Annual governance statement by the Chair of Trustees – 31st May 2023
Hempsons Staff Pension Scheme (1988)

Introduction

Governance rules apply to defined contribution pension arrangements like the Hempsons Staff Scheme, which are designed to help members achieve a good outcome from their pension savings. This statement explains what steps have been taken by the trustee board, with help from our professional advisers, to meet these standards.

The Trustees are required to produce a yearly statement to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (including any "default arrangement");
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment and trustee knowledge and understanding.

If you have any questions about anything that is set out below, or any suggestions about what can be improved, please contact Sandy Docherty on 01423 724089 (s.docherty@hempsons.co.uk)

Investment arrangements

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement.

The Scheme has been closed to new members and contributions since 2001 and is treated as being 'paid up'. Note however the comments below about the intention to wind this scheme up.

Each member has their own individual policy which is governed by the trustees. Members have the usual range of options. Their policies can be

- Left as they are – investments can be changed by individual members
- Transferred to another pension arrangement
- 'Crystallised' and withdrawn as a cash sum or pension (subject to tax)

Members should take independent advice when doing any of these things. They should be aware of pension scams and the Financial Conduct Authority has information on avoiding these:

https://www.fca.org.uk/scamsmart/how-avoid-pension-scams?gclid=EAIaIQobChMI2tn83aXr9AIVyuN3Ch2j9gf_EAAYASAAEgLjaPD_BwE

Utmost offers a range of investment funds to members and they can choose which funds are suitable for their own circumstances. If no individual choice is made, Utmost will invest in a default strategy which is called 'Investing by Age'.

As members approach retirement age (the scheme's normal retirement age is 65), their investments are progressively moved into more cautious funds, and the trustees feel this is appropriate for members. The aim is to reduce risk and offer greater security as members approach retirement.

The scheme's default investment strategy was reviewed by the Trustees supported by their investment advisers Chamberlain De Broe Ltd, when the transfer from Equitable Life to Utmost took place and the Multi-Asset Funds offered by Utmost were viewed as appropriate options for members. They offer scope for long-term growth but with moderate risk.

The funds used within the Investing by Age strategy are:

- Multi-Asset Moderate – which is for younger members still in the 'growth' phase.
- Multi-Asset Cautious – for members approaching retirement, the funds are more defensive.
- Money Market – this is when everything is in cash prior to retirement age.

These funds are managed for Utmost by JP Morgan Asset Management.

Aims and objectives

Multi-Asset funds are deemed appropriate for members because they offer a broad spread of investment across a wide range of asset classes – shares, bonds, property, cash, etc. As the strategy gets more cautious, the exposure to shares is reduced in favour of less risky investments. Note though that while the aim is to reduce risk as one moves towards retirement, all savings and investments carry their own risks and in a time of high inflation and interest rates, such as those we are experiencing now, all investments can be adversely affected. Investment conditions over the last year have been particularly difficult for all asset classes.

However, the Multi Asset approach, which is the default for members of the scheme, remains the most appropriate as it continues to try to balance out risks across a wide range of assets classes. As mentioned, all members have access to a range of other funds should they wish to manage their own investments.

Utmost Life and Pensions prepares an investment fund bulletin each quarter to provide members with information about the performance of the funds that members' funds are invested in. Information relating to fund prices can be obtained from Utmost Life and Pensions website using this link:

https://www.utmost.co.uk/investment-funds/unit-linked-prices/

Other information, including the factsheets for individual funds are available on:

Fund information, factsheets, objectives and charges (heritage Equitable Life) (utmost.co.uk)

You can also find information about how Utmost manage their unit-linked funds here:

https://www.utmost.co.uk/investment-funds/how-we-manage-our-unit-linked-funds/

This includes information about Environmental, Social and Governance (ESG) factors which are becoming increasingly important in how investment funds are managed.

Charges and transaction costs paid by members.

In general, members bear charges and transaction costs within defined contribution (DC) pension arrangements, which will differ depending on the investment options in which their pension savings are invested:

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).

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 Scheme

The explicit administration costs (including costs associated with the management and operation of the Scheme) are borne by the Firm, and therefore have no bearing on member charging. However, for completeness we have referred to these as part of our assessment of Value for Members.

The nature of the scheme, being wholly in deferred funds, has represented fair value because of the absence of explicit costs taken from members' individual policies. However, please see further comments under "Wind up of Scheme".

Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to the "core financial transactions", including 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.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme administrator, Utmost Life & Pensions. Our Scheme administration is delivered with the help of financial advisers Chamberlain de Broe. If members wish to transfer or take benefits from their policies, they should contact Sandy Docherty (as above) telling her what they wish to do. She will then arrange for documentation to be provided.

Given that the scheme is closed, there are no payments into the scheme. The scheme administrators therefore administer any transfers out of the scheme that members wish to make. Members are entitled to switch their own funds as they wish and there are at present no switching costs (although Utmost do reserve the right to introduce one in the future). There are no costs in transferring your funds to other pension policies, nor are there costs in crystallising benefits such as taking lump sums.

We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly. In addition, noting that we need accurate member data to process contributions and payments correctly, we continually review and correct any problems with the member data which is held by the Scheme administrator.

Members' contact information

To this end, members should always ensure that the trustees have up-to-date contact information – home addresses, e-mail addresses and phone numbers.

Value for Members assessment

Regulations require the Trustees to assess the extent to which the Scheme provides value for members (VFM).

The method to be used for this assessment changed for schemes with assets of less than £100m that have been operating for three years or more, effective for scheme years ending after 31 December 2021. The Scheme fits these criteria.

The assessment comprises three components:

1. An assessment of costs and charges relative to the average costs and charges for three comparator schemes.
2. An assessment of net investment returns relative to the average net investment returns for three comparator schemes.
3. A self-assessment across seven key metrics of scheme administration and governance.

For the relative assessments, costs and charges and net returns for default arrangements should be compared with those for the default arrangements of the comparator schemes. In addition, costs and charges and net returns for popular self-select funds should be compared with those for the nearest comparable funds in the comparator schemes (or, where there is no comparable fund, a comparator scheme's default arrangement).

The VFM assessment was undertaken in accordance with the statutory guidance for the scheme year. Analysis was undertaken by Barnett Waddingham LLP and the findings considered and the outcome confirmed at a trustee meeting on 28th March 2024.

The following comparator schemes were used for the relative components of the assessment: Aegon Master Trust, Legal & General Worksave Master Trust and an Own Trust DC.

The outcomes of the three components of the assessment were:

Considering only the default investment strategy, in which all of the DC assets are invested, costs and charges for the Scheme are moderately higher than the average for the comparator schemes.

Considering only the default investment strategy, in which all of the DC assets are invested, net returns for the Scheme are closely comparable to the average for the comparator schemes.

The Trustees considered all seven metrics across scheme administration and governance.

Recognising the individual component assessments, the Trustees concluded that overall, the Scheme does continue to offer value for members. Whilst noting costs and charges are moderately higher than the average for the comparator schemes, net investment returns are closely comparable and the administration and member services were deemed to offer less value. The method of assessment is prescribed. Factors that were not considered but that add value include:

- the services fully paid for by the Firm, e.g. communication services, and the services of legal advisers, consultants and auditors;
- the operation of the Trustee, with a duty to act in the best interest of members, which is paid for by the Firm;
- the employer contributions available through the Scheme; and
- the operation of salary sacrifice for employee contributions.

Wind up of scheme

Following all of the previous comments about the Value for Member Assessment, the Trustees have reviewed the scheme and concluded that it will be in the members' best interests to wind up the scheme and transfer benefits to one that will offer each individual greater freedom and flexibility with their own benefits. Taking benefits or transferring them to another scheme will be made easier and quicker because the member will be able to deal directly with the insurer. Doing so will also reduce member's costs – from 0.75% to 0.4%.

The Trustees have been exploring the full transfer of the scheme to Smart Pensions and it is hoped that this transfer of each member's pension benefits can be effected soon with the subsequent wind up of the scheme.

Each member will be informed by letter with details about the transfer, and how this will benefit them.

Any further general updates will be added to the scheme website when necessary.

DC Governance: Chair's statement dated 27th June 2024