

## Chair's statement

### HJ Banks & Company Limited Discretionary Retirement Benefits Scheme

The Trustees of the HJ Banks & Company Limited Discretionary Retirement Benefits Scheme (the Scheme) present their annual Chair's statement on governance of the Scheme. This is required under legislation set out in regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Plans (Charges and Governance) Regulations 2015.

The Statement covers the annual period up to 31 March 2021 and covers:

- the investment options in which members' funds are invested (this means the "default arrangement" and other funds members can select or have assets in, such as self-select or "legacy" funds);
- 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.

#### **The default investment option**

The Scheme has from its establishment placed members in a with profit fund and therefore this is recognised as a default investment option under the Scheme. For members who joined the Scheme before December 1999, the only investment option available is a traditional with-profits fund. A member on joining the Scheme would secure a basic sum payable at normal retirement date providing all contributions are paid by that time. If a member suspends or ceases contributions an adjustment is made to the guaranteed basic sum on a broadly pro-rata basis. For this group of membership there are no other investment options provided directly through the policy offered by Scottish Widows.

Members who joined the Scheme after December 1999, have been placed in a unitised with-profits fund. This is therefore considered another default investment option, applying to this group of members. For these members, they also have access to a range of 60 alternative funds are potentially available from the Investment Platform Manager, but these are not considered as default options under the Scheme.

There is also one member who has had their funds held in a building society fund since reaching Normal Retirement Age. At that time, their funds were automatically transferred from the with-profits fund into the building society fund, in line with the terms and conditions of the with-profits fund. We therefore are not considering the building society fund to be an additional default fund under the Scheme.

The primary objective of the traditional and unitised with-profits funds is to provide a stable and smoothed level of investment return over the medium to long term to the member policy vesting date. This approach is designed to provide the member with a higher level of certainty of their retirement outcome and benefit from guaranteed annuity rates where applicable. The smoothing approach aims to reduce the level of investment market volatility for the members policy.

Details of the objectives and the Trustees' policies regarding the default arrangements can be found in a document called the Statement of Investment Principles (the "SIP"). Since the Scheme has less than 100 members, the Scheme's SIP was disapplied with effect from 1 April 2021, as permitted under legislation. In contrast with previous annual statements, we have therefore not appended a copy of the SIP to this annual statement.

Under the governance framework provided by the Pensions Regulator the Trustees are required to undertake a review of the default investment strategies at least every three years.

The review needs to take into account both current contributing and non-contributing members of the Scheme to ensure the default is appropriate to the membership's needs. A formal review of the default investment strategies and the performance of these was undertaken in September 2019. As reported in last year's Chair's statement, the review concluded that:

- membership invested in the two with-profits funds is expected to continue to value the capital protection, terminal bonus and guarantees, where applicable, provided by the two current default investment strategies.
- The one member that has been invested in the building society account as a result of exceeding their retirement age in the with-profits funds would most likely value the capital protection.

The Trustees, through the report provided by its investment advisors, were satisfied with the security of the with-profits funds. Through its governance and monitoring process the Trustees concluded that the strategy and returns of these funds continued to meet the objectives in line with the SIP. The review concluded that the overall objective of the default investment arrangements remained appropriate and no changes were implemented.

### **Requirements for processing financial transactions**

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately.

This includes:

- Investment of contributions paid to the Scheme;
- Transfer of members' assets into and out of the Scheme;
- Transfers of members' assets between different investment options available in the Scheme; and
- Payment from the Scheme to, or in respect of, members.

The Trustees have an agreement in place with the Scheme's administrator, Scottish Widows, regarding the service levels and core financial transactions. Broadly, the service level agreement is for tasks to be completed within 5 working days.

Information on the processing of core financial transactions is provided to the Trustees by the Scheme's administrator. The Trustees review core financial transactions on an annual basis. The Trustees have concluded that core financial transactions were processed promptly during the Scheme Year. In particular, contributions were invested within 3 working days of receipt. Although the contributions were processed promptly, the Trustees are aware of some incorrect allocations of contributions over the year for a small number of members. These have since been fully investigated and corrected, ensuring that all members' accounts are in the position that they would have been, had the mistake not occurred.

### **Charges and transaction costs**

As required by the regulations, the Trustees report on the charges and transaction costs for the investments used in the Scheme and their assessment on the extent to which the charges and costs represent good value for members.

The Annual Management Charge met by members consists principally of the investment platform manager's annual charge for managing and operating a fund(s) and includes additional expenses (such as custodian fees) incurred by the manager. In addition, an administration charge is levied on members to meet the cost of the administration service, and there may also be other ad-hoc member borne charges such as legal and audit fees which the managers may incur. Together these comprise the Total Expense Ratio shown below. The TER is paid by the members and is reflected in the unit price of the funds.

The costs of other services provided to the Trustees, such as governing the Scheme (Investment and pension consultancy services) are paid by the Scheme's sponsor.

The Trustees are also required to separately disclose transaction cost figures that are borne by members. 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.

Below, we set out the Total Expense Ratio (TER) for each Fund utilised within the Scheme across the three policies being utilised to provide the investments. We also provide transaction costs as supplied by Scottish Widows, which are not included in the TER. We do not believe there to be any missing transaction cost data (other than the prior year information noted on the next page).

	<b>Total Expense Ratio</b>	<b>Annual impact of charges on £1,000</b>	<b>Total transaction costs incurred</b>
<b>ML86</b>			
With-profits fund*	n/a	n/a	n/a
<b>P000022861 &amp; P000034173</b>			
With-profits**	1.00%	£10.00	0.38%
SW Fidelity Managed	1.61%	£16.10	0.42%
SW BlackRock Managed	1.25%	£12.50	0.35%
SW Newton Managed	1.07%	£10.07	0.18%
SW Invesco Perpetual Managed	1.45%	£14.50	0.32%
SW Schroeder Life Managed	1.10%	£11.10	0.35%
SW Invesco Perpetual High Income	1.79%	£17.90	0.79%
SW Invesco Perpetual Global Bond	1.65%	£16.50	0.19%
SW Multi-Manager UK Equity Income	1.57%	£15.70	0.01%
SW Multi-Manager Global Real Estate	1.57%	£15.70	0.52%

\*There are no explicit charges or transaction costs levied against this fund. Charges are taken into account when declaring annual bonus rates. The Trustees can confirm that the charge cap provisions do not apply to the Scheme.

\*\* The Total expense ratio is inclusive of a standard 0.875% annual management charge as well as a monthly policy fee that Scottish Widows are currently applying of £2.11. These fees are reviewed yearly, on the policy's anniversary, and may be altered each year. The fee will also change if contributions are stopped or restarted. If the policy fee comes to more than 0.125% of the value of the policy, then early bonus units are added to the policy on a monthly basis to reduce the effective charge to 0.125%.

The Scheme's investment platform manager does not apply an explicit charge to switch investments between unitised funds. However, a Market Value Reduction (MVR) may be applied to the With-profit investments.

## Illustrative impact of charges

We have provided an illustration of the likely impact of charges for a short-, medium- and long-term member invested in the with-profits arrangement as well as the most expensive self-select fund currently being utilised.

We compare the actual charges of the Scheme against a scenario where there is no charges and a scenario where the charges are in line with the current charge cap for qualifying workplace pension. The illustration follows the statutory guidelines for illustrating the cumulative effect of costs and charges.

	Total expense ratio (TER)	Average transaction cost	Short term (5 years)	Medium term (15 years)	Long term (25 years)
<b>The With-profits fund If no charges were to apply</b>	<b>0.00%</b>	<b>0.00%</b>	<b>£12,500</b>	<b>£41,471</b>	<b>£76,729</b>
<b>With-profits fund</b>	<b>1.00%</b>	<b>0.25%</b>	<b>£12,103</b>	<b>£37,596</b>	<b>£64,924</b>
<b>SW Invesco Perpetual High Income</b>	<b>1.79%</b>	<b>0.40%</b>	<b>£12,108</b>	<b>£37,644</b>	<b>£65,066</b>

Starting assumptions:

- Contributions: £200 per month increasing by 2% p.a
- With-Profits Fund growth rate 2% p.a. above inflation
- Perpetual High Income growth rate 3% p.a. above inflation
- Figures in today's terms based on an assumed inflation rate of 2.2% pa

Source: Punter Southall Aspire Pension Calculator

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

## Value for Members

In accordance with regulation 25(1)(b), the Trustees are required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for money. It is difficult to give a precise legal definition of "good value", but the Trustees consider 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 Trustees appointed a specialist defined contribution consultancy – Punter Southall Aspire to undertake a value for members assessment in conjunction with the Trustees' own views. Within the assessment the Trustees considered each service which the members meet the cost for, namely the Scheme's investments and administration provisions plus a broader assessment across the entire range of services members receive but which are paid for by the employer.

The Trustees concluded that overall the Scheme provides adequate value to members. The reasons underpinning this conclusion include:

- Charges on funds have been assessed by our advisors as reasonable given that members have made active decisions to invest in the Scheme and the investment options.

- Transaction costs for the funds available to members were at a reasonable level that did not unduly detract from the overall level of return and value provided to members
- The majority of members are invested in With-profit arrangements which provides value through the reduction to capital risk alongside valuable terminal bonuses and guaranteed annuity rates (ML86 only)
- The administration and communication services provided are adequate.

The cost of investment consultancy service is not met by the members and so falls outside of the required value for members' assessment.

### **Trustee knowledge and understanding**

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during the course of the Scheme year as follows:

- An independent professional trustee, PTL Governance Ltd ("PTL"), has been appointed to the Scheme. PTL has a training program for all of their staff and are subject to independent audit on their controls and processes through the AAF02/07 reporting. As part of the AAF process the Trustee is required to confirm that the current team have appropriate level of knowledge and understanding to be able to represent PTL as a Trustee of the Scheme. The annual review process within PTL identifies training needs for each individual and has a requirement for a minimum of 25 hours Continuing Professional Development (CPD) to be completed each year.
- PTL are appointed as sole trustee to the Scheme. Louisa Harrold is the PTL representative acting as the trustee. Louisa is a Client Director of PTL and has significant DC trustee experience, and is also an Accredited Member of the Association of Professional Pension Trustees.
- The Trustees are familiar with and have access to copies of the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments) and key policies and procedures. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and ensuring investment policies are formally reviewed at least every three years and as part of making any change to the Scheme's investments.
- The Trustees have regularly reviewed their training needs and this is discussed at the Trustees meetings to identify if any further training is required to be included in the training programme;
- As part of the Trustee training plan for 2020/21 the Trustees have ensured that they have completed the Pension Regulator's Trustee Toolkit modules.
- The Trustees believe that their knowledge together with the advice available enables the Trustees to properly exercise their duties to the Scheme and its membership.

I confirm that the above statement has been produced by the Trustees to the best of our knowledge.

SIGNED: *Louisa Harrold*

NAME: Louisa Harrold, PTL Governance Ltd

DATE: 22/10/2021

POSITION: Chair of Trustees, HJ Banks & Company Limited Discretionary Retirement Benefits Scheme