Meeting on 1 November 2019 where a vote was held. Ultimately, policyholders voted overwhelmingly in favour of the proposals, which also received High Court approval on 4 December 2019.
 - 3.2.2. The transfer of assets from Equitable Life to Utmost took place on 1 January 2020. Members invested in the Equitable Life With-Profits Fund received an uplift in value to compensate for guarantees lost as part of the unitisation process and were invested in the Utmost Secure Cash Fund up to the end of June 2020, from which point members were gradually transitioned to the Utmost Investing by Age lifestyle strategy.
 - 3.2.3. There were no explicit costs to members for the transition, either in selling units in the Equitable Life funds or buying units in the Utmost Funds. Therefore, members' post-uplifted fund values immediately before and immediately after the transition were the same.

4. Core financial transactions

- 4.1. The Trustee has a duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. For this purpose, the Scheme's core financial transactions are undertaken by Utmost and comprise payments out of the Scheme.

Controls and monitoring arrangements

- 4.3. These transactions are disinvested by Utmost and remitted to the Trustee's bank account which is operated by the sponsoring employer on the Trustee's behalf. This process allows the Trustee to sign off and monitor payments made outside the Scheme.
- 4.4. Utmost provides the Trustee with an annual summary of the Scheme's transactions.
- 4.5. Utmost does not provide ongoing reporting to the Trustee to allow further monitoring. However, the Trustee notes that Utmost has not notified it of any issues or delays during the period, nor have there been any complaints from members in relation to financial transactions.
- 4.6. Barnett Waddingham provides an additional level of monitoring by shadowing Utmost and keeping a separate set of up-to-date administration records to check that transactions are completed. Barnett Waddingham's oversight is however restricted by Utmost's inability to regularly share member data and detailed management information. Further monitoring of accuracy is undertaken via the external audit of the Scheme's annual report and accounts.

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. Explicit costs: 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. These are referred to by Utmost as Annual Management Charges (AMC).
- 5.1.2. Implicit costs: these relate to the variable charges and transaction 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 explicit charges. These implicit charges impact on the investment returns achieved by the investment fund.
- 5.2. The following table provides details of the charges and transaction costs for each of the investment options provided through the Scheme over the Scheme year (data sourced from Utmost):

Investment option	AMC	Open Ended Investment Company "OEIC" Transaction Cost**	Stocklending***	Utmost Life and Pensions Fund Transaction Cost****	Utmost Fund Total Charges Impact*****
Investment by Age Strategy*	0.50% - 0.75%	0.001048% - 0.6254%	0.0000% - 0.0006%	0.000000% - 0.000001%	0.50% - 1.38%
<i>Multi-Asset Moderate Fund</i>	0.75%	0.5261%	0.0006%	0.000001%	1.28%

Investment option	AMC	Open Ended Investment Company "OEIC" Transaction Cost**	Stocklending***	Utmost Life and Pensions Fund Transaction Cost****	Utmost Fund Total Charges Impact*****
<i>Multi-Asset Cautious Fund</i>	0.75%	0.6254%	0.0004%	0.000001%	1.38%
<i>Money Market Fund</i>	0.50%	0.001048%	0.0000%	0.0000%	0.50%
Secure Cash Fund	0.50%	0.00000%	0.0000%	0.0000%	0.50%

* the quoted charges and transaction costs for lifestyle strategies are calculated as a composite of the underlying fund charges and transaction costs. These will vary depending upon each member's term to Normal Retirement Age.

** The costs for the underlying OEICs held by each Fund are now being calculated on the full arrival price slippage methodology. The OEIC transaction costs of the Multi Asset Cautious, Moderate and Growth will show higher transaction costs due to the Implicit cost calculation. Utmost Life and Pensions launched these funds in January 2020 as part of the Scheme of Arrangement and have received significant inflows which has therefore impacted the spread cost and the arrival versus execution estimated costs that are included in the calculation. Explicit costs for the Multi Asset Funds range from 0.0061% to 0.0076%.

*** When a Aberdeen Standard Investment fund lends stock it is entitled to receive 85% of the income earned. The remaining 15% belongs to the stocklending agent. When a JP Morgan fund lends stock it is entitled to receive 90% of the income earned. The remaining 10% belongs to the stocklending agent. The costs suffered by the fund are disclosed but not the income in accordance with regulations.

**** This is the cost incurred on the Fund when it purchases or sells the underlying asset (OEIC) as the price may include a dilution adjustment. The purpose of dilution is to ensure the OEIC performance is not impacted by large investments or disinvestments.

***** The total charges impact to policyholders on each Utmost Fund of costs at both Fund and underlying OEIC level and includes the annual management charge.

Impact of costs and charges

5.3. To demonstrate the impact of charges and transaction costs on members' pension savings over time, the Trustee has produced illustrations and these are set out in the appendix.

Value for members

5.4. The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value.

5.5. The charges and transaction costs borne by members either cover or contribute to the costs of providing the following:

5.5.1. Investment services;

5.5.2. Administration services; and

5.5.3. Communications.

5.6. Analysis was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, and the findings, as at 31 December 2020, set out in a report dated 17 June 2021. The Trustee considered the report and confirmed its value for members assessment at a meeting in June 2021.

- 5.7. 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 given to the costs relative to other options available in the market.
- 5.8. 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.
- 5.9. Other services paid for by the Sponsoring Employer ("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.
- 5.10. The assessment concluded that the Scheme's DC arrangements provide reasonable value in relation to the charges and transaction costs borne by members.

Assessment

- 5.11. In relation to the Scheme, the member-borne charges and transaction costs relate to:
 - 5.11.1. investment services
 - 5.11.2. administration services
 - 5.11.3. communication services
- 5.12. The assessment considered:
 - 5.12.1. in relation to investment services:
 - 5.12.1.1. the nature of the Utmost investment offering in the assessment period
 - 5.12.1.2. the arrangements for monitoring the performance of the investment options and reviewing the investment strategy
 - 5.12.1.3. the investment governance arrangements
 - 5.12.2. in relation to administration services:
 - 5.12.2.1. the general administration arrangements
 - 5.12.2.2. arrangements in relation to financial transactions
 - 5.12.2.3. data and record keeping
 - 5.12.3. in relation to communication services:
 - 5.12.3.1. communication strategy
 - 5.12.3.2. pre-retirement communications
 - 5.12.3.3. at/post retirement communications
- 5.13. The assessment considered those services for which the members bear or share the costs only.
- 5.14. The Trustee concluded that the Scheme offers poor to reasonable value in relation to the charges and transaction costs borne by members.
- 5.15. In reaching this conclusion, the Trustee recognised that specific areas that could be considered to detract from value, and which the Trustee will seek to address, include:
 - 5.15.1. The security and liquidity of assets, and any protections available, have not been considered and recorded.

- 5.15.2. The Trustee has not formally monitored the performance of the investment funds used by members during the Scheme year.
 - 5.15.3. The Trustee did not receive governance reports from Utmost setting out what administration tasks it has performed.
 - 5.15.4. The administration of the Scheme by Utmost was not a regular agenda item at Trustee meetings, although the Scheme itself is a regular agenda item and is discussed at Trustee meetings.
 - 5.15.5. Utmost did not provide the Trustee with details of core financial transactions it has processed, e.g. how promptly and accurately it completes financial transactions with reference to service levels agreed with the Trustee and providing reporting that allow the payments to be reconciled to the Trustee's bank account.
 - 5.15.6. The Trustee has not received any confirmation that common or conditional checks have been completed in line with the guidance from the Pensions Regulator.
 - 5.15.7. Members do not have access to an up-to-date member booklet, nor online functionality as an alternative, to access details of their pension benefits.
- 5.16. Following this assessment, the Trustee has requested that its advisers deliver preliminary advice as to the future options available to the Trustee and whether members could obtain better value for money elsewhere.

6. Trustee knowledge and understanding

The Trustee Board

- 6.1. The Trustee Board comprises seven Trustee Directors, three of whom are nominated by the members and four of whom are appointed by the Company.

Trustee knowledge and understanding requirements

- 6.2. Trustee Directors 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.

Approach

- 6.3. The Trustee Directors aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Scheme, as well as specific activities over the Scheme year and access to professional advice.
- 6.4. The Trustee Directors aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets through a combination of training and taking professional advice.
- 6.5. There is a structured training programme in place that includes an annual review by the Trustee Directors to identify knowledge gaps and training needs in relation to emerging legislation, Scheme changes and upcoming matters in the Scheme's business plan. The training programme also includes completion of the Pensions Regulator's trustee toolkit. A training log is maintained in relation to training undertaken and is reviewed at each trustee meeting.
- 6.6. The structured training programme is supplemented with training activities such as attending seminars and conferences, and reading pensions-related articles.

- 6.7. The Trustee Directors 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 Trustee Directors on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Scheme's documents, attending trustee meetings and often in the delivery of training at these meetings.

Activities over the Scheme year

- 6.8. The Trustee Directors implemented a new internal disputes resolutions procedure for the Scheme.
- 6.9. The Trustee Directors reviewed the following Scheme documents:
- 6.9.1. the risk register
 - 6.9.2. annual report and accounts
- 6.10. The structured training programme was followed during the scheme year with annual self-assessments completed by all Trustee Directors, and the training programme itself was also reviewed. The training log was reviewed and updated.
- 6.11. The Trustee Directors received training over the Scheme year on Liability Driven Investment and Equity-linked bonds.
- 6.12. During the scheme year, the Trustee Directors took professional advice on:
- 6.12.1. reviewing the structured training programme
 - 6.12.2. undertaking the annual value for members assessment
 - 6.12.3. disclosure of costs, charges and investments

Assessment

- 6.13. The Trustee Directors consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:
- 6.13.1. The Trustee Directors are able to challenge and question advisers, service providers and other parties effectively
 - 6.13.2. Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties
 - 6.13.3. The Trustee Directors' decisions are not compromised by such things as conflicts or hospitality arrangements

[Redacted Signature]

Simon Forster, Chair of the Trustee

26th July 2021

Date

Appendix – Illustrations on the impact of cost and charges

A1.1. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustee has 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

A1.2. The membership of the Scheme and the investment options offered were analysed in determining the parameters to be used.

A1.3. Pot size: pot sizes of £3,700, £8,600 and £22,200 have been used; these represent the 25th percentile, the median and the 75th percentile of pot values (rounded to the nearest £100) of Scheme members as at 31 December 2020.

A1.4. As all members are deferred, illustrations have been provided assuming no future contributions.

A1.5. Timeframe: the illustrations are shown over a 25 year time frame as this covers the approximate duration that the youngest member would take to reach retirement age.

A1.6. Investment options: the investment options selected for the illustrations include the Investing by Age Strategy, as this is the sole investment option used by all members of the Scheme. However, we also include projections based on each of the Investing by Age Strategy's underlying funds.

Investment option	Rationale for inclusion	Assumed return above inflation*	AMC	Transaction cost**
Investing by Age Strategy	Sole investment option used by members	-2.00% - 0.70%	0.50% - 0.75%	0.001048% - 0.626001%
Multi-Asset Moderate Fund	Underlying funds of the Investing by Age Strategy	0.70%	0.75%	0.526701%
Multi-Asset Cautious Fund		-0.30%	0.75%	0.625801%
Money Market Fund		-2.00%	0.50%	0.001048%

* 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 year only, the figures are taken from the year to 31 December 2020 only.

Guidance to the illustrations

A1.7. For each illustration, the savings pot has been projected twice: firstly for the assumed investment return gross of costs and charges; and secondly for the assumed investment return net of costs and charges.

A1.8. 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.

A1.9. Values shown are estimates and not guaranteed.

A1.10. The starting date for the illustrations is 31 December 2020.

A1.11. The illustrations are presented in two different ways:

A1.11.1. For the Investing by Age Strategy, a lifestyle strategy, the illustrations should be read based on the number of years until the member reaches their retirement age. This is because the underlying

funds used and therefore the costs and charges changes over time and this is reflected in the illustrations.

A1.11.2. For the self-select funds, the illustrations should be read based upon the number of future years that a member expects to be invested in those funds.

Investing by Age Strategy

A1.12. This is the sole investment option used by members of the Scheme.

Illustration basis	Years from taking benefits	Starting pot size £3,700		Starting pot size £8,600		Starting pot size £22,200	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Deferred member	0	£3,700	£3,700	£8,600	£8,600	£22,200	£22,200
	1	£3,689	£3,640	£8,575	£8,459	£22,135	£21,837
Contribution level: 0%	3	£3,678	£3,533	£8,550	£8,212	£22,070	£21,198
	5	£3,682	£3,445	£8,558	£8,006	£22,092	£20,667
	10	£3,754	£3,295	£8,726	£7,658	£22,526	£19,769
	15	£3,884	£3,203	£9,028	£7,445	£23,306	£19,219
	20	£4,019	£3,114	£9,341	£7,238	£24,113	£18,685
	25	£4,158	£3,028	£9,664	£7,037	£24,947	£18,165

A1.13. Note on how to read this table: If an active member had £8,600 invested in this option on 31 December 2020, when they came to retire in 15 years, the savings pot could grow to £9,028 if no charges are applied but to £7,445 with charges applied.

Multi-Asset Moderate Fund

A1.14. This is the growth fund of the Investing by Age Strategy.

Illustration basis	Years from taking benefits	Starting pot size £3,700		Starting pot size £8,600		Starting pot size £22,200	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Deferred member	0	£3,700	£3,700	£8,600	£8,600	£22,200	£22,200
	1	£3,725	£3,679	£8,659	£8,552	£22,352	£22,075
Contribution level: 0%	3	£3,776	£3,638	£8,777	£8,456	£22,658	£21,827
	5	£3,828	£3,597	£8,898	£8,361	£22,968	£21,582
	10	£3,961	£3,497	£9,206	£8,128	£23,764	£20,982
	15	£4,098	£3,400	£9,524	£7,902	£24,586	£20,398
	20	£4,240	£3,305	£9,854	£7,682	£25,437	£19,831
	25	£4,386	£3,213	£10,195	£7,469	£26,318	£19,279

A1.15. Note on how to read this table: If an active member had £8,600 invested in this option on 31 December 2020, when they came to retire in 15 years, the savings pot could grow to £9,524 if no charges are applied but to £7,902 with charges applied.

Multi-Asset Cautious Fund

A1.16. This is the de-risking fund of the Investing by Age Strategy.

Illustration basis	Years from taking benefits	Starting pot size £3,700		Starting pot size £8,600		Starting pot size £22,200	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Deferred member	0	£3,700	£3,700	£8,600	£8,600	£22,200	£22,200
	1	£3,689	£3,640	£8,575	£8,459	£22,135	£21,837
Contribution level: 0%	3	£3,668	£3,521	£8,525	£8,185	£22,006	£21,129
	5	£3,646	£3,407	£8,475	£7,920	£21,877	£20,444
	10	£3,593	£3,138	£8,352	£7,293	£21,559	£18,826
	15	£3,541	£2,889	£8,230	£6,716	£21,245	£17,337
	20	£3,489	£2,661	£8,110	£6,185	£20,936	£15,965
	25	£3,439	£2,450	£7,992	£5,695	£20,631	£14,702

A1.17. Note on how to read this table: If an active member had £8,600 invested in this option on 31 December 2020, when they came to retire in 15 years, the savings pot could grow to £8,230 if no charges are applied but to £6,185 with charges applied.

Money Market Fund

A1.18. This is the at-retirement fund of the Investing by Age Strategy.

A1. Illustration basis	Years from taking benefits	Starting pot size £3,700		Starting pot size £8,600		Starting pot size £22,200	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Deferred member	0	£3,700	£3,700	£8,600	£8,600	£22,200	£22,200
	1	£3,628	£3,610	£8,432	£8,390	£21,767	£21,658
Contribution level: 0%	3	£3,488	£3,436	£8,106	£7,986	£20,926	£20,614
	5	£3,353	£3,270	£7,793	£7,601	£20,117	£19,621
	10	£3,038	£2,890	£7,062	£6,718	£18,230	£17,341
	15	£2,753	£2,554	£6,399	£5,937	£16,519	£15,326
	20	£2,495	£2,258	£5,799	£5,247	£14,969	£13,545
	25	£2,261	£1,995	£5,255	£4,638	£13,565	£11,971

A1.19. Note on how to read this table: If an active member had £8,600 invested in this option on 31 December 2020, when they came to retire in 15 years, the savings pot could grow to £6,399 if no charges are applied but to £5,937 with charges applied.