

Chairman's Annual Statement

The Gifford Retirement Benefits Scheme ("the Scheme") Year end 5 April 2020

Introduction

This statement is provided for information to members and no action is required by you. The Trustee would encourage you to read the statement and to raise any questions using the contact details below.

From 6 April 2015, new governance rules apply to defined contribution (DC) pension arrangements like The Gifford Retirement Benefits Scheme (the "Scheme"). These rules are designed to help members achieve a good outcome from their DC scheme.

The Trustee is committed to ensuring that the Scheme is run to a high standard of governance.

If you have any questions about this statement or any suggestions on how the Scheme could be improved, please contact the Chairman of the Trustee, John Nestor at Capital Cranfield by e-mailing him at gifford@capitalcranfield.com in the first instance.

In 2018, the Trustee undertook an assessment of the Scheme against the Pensions Regulator's updated 'governance and administration of occupational trust-based schemes providing money purchase benefits' Code of Practice. The assessment was reviewed and updated in 2020, with 100% of the standards met resulting in the Trustee fully complying with the Code. The Trustee is due to carry out a further review in 2021.

1. Default investment strategy

The default investment strategy is provided for members of the Scheme who do not choose one of the other options for the investment of their Accumulated Funds. Approximately 90% of members' Accumulated Funds are invested in the default investment strategy.

The default strategy was last formally reviewed in October 2018 and the new strategy was implemented in March 2019. The new strategy (**adapt** strategy) strikes an appropriate balance between risk and return and is expected to meet members' long term investment objective of achieving capital growth. The general market trend shows a move away from purchasing annuities at retirement and preference towards income drawdown and for cashing in smaller pots (an uncrystallised funds pension lump sum or UFPLS). The **adapt** strategy has a broad mix of investments that does not force members down a particular retirement route and therefore allows flexibility if members subsequently decide to change their retirement choice.

Members that do not wish to target income drawdown at retirement can choose an UFPLS strategy or an annuity strategy. This meets the Trustee's objectives for Scheme benefit design and provides members with a full range of options to satisfy their preferred retirement choice.

Further details on the new default strategy are provided overleaf and in the Scheme's updated Statement of Investment Principles (SIP) included in Appendix 1.

The default strategy's performance is regularly monitored at Trustee's meetings.

Chairman's Annual Statement (continued)

2. Core financial transactions

During the year, the Trustee ensured the core financial transactions of the Scheme were processed promptly and accurately by:

- Having the third-party administrators, Quantum Advisory, undertake daily monitoring of the Scheme's bank account.
- Having the third-party administrators ensure that an individual checks and a senior individual signs off all investment and banking transactions.
- Having the Scheme auditor independently test compliance with the Payment Schedule, as part of the annual audit process.

Quantum Advisory have set internal service level standards, under which most calculations are to be completed within ten working days. As part of Quantum Advisory's AAF internal controls, administration standards are monitored at least weekly by Team Leaders to ensure service levels are met. The Trustee is updated with Quantum's performance against the service level arrangement annually.

The core financial transactions include:

- The transfer of assets relating to members into and out of the Scheme.
- The movement of assets relating to members between different investments within the Scheme (e.g. fund switching).
- Payments from the Scheme to, or in respect of, members and their beneficiaries.

3. Charges and transaction costs paid by members

The Total Expense Ratio (TER) that applied to the Scheme's default arrangement as at 31 March 2020 is detailed in the table overleaf. The default strategy is designed for members who wish to take their benefits via **adapt** at retirement – a form of income drawdown. Lifestyle switches are conducted on a monthly basis.

Chairman's Annual Statement (continued)

Funds	Years to retirement	31 March 2020 TER
100% LGIM World Equity Index Fund	Over 10 years	0.170%
20% p.a. switch to LGIM Dynamic Diversified Fund (DDF)	10 years to 5 years	0.170% to 0.440%
100% LGIM DDF	5 years to 2 years	0.440%
12.5% p.a. switch to LGIM Cash	Under 2 years	0.355% to 0.440%
75% LGIM DDF and 25% LGIM Cash	At target retirement age	0.355%
80% LGIM DDF and 20% LGIM Cash	After retirement	0.372%

The TER sets out the total annual costs involved in running an investment fund. This includes the Annual Management Charge (AMC), plus other charges incurred in administering the fund (including, but not limited to, share registration fees, legal fees, auditor fees and custodian fees).

As can be seen, the total charge that applies to the default investment strategy at the end of the year did not exceed the 'charge cap' of 0.75%. The charge cap is actually assessed against a different measure of the costs that apply to the funds, known as the Member Borne Deduction (MBD). The MBD can be considered as equivalent to the TER.

The Scheme also offers two alternative strategies for members to invest in, which are the Annuity and Cash strategies. Further details on the new investment strategies is provided in the Scheme's updated Statement of Investment Principles (SIP) included in Appendix 1.

The table below sets out the TER for all funds in the Scheme. The charges as at 31 March 2020 are:

Fund	Strategy	31 March 2020 TER
LGIM World Equity Index (GBP Hedged)	Default, Annuity and Cash	0.170%
LGIM World (ex UK) Equity Index	N/A	0.175%
LGIM UK Equity Index	N/A	0.090%
LGIM Dynamic Diversified Fund (DDF)	Default, Annuity and Cash	0.440%
LGIM Over 5 Years Index-Linked Gilt Index	N/A	0.080%
LGIM Pre-Retirement	Annuity	0.125%
LGIM Cash	Default, Annuity and Cash	0.100%
LGIM Active Corporate Bond – All Stocks	N/A	0.250%

Funds denoted N/A are self-select funds and are not part of a strategy.

Chairman's Annual Statement (continued)

LGIM confirmed that the following transaction costs applied to the Scheme's funds during the year to 31 March 2020:

Fund	Transaction cost during the year
LGIM World Equity Index (GBP Hedged)	0.090%
LGIM World (ex UK) Equity Index	-0.010%
LGIM UK Equity Index	0.016%
LGIM Dynamic Diversified Fund (DDF)	0.132%
LGIM Over 5 Years Index-Linked Gilt Index	0.123%
LGIM Pre-Retirement	-0.042%
LGIM Cash	0.003%
LGIM Active Corporate Bond – All Stocks	-0.014%

Transaction costs are incurred as a result of buying, selling, lending or borrowing investments. The costs mainly arise as a result of delivering a fund's target investment return where a passive or active investment approach is used. As an example, a fund may need to buy or sell assets when members pay money into or take money out of a fund and the buying or selling of assets will incur costs.

Transaction costs can be negative, due to the method that must be used to calculate them.

Transaction costs arise as a result of participating in a financial market and are separate from any annual management charges. The transaction cost for buying or selling an investment includes all costs incurred by a buyer or seller from the point an order to transact is received to the point at which the transaction completes. These costs include all charges, commissions, taxes and other associated payments incurred directly or indirectly. These costs are ultimately borne by assets of the arrangement or of any investment in which the arrangement is directly or indirectly invested. Of these costs, some are easily identifiable as specific costs incurred, but some are less identifiable and may rely on the investment manager's judgement.

The costs actively managed funds may be higher as it is in this case, however, the manager will allow for this cost when taking positions, such that the cost would be expected to be offset through future performance.

Chairman's Annual Statement (continued)

4. Illustration of costs and charges

Deferred member

The figures in the table below show the effect of the fund managers' charges on a deferred member's fund value over incremental periods for the next 35 years (the youngest member of the Scheme has 33 years to their NRD). The table shows the effect based on the assumptions set out in the notes below the table.

Projected pension fund in today's money								
Years	Fund choice							
	Default investment strategy		LGIM World Equity Index (GBP Hedged)		LGIM Dynamic Diversified Fund (DDF)		LGIM Pre-Retirement	
	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
1	£27,800	£27,600	£28,100	£28,000	£27,900	£27,800	£27,100	£27,000
3	£30,000	£29,200	£30,300	£30,100	£29,900	£29,500	£27,200	£27,100
5	£32,400	£31,000	£32,700	£32,400	£31,900	£31,300	£27,300	£27,200
10	£39,200	£36,600	£39,600	£39,000	£37,800	£36,300	£27,700	£27,300
15	£47,500	£44,000	£47,900	£46,800	£44,700	£42,000	£28,000	£27,500
20	£57,500	£52,800	£58,100	£56,200	£52,800	£48,700	£28,300	£27,700
25	£69,600	£63,500	£70,300	£67,600	£62,500	£56,500	£28,700	£27,800
30	£84,300	£76,300	£85,100	£81,200	£73,900	£65,400	£29,000	£28,000
35	£102,000	£91,600	£103,000	£97,500	£87,400	£75,800	£29,400	£28,200

Notes

- Projected pension fund values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- The starting pension fund value is assumed to be £27,000.
- Inflation is assumed to be 2.50% each year.
- No further contributions are assumed.
- Values shown are estimates and are not guaranteed.
- The projected growth rates before charges for the fund choices are as follows:
 - Default strategy: 5.64% to 6.47% pa. depending on how close the member is to retirement age.
 - LGIM World Equity Index (GBP Hedged): 6.50% pa.
 - LGIM Dynamic Diversified Fund (DDF): 6.00% pa.
 - LGIM Pre-Retirement: 2.75% pa.

Chairman's Annual Statement (continued)

5. Value for members

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of "good value", but the Trustee considers that it broadly means "that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market". The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustee reviews 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 April 2020. The Trustee notes 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. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustee looked at the services members pay for over the four core areas detailed in the Pensions Regulator's guidance; administration, investment, communications and governance & management.

The Trustee recognises that the only services that members routinely pay for are in relation to the investment of members' accounts. In other words, the only costs borne by members are the charges and transaction costs that apply to the investment of their accounts. Other charges can be incurred, including transaction costs and payment of fees in relation to divorce, but these are ad-hoc.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and the Trustee expects this to lead to greater investment returns net of fees over time.

The Trustee's assessment included a review of the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives.

The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives.

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

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangement and how this reflects the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services, such as the Scheme website where members can access fund information online; and

- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Scheme year.

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

The move to a platform provider (Mobius Life) in 2019 gives the Scheme greater access to a wider range of managers and funds (as minimum investment criteria for direct investment with some fund managers would not apply). This allows for greater flexibility on whether to transfer existing funds, without increasing the ongoing administration costs for the Scheme and its members. This should also improve efficiencies for those members switching between funds, particularly during the lifestyle period, as members' funds would spend less time "out of market".

Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustee believes this because the scheme benchmarks well against other schemes.

Copies of the 2020 value for members review and 2018 investment strategies review are available on request.

6. Knowledge and understanding of the Trustee

The Trustee receives regular training and updates from its advisers and maintains a log of personal trustee knowledge and understanding, which is reviewed at every Trustee's meeting.

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

The Trustee's relevant knowledge and understanding has been assessed during the year. Training is provided on relevant issues at meetings and areas for further training are identified. No additional training was requested by the Trustee during the year.

The Trustee has a working knowledge of the Scheme's trust deed and rules, SIP and documents setting out current policies. These items are all included on the Trustee's compliance checklist which is reviewed and updated at every Trustee's meeting.

As a result of the training activities completed by the Trustee and taking into account the professional advice available to the Trustee, the Trustee is confident that its knowledge and understanding enables it to undertake its duties competently and in the best interests of the Scheme membership. Furthermore, the Trustee assesses that its degree of knowledge and understanding is appropriate for the purposes of enabling the proper exercise of functions as the Trustee of the Scheme.

The Trustee's advisers can provide training to the Trustee, direct the Trustee to the Pensions Regulator's trustee toolkit and provide the Trustee with copies of the Scheme's documentation.

John Nestor
Chairman of the Trustee
30 September 2020