

Timet UK Limited Pension Plan

Defined Contribution Section and AVC arrangements

Annual governance statement by the Chair of Trustees for the year ending 30 September 2021

Introduction

Governance standards apply to defined contribution pension arrangements like the Defined Contribution Section of our Plan. These standards are designed to help members achieve a good outcome from their pension savings.

As Chair of the Trustees of the Timet UK Limited Pension Plan, I have to provide you with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards. The information included in my statement is set out in law and regulation.

The Trustees are committed to having high governance standards and we meet regularly to monitor the controls and processes in place in connection with the investments and administration of the Plan's Defined Contribution Section and AVC arrangements.

I welcome this opportunity to explain what the Trustees do to help to ensure the Defined Contribution Section is run as effectively as it can be.

This will be the last statement since with effect from 18 February 2022, all members' investment in the Defined Contribution Section were transferred to a new arrangement and there will therefore be no requirement to produce a statement in future years. (see page 3 for more details).

Feedback

If you have any questions about anything that is set out in this statement, please do let us know.

Signed for and on behalf of the Trustees of the Timet UK Limited Pension Plan by Ramona Tipnis, Chair of Trustees on 28.4.2022.

Default investment arrangement

The Trustees have selected and provide a default investment arrangement for members who do not choose an investment option for their contributions, although members can also choose to invest in this default investment arrangement. The default investment arrangement is a default arrangement for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 because the Plan is used as a qualifying scheme for automatic enrolment purposes.

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangements. We take professional advice from regulated investment advisers.

Setting an appropriate investment strategy

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the statement of investment principles. The statement of investment principles was last updated in September 2020 and a copy is attached to this statement or can be located online at <https://www.ptluk.com/statement-of-investment-principles>

We have chosen the Low Volatility Lifestyle Option as the default strategy for members who join the Defined Contribution Section of the Plan after 1 April 2011. Members who joined prior to this date are invested in the previous default Lifestyle Option which is called the High Volatility Lifestyle Option. Members also have a third Lifestyle Option in which they can invest, the Medium Volatility Lifestyle Option.

When deciding on the investment strategy, the Trustees recognise that the majority of members do not take active investment decisions and instead invest in the default option. Therefore, the Trustees' primary objective in deciding on an investment strategy is to ensure that the strategy is appropriate for a typical member, taking into account factors such as the size of members' retirement savings within the Defined Contribution Section, members' current level of income and likely expectations for income post-retirement etc. When choosing the default strategy, it is the Trustees' policy to consider a range of asset classes, together with their expected returns and the expected volatility of those returns, the suitability of styles of investment management, and the need for diversification. The Trustees also recognise that there are various investment and operational risks and give qualitative and quantitative considerations to such risks.

The Lifestyle Options are structured to provide the potential for a level of growth over and above inflation in the long term. In addition, as members approach retirement the monies in the Lifestyle Options are gradually switched to less volatile investments which aim to protect members' potential income in retirement.

When the member is more than 10 years from retirement how monies are invested depends on the Lifestyle Option:

- Low Volatility Lifestyle Option – 100% in the Aegon BlackRock Diversified Growth Fund
- Medium Volatility Lifestyle Option – 50% in the Aegon BlackRock Diversified Growth Fund and 50% in the Aegon BlackRock 50:50 Global Equity Index Fund
- High Volatility Lifestyle Option – 100% in the Aegon BlackRock 50:50 Global Equity Index Fund

From 10 years onwards all Lifestyle Options move progressively towards Pre-Retirement and cash, ending at 75% in the Aegon LGIM Pre-Retirement Fund and 25% in the Aegon BlackRock Cash Fund.

Reviewing the default investment arrangement

The Trustees are expected to review the strategy and objectives of the default investment arrangement regularly, and at least once every three years, and consider the needs of the Defined Contribution Section membership when designing it.

The Trustees also review the investment objectives and the performance of the default investment arrangement on regular basis, taking advice from the Trustees' investment consultant.

A review of the default investment arrangement was undertaken during the Plan year in connection with a proposal from Timet to make a bulk transfer of all members' accounts to the PCC UK Group Pension Scheme – Timet (a section of the Fidelity Master Trust). As a result of the proposal and investment review, the Trustees wrote to all members of the Defined Contribution Section in December 2021 to give notice of the transfer to the PCC UK Group Pension Scheme. All members were advised that their investments would be transferred into the default investment arrangement in the PCC UK Group Pension Scheme (known as 'FutureWise') unless they made an alternative choice before 1 February 2022. The transfer took place on 18 February 2022. The Trustees took advice from their investment consultant and were satisfied that the default investment arrangement and wider investment range available in the PCC UK Group Pension Schemes were suitable to meet members' needs and provided members with additional choice.

Self-select investment choices

In addition to the default investment arrangements, the Trustees allow members to self-select from a range of funds. The funds that members were invested in during the period covered by this statement are shown below. Members may wish to take financial advice before choosing between these funds.

Investment Fund
70:30 Global Growth
50:50 Global Equity Index
Over 5 Year Index-Linked Gilt
UK Equity Index
Cash
Diversified Growth
Global Property Securities Index
Institutional Emerging Markets Equity
Property
LGIM Pre-Retirement
LGIM World (Ex UK) Equity Index

Charges and transaction costs paid by members

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the Defined Contribution Section) that are paid by members rather than the employer. In the Plan members typically pay for investment management, investment transactions and administration and the Company pays for the costs of running the Plan i.e. governance.

The investment management and transaction costs can be explained like so:

- The total **ongoing charges** figure is the total cost of investing in any fund or strategy and includes the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges). The charges for the default investment strategy are compared against the 0.75% charge cap set by legislation.
- **Transaction costs** are the costs incurred as a result of the buying, selling, lending or borrowing of investments *within* each fund or strategy. They include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and the costs of borrowing or lending securities, as well as any differences between the actual price paid and the quoted 'mid-market price' at the time an order was placed. These costs will vary between members depending on the funds invested in, the transactions that took place within each fund and the date at which the transactions took place. Unlike the ongoing charges figures, transaction costs are not compared against the 0.75% charge cap set by legislation – instead, the reported performance of the fund is typically net of these transaction costs.

The level of charges applicable to the Defined Contribution Section's investment arrangement during the last Plan year were:

Fund	Direct Charges (%)	Indirect Charges (%)	Total Ongoing Charges (%)
70:30 Global Growth	0.60	0.00	0.60
50:50 Global Equity Index*	0.28	0.01	0.29
Over 5 Year Index-Linked Gilt	0.28	0.01	0.29
UK Equity Index	0.28	0.01	0.29
Cash*	0.25	0.03	0.28
Diversified Growth*	0.55	0.05	0.60
Global Property Securities Index	0.41	0.01	0.42
Institutional Emerging Markets Equity	0.60	0.05	0.65
Property	0.98	0.00	0.98
LGIM Pre-Retirement*	0.40	0.00	0.40
LGIM World (Ex UK) Equity Index	0.40	0.01	0.41

*Funds used in the Lifestyle Options.

The transaction costs applicable to the Defined Contribution Section's investment options (including the funds that are used in the lifestyle Options) were confirmed by Aegon as being:

Fund	Transaction Cost (%)
70:30 Global Growth	0.15
50:50 Global Equity Index*	0.02
Over 5 Year Index-Linked Gilt	<0.01
UK Equity Index	0.05
Cash*	0.00
Diversified Growth*	0.38
Global Property Securities Index	0.18
Institutional Emerging Markets Equity	1.25
Property	0.04
LGIM Pre-Retirement*	0.01
LGIM World (Ex UK) Equity Index	<0.01

*Funds used in the Lifestyle Options

Completeness of transaction cost information

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.

I can confirm that there were no instances where information could not be obtained.

Examples of the impact of costs and charges

We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on the value of a member's pension savings.

We have prepared the example attached to this statement, having taken account of the statutory guidance issued by the Department of Work and Pensions in preparing this section of our statement. We have not deviated from this approach.

Core financial transactions

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

- investing contributions paid into the Defined Contribution Section;
- transferring assets relating to members into and out of the Defined Contribution Section;
- transferring assets between different investments within the Defined Contribution Section; and
- making payments from the Defined Contribution Section to, or on behalf of, members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Plan's administrator, Aegon.

There is a service level agreement in place between the Trustees and Aegon which provides for Aegon to ensure accurate and timely processing of the core financial transactions for which it is responsible. Aegon is required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustees and in accordance with the Plan's trust deed and rules. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

This administration service includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances.

In order to monitor this service, the Trustees receive regular reports confirming the payment and allocation of contributions, together with statistics on the level of service that is provided in comparison to agreed targets and timescales. The Trustees monitor transactions made via the Trustees' bank account on a regular basis.

The Plan Auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

There were no material administration service issues discussed in the last Plan year which need to be reported here by the Trustees and as a result I am confident that all core financial transactions have been processed accurately within a reasonable time.

Overall, 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.

Trustee knowledge and understanding

The law requires the Trustees to be conversant with the Plan's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Plan effectively.

The Trustees meet all the knowledge and understanding requirements and understands the Plan and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Plan, the statement of investment principles and the documents setting out the Trustees' current policies. They are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes. The Trustees do this by regularly reviewing the relevant Plan documents and during the Plan year have sought advice from the Plan's legal advisers around the legal requirements needed to consider and facilitate a bulk transfer of members' accounts to the PCC UK Group Pension Scheme.

We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board.

During the Plan year the following training and development activities have taken place:

- The training log is reviewed at each trustee meeting to identify any gaps in the knowledge and understanding across the Trustee Board as a whole. The training carried out during the Plan year was:
 - Trustee duties and responsibilities in relation to transfer of DC assets to the Fidelity Master Trust
 - Risks and mitigations for completing the transfer
 - Pension scams
 - COVID-19 response
- There are five Trustees and all, but one has completed all modules of the Pensions Regulator's on-line trustee toolkit. New Trustees are required to complete the toolkit within 6 months of becoming a member of the Trustee Board. Trustees must review the toolkit on an on-going basis to ensure their knowledge remains up to date.
- The Trustees receive "on-the-job" training. This means that as new topics arise their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests, as well as training during the meeting so that the Trustees may engage on such topics in an informed manner.
- An induction process is in place for newly appointed Trustees with some training modules provided by the Trustees' professional advisers.
- The professional Trustee, PTL Governance Ltd, was appointed Chair on 1.1.2019 represented by Keith Lewis for the year ending 30.9.2021. PTL is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments PTL act as an independent trustee on over two hundred trust based pension schemes and sit on a number of Investment Governance Committees (IGCs). PTL has oversight or responsibility

for in excess of £120bn of pension assets. More information on PTL can be found at www.ptluk.com. PTL have a training program for all of their staff and are subject to independent audit on their controls and processes through the AAF 02/07 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 Trustee of the Plan. The annual review process within PTL identifies training needs for each individual and includes a requirement for relevant staff to undertake a minimum level of Continuing Professional Development (CPD) each year. Two nominated Client Directors are assigned to work on all PTL trustee appointments. The Client Directors liaise regularly on scheme related matters.

Keith Lewis has significant DC pensions trustee experience in running both standalone DC trusts and hybrid trusts. Keith is subject to the CPD requirements of the actuarial profession and has undertaken regular training throughout the year. After the Scheme year end, Ramona Tipnis replaced Keith Lewis as the representative of PTL Governance Ltd. Ramona is supported by a second Director, Alison Bostock. Debbie Mather and other members of the PTL team also provide day-to-day support and peer review functions. Ramona is qualified and has an in depth understanding of the funding and investment issues related to the Plan. Keith, Ramona and Alison hold the PMI Certificate in Pension Trusteeship and accredited as a Professional Trustee by the Association of Professional Pension Trustees (APPT). Over the period, Keith and Ramona have met the CPD requirements of the pensions profession and the APPT.

Training received over the year included:

- Cyber Security
- Sustainable Investment
- Investment governance
- COVID-19 response
- What next for DC investing – and why ESG matters
- DC trends: consolidation, compliance and ESG
- DC Investment in 2021 and the requirements of the new combined Code of Practice
- Pension scams

Relevant advisers are in attendance at meetings and are in frequent contact with the Trustee Board to provide information on topics under discussion, either specific to the Plan or in respect of pension or trust law.

As a result of the training activities which have been completed by the Trustee Board individually and collectively, taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enables us to properly exercise our functions as Trustees.

Assessing value for members

As part of our assessment of the charges and transaction costs, the Trustees are required to consider the extent to which the member-borne costs and charges within the Defined Contribution Section 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 can be subjective. We have received advice on how to assess good value from our advisers and considered the statutory guidance.

We note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been considered in the assessment for value to members.

Members pay the investment charges and administration charges. The Company pays for the general governance of the Plan (i.e. the Trustees' expenses of running the Plan).

This section sets out the approach that the Trustees have taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

Overall approach and conclusion

Assisted by our advisers and in line with The Pensions Regulator's guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay, including transaction costs (where available);
2. We have assessed the scope and quality of the services that members receive;
3. We have compared the value members receive from the services against the cost of those services; and
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that we are comparing the level of charges in each fund with the levels of return they have delivered to members, as well as comparing the costs of membership (i.e. the charges) against the benefits of membership (i.e. the services provided by the Defined Contribution Section).

In attempting to compare these against other options available in the market, the Trustees have found that there are limited industry-wide benchmarks for each service area and so the Trustees have relied on the market knowledge of its advisers.

Based on our assessment, we conclude that the Defined Contribution Section offered satisfactory 'value for members' over the year to 30 September 2021 when measured against the definition required by legislation.

There were areas where 'value for members' could be improved around the investment options, access and support with pension freedoms and member communications. The Trustees believe that the Company's proposal to transfer members' accounts to the PCC UK Group Pension Scheme ultimately improved value for members which was taken into account in the Trustees' decision to approve the transfer to the new arrangement.

Preparation for the assessment

The Trustees received support from their advisers around how to undertake a value for members assessment and also considered the statutory guidance.

A number of key decisions were made as part of these preparations:

- The Trustees used a scoring system for the 'value for members' assessment;
- Individual elements of service were given scores by considering the scope and quality of the services under those areas;
- An overall weighted score ranging from 0% to 100% was produced;
- The Trustees agreed that any score between 50% to 75% represented satisfactory value and a score of 75% or over represented good value.

Process followed for the assessment, including key factors considered

The Trustees, assisted by their advisers, then considered the services provided by the Plan in the areas where costs are borne such as investment, communications,

scheme management and governance, and administration. The scores for these areas were assessed by considering the scope and quality of the services in each area.

This assessment was performed for members in the Defined Contribution Section.

We assessed the historic return and volatility of the default fund versus benchmark, and the charges and transaction costs. We then considered the larger set of services, including (but not limited to) the following:

Area	Examples
Investments / charges	The quality / governance of the default fund and alternative choices, the historic return and volatility of the default fund, charges and transaction costs versus benchmark, etc
Communications / member support	Whether bespoke / tailored or event-driven communications are used, at-retirement communications / guides / modellers / support, access to pension freedoms, etc
Scheme management and governance	Understanding of membership characteristics / attitudes / needs, compliance with The Pensions Regulator's Codes of Practice, Trustee Knowledge and Understanding practices, use of expert advisers, etc
Administration / online services	Online fund values / switching, use of service level agreements, core administration team / helpline, etc
Employer contribution to member funds	The generosity of the employer contributions over and above the automatic enrolment minimum.

While all of the factors above contribute to whether the Plan is well run, the Trustees believe that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Plan and the level of investment performance net of fees.

As a result, 40% of the overall score is allocated to the benefits of membership including the generosity of the employer contributions, 40% was allocated to the quality, performance and governance of the investment options and 20% to the competitiveness of fees and transaction costs.

Explanation of the results of the assessment

Our conclusion that the Defined Contribution Section offers satisfactory 'value for members' over the year to 30 September 2021 is based on aspects such as:

- The default investment strategy broadly performed in line with the benchmark over the year to 30 September 2021 and over the last 3 years.
- The default investment strategy has a charge of up to 0.6% (0.29% for members in the previous default), which is higher than the 0.4% average charge for default funds within trust-based defined contribution pension schemes that featured in the 2017 PLSA annual survey but the charge is within an acceptable tolerance of this average.
- The Plan provides members with regular, clear communications regarding the choices open to members, as well as annual benefit statements and 'at retirement' communications. The annual benefit statements include the web address for the Chair's statement and the SIP.

When we then take into account employer-borne costs, this further supports our assessment of satisfactory value. Employer-borne costs include the following aspects:

- The contribution structure is generous compared to the automatic enrolment minimum contributions.
- The Trustees met four times during the year and discussed DC-related matters at each meeting, with a trustee training plan in place and ad-hoc training received before major decisions, as well as clear contracts with external advisers, whose fees are reviewed regularly and benchmarked against the market, etc.
- The Trustees operate investment and governance sub committees to focus on these key areas that support the successful operation of the Plan.

Legacy AVC arrangements

Our historic AVC arrangements (which are closed to new AVC payers / further contributions) are provided by Standard Life and Coventry Building Society.

With Standard Life members can choose to invest in a variety of Unit-Linked funds and With-Profits funds. Investments with Coventry Building Society are held on deposit and are not subject to any charges.

The Trustees take a proportionate approach to reviewing the investments based on the size of the funds invested compared to the size of the funds invested in the Defined Contribution Section and entire Plan and relatively small numbers of members who are invested in these arrangements.

The Trustees periodically review these arrangements to ensure they continue to be fit for purpose and write directly to individual members who have such investments if there is anything of significance to highlight or make members aware of.

In conjunction with Timet's proposal to transfer Defined Contribution members' investments to the Fidelity Master Trust, the Trustees decided to also transfer the remaining members with Coventry Building Society AVCs to Fidelity as they were in respect of Defined Contribution members. The Trustees are working with Coventry Building Society to make this transfer. There are therefore expected to be no members with AVCs with Coventry Building Society AVCs and the only legacy AVC arrangements at the time of signing this statement is Standard Life.