

The Cray Research (UK) Limited 1994 Retirement Benefits Scheme

Defined Contribution Governance Statement

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) require the Trustee to prepare an annual statement regarding the governance of Defined Contribution ('DC') funds within the Cray Research (UK) Limited 1994 Retirement Benefits Scheme ('the Scheme'), to be included in the annual report and accounts.

Some members of the Scheme have a Guaranteed Minimum Pension underpin which may or may not come into payment when they take benefits. We have therefore treated these members' funds as DC funds for the purposes of this Statement.

This statement covers the period 6 April 2020 to 5 April 2021. It describes how the Trustee has met the statutory governance standards in relation to the Scheme's DC funds held with Utmost Life and Pensions ('Utmost') and Royal London in the following areas:

1. The default investment arrangements,
2. Processing of core financial transactions,
3. Charges and transaction costs paid by members (including illustrations of the impact of costs and charges),
4. Value for members, and
5. Trustee knowledge and understanding.

1. Default investment arrangements

The Scheme is not used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since April 2015, when the relevant Regulations came into force. This means that the Scheme does not have a default investment arrangement, as defined by the Charges and Governance Regulations.

With effect from 1 January 2020, the Equitable Life With Profits Fund, in which many of the Scheme's members were invested, closed and all policies were transferred to Utmost. As members did not choose where their funds were invested when the Equitable Life With Profits Fund closed, the Utmost 'investing by age' strategy into which the assets of the Equitable Life With Profits Fund were transferred following the transition period may be considered a 'deemed default'. We have therefore treated the Utmost investing by age strategy as a default investment arrangement for the purposes of the disclosures in this Statement.

The Trustee is responsible for setting and overseeing the Scheme's investments, although that responsibility is delegated to Royal London for the funds that it holds. Details of the objectives and the Trustees' policies regarding the default arrangements can be found in a document called the 'Statement of Investment Principles' (SIP). The Scheme's SIP is attached.

On an annual basis, the Trustee reviews the performance of the unit-linked funds net of charges and the interest / bonus rates declared on the non-unitised funds held by members (and the underlying returns on the non-unitised funds where they are available). The performance review for the period covered by this Statement was carried out on 28 October 2021.

The Trustee is expected to carry out a formal investment strategy review every three years. Under the contractual terms of the Royal London policy, the responsibility for reviewing investment strategy is delegated to Royal London. Royal London has confirmed the most recent review of the strategic asset allocation is on-going. To date Royal London has not made any changes to investment strategy as a result of this review.

The Trustee did not review the investment strategy for the Utmost funds during this reporting period. The last investment strategy review was completed on 20 November 2019, the next investment strategy review for these funds is due by 20 November 2022.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries.

Core financial transactions are undertaken on behalf of the Trustee by the Scheme administrator, Mercer and the providers Royal London and Utmost. The Trustee does not have service level agreements in place with Mercer, Royal London or Utmost. However, both Royal London and Utmost operate standard turnaround times for processing core financial transactions. Mercer has standard operating procedures in place for all key administration tasks, and in order to minimise the risk of inaccurate or late payment of core financial transactions.

Key processes include:

- reconciliation of the Trustees' bank account,
- checks for all transactions prior to processing,
- documentation and operation in line with Mercer's quality assurance policies and procedures.

Mercer has operated in line with its business continuity plan during the period impacted by the COVID-19 pandemic and has prioritised core financial transactions during this period.

Currently the Trustee checks that core financial transactions have been dealt with promptly and accurately during the Scheme year as part of the annual accounts process. Due to the closed nature of the Scheme, there are relatively few core financial transactions. During the period covered by this Statement, there were six core financial transactions, involving members taking retirement benefits (2 transactions) or transferring out (4 transactions).

The Trustee is satisfied that over the period:

- the administrator was operating appropriate procedures, checks and controls;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately.

3. Charges and transaction costs paid by members

The Trustee is expected to monitor:

- (i) the explicit charges, such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio ('TER'). The TER is the total explicit cost of the fund to an investor and includes legal, administration, audit, marketing, and regulatory costs. It is calculated by dividing all expenses paid by the fund over the year by the value of the fund's assets.
- (ii) transaction costs (i.e. the costs of buying and selling investments in a fund). These costs are not explicit but they have an impact on the returns achieved by unit-linked funds.

The costs and charges borne by members over the period covered by this Statement have been provided by Royal London and Utmost and are set out in the table below. Both providers report transaction costs on a quarterly basis, therefore the transaction costs shown below are for the twelve-month period to 31 March 2021. Where transaction costs have been provided as a negative cost, these have been set to zero by the Trustee to avoid under-estimating total costs and charges.

Utmost Fund	TER (% p.a.)	Transaction Costs (%)	Total costs and charges (%)
Money Market ¹	0.50	0.00	0.50
Multi-Asset Moderate ¹	0.75	0.50	1.25
Multi-Asset Cautious ¹	0.75	0.41	1.16

Source: Utmost

Royal London Fund	TER (% p.a.)	Transaction Costs (%)	Total costs and charges (%)
Crest Unitised With Profits	1.00 ²	0.00	1.00
Deposit Administration	1.45 ²	0.00 ³	1.45
RLP Managed	1.00	0.09	1.09

Source: Royal London

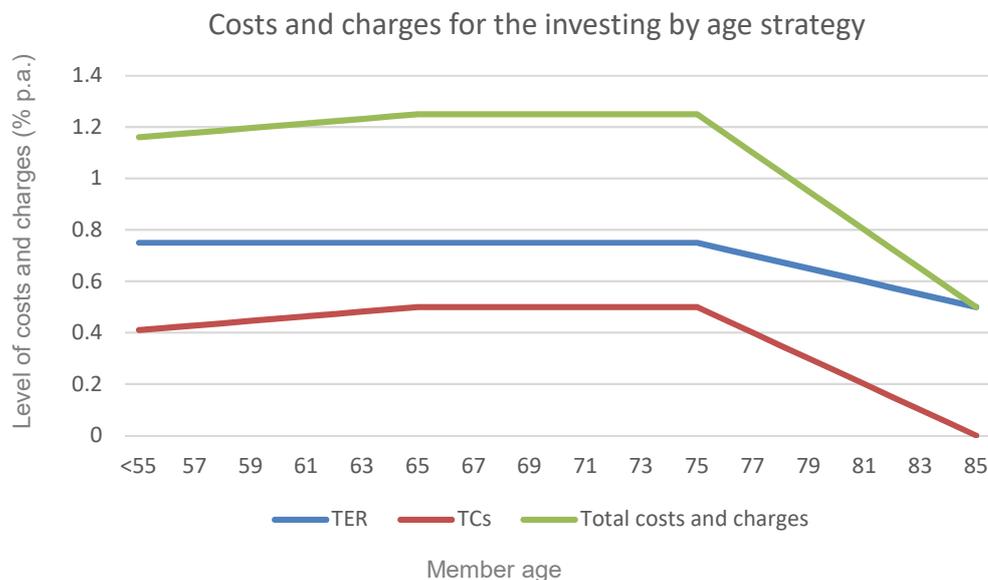
Notes

¹ These funds make up the Investing by Age strategy.

² The charges on the Royal London Crest Unitised With Profits and Deposit Administration Funds are not explicit, they are taken into account when the bonus or interest rate on the Fund is declared however, Royal London has confirmed the charges for operating the funds are as shown above.

³ Royal London has confirmed the transaction costs for Crest Secure (Deposit Admin) are included within the charges stated for operating the Fund and are not shown as a separate transaction cost.

The TER that members in the Utmost investing by age strategy pay varies according to their age, as shown in the line chart below.



Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of costs and charges paid by a typical member on their pension savings (as a “pounds and pence figure”). The Regulations allow the Trustee to exercise its discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided three illustrations of the cumulative effect on the value of typical Scheme members' savings over the period to retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out below under 'notes and assumptions'. Illustrations for Royal London policies have been provided by Royal London. Utmost does not provide illustrations therefore the illustrations for Utmost policies have been provided by Aon.

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 and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

The three example members are:

- Example member 1: a member who has a Guaranteed Minimum Pension underpin with a current fund value of £12,445 and who is 40 years from retirement;
- Example member 2: a Royal London member whose funds do not have a Guaranteed Minimum Pension underpin with a current fund value of £28,998 and who is 40 years from retirement;
- Example member 3: a member of the Utmost policy with a current fund value of £45,300 and who is 10 years from retirement.

Example member 1: as all members with a Guaranteed Minimum Pension underpin are invested in the Deposit Administration Fund, Royal London projected the impact of costs and charges on this Fund and these are shown in the table below:

Years	Before charges	After charges	Effect of charges
1	£12,141	£11,965	£176
3	£12,355	£11,826	£529
5	£12,573	£11,688	£885
10	£13,135	£11,350	£1,785
15	£13,722	£11,022	£2,700
20	£14,335	£10,704	£3,631
25	£14,975	£10,394	£4,581
30	£15,645	£10,094	£5,551
35	£16,344	£9,802	£6,542
40	£17,074	£9,519	£7,555

Source: Royal London

Example member 2: Royal London members who do not have a Guaranteed Minimum Pension underpin invest in the RLP Managed Fund and the Crest Unitised With Profits Fund. Royal London has therefore projected the impact of costs and charges on these Funds and these are shown in the table below:

Years	RLP Managed Fund			Crest Unitised With Profits Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
1	£28,291	£27,983	£308	£28,291	£28,008	£283
3	£29,237	£28,294	£943	£28,016	£27,184	£832
5	£30,215	£28,607	£1,608	£27,743	£26,383	£1,360
10	£32,805	£29,407	£3,398	£27,073	£24,484	£2,589
15	£35,617	£30,229	5,388	£26,419	£22,722	£3,697
20	£38,671	£31,074	£7,597	£25,781	£21,086	£4,695
25	£41,986	£31,942	£10,044	£25,158	£19,569	£5,589
30	£45,585	£32,835	£12,750	£24,551	£18,160	£6,391
35	£49,493	£33,753	£15,740	£23,958	£16,853	£7,105
40	£53,735	£34,696	£19,039	£23,379	£15,640	£7,739

Source: Royal London

Example member 3: members of the Utmost policy invest in the 'Investing by Age' strategy and the Money Market Fund. The impact of costs and charges on projected fund values is shown in the table below:

Years	Investing by Age strategy			Money Market Fund		
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges
5	£46,415	£44,112	£2,303	£40,542	£39,541	£1,001
10	£46,415	£41,737	£4,678	£36,283	£34,513	£1,770

Source: Aon

Notes and assumptions

Fund values shown are estimates and are not guaranteed.

The projected fund values assume no further contributions are paid as the Scheme is closed.

Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

Inflation is assumed to be 2.5% p.a.

The projected growth rates used are consistent with the statutory guidance for producing money purchase illustrations.

Projected fund values shown in the tables above are dependent on investment returns as well as the level of costs and charges. The growth rates and total charges used for the illustrations are shown in the table overleaf.

Fund / Strategy	Total charges (% p.a.)	Expected growth rate
Royal London Deposit Administration	1.45	0.9% p.a. above inflation
Royal London RLP Managed	1.00	1.7% p.a. above inflation
Royal London Crest Unitised With Profits	1.00	0.5% p.a. below inflation
Utmost 'Investing by Age' strategy	0.50 – 1.25 ⁴	0.7% p.a. above inflation to 0.3% p.a. below inflation ⁴
Utmost Money Market	0.50	2.25% p.a. below inflation

⁴ Depending upon members' age (we have only run projections to age 65)

Transaction costs have been averaged over a 3 year period (where available) in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

Data used is as at 1 July 2021 for Royal London members and as at 17 September 2021 for Utmost members.

4. Value for members

The Trustee is required to assess the extent to which the charges and transaction costs borne by members represent good value for members when 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 is a subjective one.

Working in conjunction with its advisers (Aon), the Trustee has assessed the costs and charges paid by members (as set out in section 3 of this Statement) and four main features of membership of the Scheme in order to make an assessment as to whether members receive good value from the Scheme relative to the costs and charges they pay. The four main benefit features assessed are the governance framework in place for the Scheme to ensure it is run effectively, the investment strategy and fund performance after charges, the administration services and member communications. This assessment has included benchmarking relative to other pension arrangements and/or industry best practice guidelines.

Scheme governance

The Trustee has put a governance process in place whereby core financial transactions and other key governance factors are monitored annually, as part of the work to prepare the Chair's Statement and Trustee Report and Accounts. The Trustee takes professional advice in respect of actuarial, legal and investment matters. Given the deferred nature of the membership, the Trustee's professional advisers consider the governance processes in place to be suitable.

Investments

The Trustee reviews investment performance (as far as this is available) on an annual basis. The Trustee also sought advice from Aon regarding the suitability of the investment options available through Utmost when Equitable Life closed its With Profits Fund, and the default investment strategy that should apply to these funds. Under the terms of the Royal London policy, Royal London is responsible for the investment strategy for funds it holds.

Administration

The Trustee does not have service level agreements in place with Mercer, or with the providers, Royal London and Utmost. However, Mercer has standard operating procedures in place for all key administration tasks and both Royal London and Utmost operate standard turn-around times for processing core financial transactions. Given the deferred nature of the membership, core financial transactions are limited to payment of benefits (retirement, transfers and death claims) and fund switches and the Trustee believes the processes in place would identify if there were any material issues with these transactions.

Communications

The Scheme's member communications meet statutory requirements. Members do not have online access to their accounts, and do not receive any additional communications. The assessment concluded that the Scheme is in line with other legacy deferred schemes in this regard.

The Trustee's assessment concluded that overall the Scheme does offer value to members compared to other options available in the market, but that there may be ways of improving value for Utmost members who do not have any guarantees associated with their funds (now that the guarantees associated with the Equitable Life With Profits have fallen away). The Trustee has an action plan in place to improve value, which has progressed over the year and the Trustee hopes to conclude this in the coming year.

5. Trustee Knowledge and Understanding

The law requires Trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

The current Trustee was appointed in October 2018, when the former employer was wound up. There is no formal Trustee induction process but since October 2018, the Trustee, the Secretary to the Trustee and the Trustee's professional advisers have spent considerable time familiarising themselves with the documentation governing the Scheme, progressing reporting requirements that were out-standing prior to the Trustee's appointment and reviewing the Scheme's internal processes and procedures to ensure that they have a good knowledge of the Scheme and relevant policies.

The Trustee and the Secretary to the Trustee have a good working knowledge of pensions and pension law, gained from a previous trustee appointment and professional experience in financial management.

The Trustee and the Secretary to the Trustee have engaged with their professional advisers regularly throughout the year to ensure that they exercise their functions properly and take professional advice where needed. In exercising their functions this has required knowledge of key scheme documents such as the Trust Deed & Rules and the Trustee Report & Accounts. A few of the areas that support this are set out below:

- Review and sign off of the Trustee Report and Accounts for the Scheme year ending 5 April 2017 and review of the draft Trustee Report and Accounts for the Scheme year ending 5 April 2018.
- Review of investment performance after charges over periods ending 31 March 2020, to assess fund performance against benchmarks and sector average returns.

I conclude that the professional background of the Trustee and the Secretary to the Trustee, the training activities undertaken as part of their roles and the professional advice available to the Trustee enables it to exercise its functions properly. I also believe that this has been demonstrated and evidenced where training and advice have been provided, discussions held and decisions taken in relation to any matters material to the running of the Scheme.

Approved by Philippa Oram, Chair of the Trustee

Signed:

On behalf of the Trustee – Mark Wilkins

***Date: 5 November
2021***