

Date: December 2020

The Morris & Spottiswood Limited Pension Scheme

Annual Chair's Statement for the Scheme Year

This statement has been prepared by the Trustees of the Morris & Spottiswood Limited Pension Scheme ("the Scheme") in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended). It explains how the Trustees have met their legal obligations in relation to:

- The investment options in which members' funds are invested (the default arrangement and other funds members can select or have assets in);
- Requirements for processing financial transactions;
- Assessment of charges and transaction costs; and
- The requirement for trustee knowledge and understanding,

over the period 1 January 2019 to 31 December 2019 ("the Scheme Year").

This statement, along with other useful documents relating to the Scheme, can be found on the following website <https://www.morrisandspottiswood.co.uk/about/our-commitments/pension-statements>

1. The Default Arrangement

i) Statement of Investment Principles

Appended to this statement is a copy of the Scheme's latest Statement of Investment Principles ("SIP") which governs the Trustees' decisions about investments, including its aims, objectives and policies for the Scheme's default arrangement. In particular, the SIP covers the Trustees' investment policies on risk, return and ethical investing and how the default arrangement is intended to ensure that assets are invested in the best interests of members. The SIP covering the Scheme Year (1 January 2019 to 31 December 2019) was effective from 1 August 2015. Following the Scheme Year end, the Trustees updated the Scheme's SIP so that it meets new regulatory requirements and reflects the current default arrangements. This SIP was effective from December 2020.

The Trustees have completed an Implementation Statement for the Scheme Year to 31 December 2019. This document outlines the Trustees adherence to the policies included within the SIP and has been included within the appendices.

The Trustees will review the SIP at least every three years (or after any significant change in investment policy). In the absence of any material changes, the SIP will next be reviewed in December 2023.

ii) *Review of the default arrangements*

The Trustees review the appropriateness of the default arrangements on an ongoing basis and formally at least every three years (or sooner, if there is any significant change in investment policy or member demographics), to ensure that the return on investments is consistent with the Trustee's aims, objectives and policies.

The Trustees last completed a formal review of the Scheme's current default arrangements in April 2019.

iii) *Aims, objectives and policies relating to the Scheme's main default arrangement*

During the Scheme Year, the Scheme's default strategy was invested with the Prudential Dynamic Growth IV Lifestyle 'targeting retirement options' lifestyle. Details are set out in the attached SIP, with key points noted below.

The strategy initially targets growth in the early years by investing in equities and other assets which have a high expected return, but higher expected risk. The strategy then switches gradually approaching retirement into assets such as bonds and equities, which together provide less volatility but still some growth to preserve wealth.

A range of additional pooled funds are available through Prudential for members to choose based on their own individual circumstances and expected time horizon. The funds are available across a diverse range of asset classes such as equities, bonds, and money market investments/cash.

Alternative lifestyle strategies are also available with different investment strategies suitable for members depending on how they wish to use their savings at retirement.

The Trustees will review both the default strategy, the performance of the default arrangement and the fund range on a regular basis to ensure continued suitability. This will be at least every three years, or without delay, after a significant change to the membership demographic or investment policy.

2. Financial Transactions

The Trustees have a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the Scheme are processed promptly and accurately.

We understand that, Service Level Agreements ("SLAs") are in place with the provider, Prudential, including targeted turnaround times of all core financial transactions. During the Scheme Year, SLAs were monitored by the Trustees on an adhoc basis as a result of all Scheme communications and member queries being directed through the Trustees. However, there is no standard process for reporting to be received from Prudential in relation to how they have performed against these SLAs.

At the Scheme level, there is some assurance of the accuracy of transactions in the form of The Trustees' Annual Report & Accounts (including financial transactions) that are independently audited by the Scheme auditor, PwC.

The Trustees, via their advisers, have requested details of the SLAs in place and key Management Information on core transactions and administration activity.

The Trustees are intending to review the provider's SLAs in future and put in place more formal ongoing monitoring (for example by requesting regular Management Information reporting from the provider to be considered at future Trustee meetings). The Trustees will review these to consider the accuracy and timeliness of all core transactions and take action where appropriate.

3. Charges and Transaction costs

i) Charges borne by the members

The Total Expense Ratio (TERs) measures the total charges applied to the fund's members are invested in. These charges are already accounted for within the unit price of the fund. Minor variations in TER will occur from year to year as the funds incur some fixed costs which vary as a percentage of assets as the asset value changes.

The TERs borne by the members were as follows:

Fund	Total Expense Ratio (p.a.)
Prudential Dynamic Growth II Fund	0.7200%
Prudential Dynamic Growth IV Fund	0.7200%
Prudential Cash Fund	0.7500%
Prudential International Equity Fund	0.7700%
Prudential UK Equity Fund	0.7600%
Prudential UK Property Fund	1.3200%
Prudential Long Term Bond Fund	0.6500%
Prudential All Stocks Corporate Bond Fund	0.7500%
Prudential Long Term Gilt Passive Fund	0.6500%

The government set a limit on the annual amount that can be charged to savers in default arrangements within defined contribution pension schemes used for auto-enrolment. Default Members investing in the default investment strategy would have seen charges between 0.72% p.a. and 0.73%p.a. depending on how far away they are from retirement. The Scheme's default arrangements therefore complied with the charges cap during the Scheme Year.

ii) Transaction costs

To achieve greater transparency about costs, new regulations came into force on 6 April 2018 which require the Trustees to provide members with additional information in relation to investment charges and core transaction costs. These are required to be set out as example member illustrations that have been prepared regarding the relevant statutory guidance: Reporting of costs, charges, and other information: guidance for trustees and managers of relevant occupational schemes.

The Trustees have requested, via their advisers, transaction costs information, covering each of the past five scheme years, for every fund in the Scheme's fund range, from the Scheme's investment platform provider, Prudential.

Prudential provided the Trustees with average transaction costs for each fund over the last 5 years per annum. The Trustees calculated the total costs borne by members by combining the average transaction costs with the TERs for each fund.

The total charges borne by members were as follows:

Fund	Average Transaction Costs (p.a.)	Total Costs (p.a.)
Prudential Dynamic Growth II Fund	0.1033%	0.8233%
Prudential Dynamic Growth IV Fund	0.1033%	0.8233%
Prudential Cash Fund	0.0000%	0.7500%
Prudential International Equity Fund	0.0033%	0.7733%
Prudential UK Equity Fund	-0.0700%	0.7600%
Prudential UK Property Fund	0.5867%	1.9067%
Prudential Long Term Bond Fund	0.0133%	0.6633%
Prudential All Stocks Corporate Bond Fund	-0.0400%	0.7500%
Prudential Long Term Gilt Passive Fund	-0.0600%	0.6500%

NOTE: Average transaction costs shown for the last 5 years. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs and member illustrations in the appendix.

During the Scheme Year, the total costs that applied to the Scheme's main default arrangement were:

- 0.82% per annum in the period up to ten years before the member's selected retirement date

- Between 0.75% and 0.82% per annum over the de-risking period for the 10 years before the member's selected retirement age

The illustrations for Scheme members are set out and explained in the Appendix of this Chair's Statement.

iii) Value for members assessment

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The Trustees, with the support of their advisers, have undertaken a value for member assessment review to assess whether the Scheme represents good value for its members. The review is carried out across six key areas, aligned to The Pension Regulator's DC Code of Practice and guidance on DC schemes. The Trustees have considered a method of assessment which encompasses the charges paid by members and a wide array of features and benefits which are provided by the Scheme and these were assessed on a red/amber/green basis to determine whether they were either behind, slightly behind, or in line with the market. The outcome of the review was documented with any areas for improvement captured.

This review concluded that on an overall basis, the Scheme could be considered to provide poorer value for members compared to what may be available in the market. Whilst there is an appropriate investment strategy in place, the charges incurred by members when considering the wider range of services available, in particular in relation to the retirement options available through the scheme and the range of member communications is behind the wider DC market. A summary of the key findings is set out below. The Trustees are intending to work with the sponsoring employer (Morris & Spottiswood Limited) to explore the future pension strategy with a view to considering alternative types of DC scheme that would improve value for members.

- **Scheme charges:** Member charges for the Scheme's default investment strategy are 0.73% p.a. which is lower than the 0.75% p.a. industry charge cap. However, the charges borne by members are considered to be significantly higher than expected for schemes of similar size when approaching the market for a new arrangement. The Trustees were able to obtain details of transaction costs incurred during the Scheme Year from Prudential, and the impact of all charges and costs on members' pots at retirement is included as an Appendix to this Statement.
- **Investment options:** The Scheme's default investment strategy targets 'retirement options' meaning it is appropriate for members that are undecided about how they will take their income in retirement. We would deem this to be an appropriate target given the pension freedoms. Members also have access to a range of investment options to choose from.
- **Retirement support:** The Scheme does not provide members with the same levels of flexibility at retirement as afforded by more modern schemes in the wider DC market – for example, members can access some of the pension freedoms within the Scheme (UFPLS) however have to transfer out of the scheme to access flexi-access drawdown. The Scheme's provider, Prudential, provides only limited support for members in making a retirement decision via the issue of their member retirement packs..
- **Governance:** This area was identified as a key area for review by the Trustees and a number of steps have already been taken by the Trustees to address this. These include

appointing professional advisers (Isio appointed in October 2020), reviewing the Scheme Statement of Investment Principles (carried out in December 2020) and reviewing regularity and formality of the Trustee meetings (which are now held quarterly). In the event the Scheme continues in its current form, the Trustees intend to refresh and regularly reviewing key governance documentation (e.g. risk register, governance scorecard) at least every Scheme Year, documenting a Trustees training plan and undertaking a review against the Pension Regulator's DC Code of Practice.

- **Administration:** The Trustees, via their advisers, have requested details of the SLAs in place and key Management Information on core transactions and administration activity. During the Scheme Year, SLAs were monitored by the Trustees on an adhoc basis as a result of all Scheme communications and member queries being directed through the Trustees. The lack of reporting on the timescales taken to complete member requests is out of line with market practise and the Trustees are taking steps to establish a more formal monitoring process by requesting frequent Management Information reporting.
- **Member education and engagement:** Members receive annual benefit statements from the provider and have access to online personal accounts with some basic modelling tools. All member communications are issued via the Trustees. On balance, the Scheme is below average in this area when compared against the more modern education and engagement tools available in the wider DC market, such as online calculators, video benefit statements and apps, for example.

Given the extent of improvements to be considered, the Trustees have discussed possible improvements that will take place over the next 12 months by considering their relative importance and will continue to monitor this regularly. The Trustees are intending to work with the sponsoring employer (Morris & Spottiswood Limited) to explore the future pension strategy with a view to considering alternative types of DC scheme that would improve value for members and governance.

4. Trustee knowledge and Understanding (TKU)

The law requires the Trustees to possess sufficient knowledge and understanding to enable them to properly exercise their functions as a trustee including (in relation to a DC scheme) that they must be conversant with:

- The trust deed and rules of the scheme.
- The statement of investment principles.
- Any other scheme administration policies or scheme documents.

And must have appropriate knowledge and understanding of:

- The law relating to pensions and trusts.
- The principles relating to
 - The funding of occupational pension schemes.
 - Investment of the assets of such schemes.

The Trustees' own knowledge and understanding, together with the advice which is available to them through their advisers enables them to properly exercise their functions as Trustees of the Scheme.

The Trustees held adhoc meetings throughout the Scheme year in order to discuss legislative change and requirements in order to meet their objectives. Since the 2019 Scheme year end, the Trustees have now moved to holding quarterly Trustee meetings.

The Trustees' approach to meeting the TKU requirements during the Scheme year included:

- Ensuring all existing Trustees have completed the Pension Regulator's Trustee Toolkit and a requirement for new Trustees to complete this within twelve months of appointment.
- The Trustees carry out a self-assessment of training needs and take personal responsibility for keeping up to date with relevant legislative and regulatory requirements. The Chair of Trustees reviews the self-assessments and arranges for training to be made available to individual Trustees or to the whole Trustee body as appropriate.
- The Trustees are aware and have an understanding of the Scheme's Trust Deed and Rules, SIP and other documents which are used to govern the Scheme. The Trustees use this knowledge along with the support of their advisers in order to make appropriate decisions as required during the year.

For these reasons, the Trustees believe that their combined knowledge and understanding, together with the advice that is available to the Trustees, enable them to properly exercise their function as the Trustees of the Scheme.

During the Scheme Year, the Trustees have worked towards meeting the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding).

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the regulations").

Signed on behalf of the Trustees

Paul Brown

APPENDIX

Illustrations of the effect of costs and charges

Background

The next pages contain illustrations about the cumulative effect of costs and charges on member savings within the Scheme over a period of time. The illustrations have been prepared with particular regard to statutory guidance.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make several assumptions about what these might be. The assumptions are explained in the Notes section below the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future. In addition, the information contained in this Chair's Statement is not a substitute for the individual and personalised illustrations which are provided to members each year by the Scheme.

Key points to note

The charges shown in this Statement and illustrated on the next pages have always been in place. These are not new charges. The only difference is that we are required by legislation to demonstrate the effect of charges on your investments. The Trustees work to ensure the charges provide value for our members as set out earlier in this Statement.

Illustrations

Each of the charts below illustrates the potential impact that costs and charges might have on different investment options provided by the Scheme. Not all investment options are shown - the Trustees have chosen several illustrations which they believe will provide an appropriate representative sample of the different investment choices that members can make.

In each of the illustrations, the "Before charges" column gives the hypothetical value of the investments if members were able to invest in funds at no cost. However, there will always be some cost to investing. This is because the organisations which manage the funds charge fees for their services, and because buying and selling the stocks and shares which drive the funds' performance also has a cost. The "After all costs and charges deducted" column reflects the performance of the funds after these costs have been deducted.

In the illustrations, we have shown the projections for the following:

- The Default Lifestyle Strategy (Prudential Dynamic Growth IV 'Targeting Retirement' Lifestyle)
- The lowest expected returning fund (Prudential Cash Fund)
- The highest expected returning fund (Prudential International Equity Fund)
- The lowest charging fund (Prudential Long Term Gilt Passive Fund)
- The highest charging fund (Prudential UK Property Fund)

These funds cover a range of expected returns and charges in line with the legislation as well as covering the funds with the highest and lowest expected returns and the highest and lowest charges.

1) Illustrations for individual funds

The table below sets out the projected pot size at age 65 for a member currently aged 21 invested solely in one of the funds shown below. Please see the Notes below for more details of the projections.

Active member – 21 year old								
Years	Prudential Cash Fund		Prudential International Equity Fund		Prudential Long Term Gilt Passive Fund		Prudential UK Property Fund	
	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	2,485	2,471	2,590	2,577	2,507	2,495	2,546	2,513
3	5,366	5,294	5,964	5,884	5,487	5,423	5,709	5,520
5	8,133	7,964	9,613	9,408	8,422	8,270	8,967	8,503
10	14,580	14,021	20,091	19,264	15,569	15,045	17,550	15,854
15	20,408	19,290	32,840	30,815	22,453	21,360	26,797	23,058
20	25,676	23,873	48,350	44,354	29,082	27,244	36,757	30,116
25	30,437	27,860	67,221	60,223	35,467	32,728	47,488	37,031
30	34,741	31,328	90,181	78,823	41,615	37,838	59,048	43,808
35	38,632	34,345	118,115	100,624	47,537	42,601	71,502	50,447
40	42,149	36,969	152,100	126,177	53,239	47,040	84,918	56,953
44	44,718	38,820	184,518	149,750	57,649	50,372	96,393	62,062

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65.
3. The member is assumed to have a pot of £1,000.
4. Inflation is assumed to be 2.5% each year.
5. Starting salary is £19,000 and is assumed to increase in line with inflation.
6. Gross contributions at each year are assumed to be at autoenrollment level (8% of salary as at that year), from the start of the projection to retirement.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates adjusted for inflation for each fund are:
 - Prudential Cash Fund: -2.00%

- Prudential International Equity Fund: 4.00%
 - Prudential Long Term Gilt Passive Fund: -0.75%
 - Prudential UK property Fund: 1.50%
9. The charges assumed for each fund are the current charges as shown earlier in the Chair's Statement. The growth rates and the transaction costs used for the calculations have been provided by Prudential and are the average transaction costs p.a. for each fund over the last 5 years.
10. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs.

The table below sets out the projected pot size at age 65 for a member currently aged 50 invested solely in one of the funds shown below. Please see the Notes below for more details of the projections.

Active member – 50 year old								
Years	Prudential Cash Fund		Prudential International Equity Fund		Prudential Long Term Gilt Passive Fund		Prudential UK Property Fund	
	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	31,370	31,149	33,138	32,911	31,739	31,547	32,402	31,840
3	39,850	39,107	46,161	45,310	41,110	40,451	43,450	41,461
5	47,994	46,634	60,247	58,523	50,342	49,108	54,833	51,004
10	66,971	63,713	100,696	95,470	72,821	69,711	84,817	74,525
15	84,125	78,569	149,909	138,776	94,470	88,912	117,118	97,571

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65.
3. The member is assumed to have a pot of £27,000.
4. Inflation is assumed to be 2.5% each year.
5. Starting salary is £62,000 and is assumed to increase 2.5% per year.
6. Gross contributions at each year are assumed to be at autoenrollment level (8% of salary as at that year), from the start of the projection to retirement.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates adjusted for inflation for each fund are:
 - Prudential Cash Fund: -2.00%
 - Prudential International Equity Fund: 4.00%
 - Prudential Long Term Gilt Passive Fund: -0.75%
 - Prudential UK property Fund: 1.50%

9. The charges assumed for each fund are the current charges as shown in the Chair's Statement. The growth rates and the transaction costs used for the calculations have been provided by Prudential and are the average transaction costs p.a. for each fund over the last 5 years.
10. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs.

2) Illustrations for the default strategy

Most members are in the default strategy. The table below sets out how a member aged 21 and a member aged 50 will see their pots grow with and without charges in the period to their retirement. Please see the Notes section below for more details on the projections.

Years	Age now: 21		Age now: 50	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,568	2,554	32,770	32,528
3	5,835	5,752	44,791	43,905
5	9,285	9,074	57,482	55,725
10	18,773	17,957	91,981	86,935
15	29,639	27,729	127,345	117,485
20	42,084	38,480		
25	56,337	50,307		
30	72,661	63,318		
35	91,356	77,631		
40	111,967	92,714		
44	126,741	102,776		

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65.
3. The starting pot size is assumed to be £1,000 for the 21 year old and £27,000 for the 50 year old.
4. Inflation is assumed to be 2.5% each year.
5. Starting salary for a 21 year old is £19,000 and 50 years old is £62,000. Salary is assumed to increase in line with inflation.
6. Gross contributions at each year are assumed to be at autoenrollment level (8% of salary as at that year), from the start of the projection to retirement.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates adjusted for inflation are:
 - 2.75% p.a. for periods up to 10 years to retirement, gradually reducing to 1.19% p.a. at retirement age.
9. The charges assumed for each fund are the current charges as shown in the Chair's Statement. The growth rates and the transaction costs used for the calculations have been provided by Prudential and are the average transaction costs p.a. for each fund over the last 5 years.

10. Where the average transaction costs for the Fund is negative, we have assumed the transaction charge of '0.000%' for the purposes of calculating the total costs.