

## **GOVERNANCE STATEMENT**

### **Mouchel Business Services Limited Pension Scheme (Money Purchase Section) Governance Statement from 1 April 2020 to 31 March 2021**

#### **1. Introduction**

This statement has been prepared by Kier Group Pension Trustees Limited as the Trustee of the Mouchel Business Services Limited Pension Scheme (Money Purchase Section) (the "Scheme" and the "Trustee"), to describe how the Trustee has met the governance standards in relation to:

- the default arrangement;
- the requirements for processing financial transactions;
- charges and transaction costs borne by members; and
- Trustee knowledge and understanding.

This statement covers the period from 1 April 2020 to 31 March 2021 (the "Scheme Year").

#### **2. Default arrangement**

Details of the objectives and the Trustee's policies in regards to the default arrangement are set out in the Scheme's Statement of Investment Principles ("SIP") with further details included in the Statement of Investment Agreements ("SIA"). The SIP is appended to this statement.

The performance of the default arrangement is assessed regularly and considers the aims and objectives set out in the SIP. The Trustee compares the arrangement's performance and expected returns against appropriate benchmarks.

The current default strategy is initially invested 100% in equities to target a return significantly above inflation. Beginning at 25 years to retirement, the strategy gradually switches from equities to diversified growth, such that the strategy is 100% invested in diversified growth funds 10 years from retirement. In the 10 years before retirement it switches gradually into cash and bonds, with the asset allocation at retirement designed for members intending to take their fund as an annuity.

The diversified growth allocation is designed to manage the volatility that members' assets experience in the middle part of the growth phase of the default strategy. Over the long term, the Trustee expects the diversified growth allocation to generate returns similar to equities but with lower volatility.

During the Scheme year, the Trustee decided to transfer the Scheme to the Aegon Master Trust arrangement. This transition is due to be completed in Q3 2021.

#### **3. Requirements for processing financial transactions**

Processing of core financial transactions (including but not limited to investment of contributions to the Scheme, the transfer of assets relating to members into and out of the Scheme and between different investments within the Scheme, and payments from the Scheme to or in respect of members) is carried out by the administrators of the Scheme, XPS Administration Limited.

Overall, the Trustee is satisfied that the administrators have in place adequate internal controls to ensure that core financial transactions are processed promptly and accurately. The Trustee has a Service Level Agreement in place with the administrator and this requires that core financial transactions must be carried out in accordance with the requirements of applicable legislation and the Pension Regulator's Codes of Practice and Guidance. In particular, the administrator:

- should monitor and reconcile bank receipts, including transactions made by investment managers, made into the Scheme's bank account;
- should monitor the receipt of contributions from employers and advise of late or non-payment; and
- must deal with transfers of members in and out of the Scheme within specified prompt timeframes.

The Trustee regularly monitors the performance of the administrator. Throughout the Scheme Year the administrators provided quarterly reports which would have highlighted any non-compliance with the Service Level Agreements and based on information provided by the administrators the Trustee is satisfied that:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed within a reasonable timeframe.

#### 4. Charges and transaction costs

The Scheme uses the Fidelity International (“Fidelity”) investment-only platform, in order to provide a range of investment options to members. This section provides details of the investment arrangements and the associated costs. Members do not bear any costs for the administration of the Scheme.

For the purpose of this statement, “charges” are defined as the ongoing charges figures, which are the annual fund management charges plus additional fund expenses (e.g. for custody, but excluding transaction costs). The stated charges are the only charges which are borne by members. They have been supplied by Fidelity.

The Trustee’s investment adviser has requested transaction costs from Fidelity and the fund managers for the Scheme Year. Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments. Full details of the annual transaction costs incurred over the period 1 April 2020 to 31 March 2021 can be found in Section 4.3.

##### 1.1 Default arrangement

The default arrangement has been set up as a lifestyle approach, whereby members’ assets are automatically moved between different investment funds as they approach their retirement date. Therefore, the level of charges and transaction costs vary according to each member’s proximity to retirement and the underlying funds they are invested in.

Over the period from 1 April 2020 to 31 March 2021, the level of charges within the default arrangement varied between 0.18% and 0.85% pa. The 0.85% charge relates to the point that is 10 years to retirement, which is 100% invested in the Standard Life Global Absolute Return Strategies (“GARS”) Fund.

Default arrangement charges at different stages to retirement:

Years to retirement	Total expense ratio pa (TER)
40 years	0.18%
35 years	0.18%
30 years	0.18%
25 years	0.18%
20 years	0.41%
15 years	0.63%
10 years	0.85%
5 years	0.55%
0 years	0.19%

*Source: R&MS (calculations, July 2021), Fidelity (charges, as at 31 March 2021)*

The 0.75% pa charge cap does not apply to this Scheme since it is closed and is not used for auto-enrolment.

##### 1.2 Self-select funds

The level of charges for each self-select fund (including those used in the default arrangement) are set out in the following table. The funds that are used within the default arrangement are highlighted in bold. The Mouchel Global Equity Fund is a “white-labelled” fund that currently invests 100% into the Baillie Gifford UK and Worldwide Equity Fund.

## Self-select fund charges year to 31 March 2021

Manager – Fund name	Charge (pa)
L&G Cash Fund	0.200%
L&G Global Equity Fixed Weights (50:50) Fund	0.180%
L&G Pre-Retirement Fund	0.180%
Standard Life GARS Fund	0.850%
L&G Multi Asset Index Fund	0.260%
BMO Responsible UK Equity Growth	0.800%
Mouchel Global Equity Fund	0.620%
BlackRock Over 5 Years Index-Linked Gilts Index Fund	0.140%

*Source: Fidelity (charges, as at 31 March 2021)*

### 1.3 Transaction costs (ongoing frictional)

As part of day-to-day trading activities, the funds underlying the default arrangement, as well as those within the self-select fund range, may incur “frictional costs”. Frictional costs are categorised as explicit costs and implicit costs. Explicit costs are directly observable and in most cases, managers are in position to report them. Examples of explicit costs include broker fees, transaction taxes and custody fees. Implicit costs cannot be observed in the same way but do have an impact on fund performance. Examples of implicit costs include bid-offer spreads and market impact.

These costs are incurred every time a fund manager makes a trade within that fund and are intended to improve investment returns, reduce risk, or contribute to the smooth running of a fund. Some costs will be cognisant of market conditions (e.g. some active investment decisions), and some costs are in respect of decisions not linked to market conditions. These costs will continue in the future.

The table below sets out the annual transaction costs for each fund within the default and self-select range over the 12 months to 31 March 2021.

Manager – Fund name	Transaction costs (ongoing frictional pa)
L&G Cash Fund	0.00%
L&G Global Equity Fixed Weights (50:50) Fund	0.00%
L&G Pre-Retirement Fund	0.04%
Standard Life GARS Fund	0.68%
L&G Multi Asset Index Fund	0.03%
BMO Responsible UK Equity Growth	0.68%
Mouchel Global Equity Fund	0.12%
BlackRock Over 5 Years Index-Linked Gilts Index Fund	0.00%

*Source: Fidelity (transaction costs, as at 31 March 2021)*

Below is an illustrative example of the cumulative effect over time of the application of charges and costs on the value of a member's accrued rights. The example outlines the effects of fund charges (the TERs above) and transaction costs (also above) across the Scheme's fund range.

Projected pension pot, in today's terms										
Years	Default Lifestyle		L&G Cash Fund		L&G Global Equity Fixed Weights (50:50) Fund		Standard Life GARS Fund		BMO Responsible UK Equity Growth	
	Gross of all charges	Net of TER and lifestyling costs	Gross of all charges	Net of TER and buy/sell costs	Gross of all charges	Net of TER and buy/sell costs	Gross of all charges	Net of TER and buy/sell costs	Gross of all charges	Net of TER and buy/sell costs
1	£25,900	£25,900	£24,700	£24,600	£25,900	£25,900	£25,500	£25,200	£25,900	£25,600
3	£27,800	£27,600	£23,900	£23,800	£27,800	£27,600	£26,600	£25,600	£27,800	£26,900
5	£29,700	£29,500	£23,200	£23,000	£29,700	£29,500	£27,600	£25,900	£29,700	£28,100
10	£35,100	£34,500	£21,600	£21,200	£35,100	£34,500	£30,400	£26,700	£35,100	£31,600
15	£41,600	£40,500	£20,100	£19,500	£41,600	£40,500	£33,500	£27,600	£41,600	£35,400
20	£48,600	£46,900	£18,600	£17,900	£49,200	£47,500	£36,900	£28,500	£49,200	£39,700
25	£55,400	£53,100	£17,300	£16,500	£58,200	£55,700	£40,700	£29,500	£58,200	£44,500
30	£61,800	£58,600	£16,100	£15,100	£68,800	£65,300	£44,800	£30,400	£68,800	£49,900
35	£65,500	£61,600	£14,900	£13,900	£81,400	£76,600	£49,300	£31,500	£81,400	£56,000
40	£65,300	£60,900	£13,900	£12,800	£96,200	£89,800	£54,400	£32,500	£96,200	£62,800

Projected pension pot, in today's terms								
Years	Mouchel Global Equity Fund		BlackRock Over 5 Years Index-Linked Gilts Index Fund		L&G Multi Asset Index Fund		L&G Pre-Retirement Fund	
	Gross of all charges	Net of TER and lifestyling costs	Gross of all charges	Net of TER and buy/sell costs	Gross of all charges	Net of TER and buy/sell costs	Gross of all charges	Net of TER and buy/sell costs
1	£25,900	£25,700	£24,500	£24,500	£25,500	£25,500	£25,000	£25,000
3	£27,800	£27,200	£23,400	£23,300	£26,600	£26,400	£24,900	£24,800
5	£29,700	£28,800	£22,400	£22,300	£27,600	£27,300	£24,800	£24,600
10	£35,100	£32,900	£20,100	£19,800	£30,400	£29,600	£24,600	£24,100
15	£41,600	£37,700	£18,100	£17,600	£33,500	£32,200	£24,400	£23,700
20	£49,200	£43,200	£16,200	£15,700	£36,900	£35,000	£24,200	£23,200
25	£58,200	£49,500	£14,500	£14,000	£40,700	£38,100	£24,000	£22,800
30	£68,800	£56,700	£13,000	£12,400	£44,800	£41,400	£23,800	£22,300
35	£81,400	£64,900	£11,700	£11,100	£49,300	£45,000	£23,600	£21,900
40	£96,200	£74,400	£10,500	£9,900	£54,400	£48,900	£23,300	£21,500

**Notes:**

- Values shown are estimates and are not guaranteed;
- Transaction costs used are an average of previous years' transaction costs (up to 5 years, but in this case 3 years of data has been used based on availability of consistent data);
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- Assumes inflation of 2.5% per annum;
- Assumes charges in future years are equal to charges today (transaction costs are shown in the table above);
- Assumes a member is aged 25 years old now and retires at age 65;
- Assumes a member salary of £25,000 in Year 0, increasing at 1% per annum above inflation;
- Assumes zero member contributions, given the Scheme is closed
- Assumes an initial pot size of £25,000;
- The accumulation rates used, are set out below:

Asset class	Suggested (capped) annual SMPI return for 2020/21
UK Equities	6.5 (%)
Global Developed Equities	6.0 (%)
Emerging Market Equities	7.0 (%)
Property	6.0 (%)
Cash	1.0 (%)
Fixed Income Gilts	1.4 (%)
Index-Linked Gilts	0.3 (%)
Corporate bonds	1.5 (%)
L&G Pre-Retirement Fund*	1.1 (%)
Diversified Growth Fund (GARS)	4.5 (%)

Source: Aon (SMPI Assumption rates, as at 31 March 2021). The rates reflected above are nominal expected returns.

\* The accumulation rate for the L&G Pre-Retirement fund is a composite of the SMPI returns for each underlying asset class

**1.4 Value for members assessment**

The Trustee has worked with its investment advisers during the Scheme Year to consider the extent to which all key elements of the Scheme represent value for members.

It is the Trustee's policy to review all member borne charges on a regular basis and to aim to ensure that members are obtaining value for members given the circumstances of the Scheme. The Trustee notes that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been considered in the value for members assessment.

Of the three actively managed funds, Mouchel Global Equity Fund and BMO Responsible UK Equity Growth Fund both outperformed their benchmarks (gross of total expenses ratio) over the 3 years to 31 March 2021. Standard Life GARS underperformed its benchmark over the same period.

The Trustee is satisfied with the service received by Fidelity during the Scheme year. The fund range is subject to ongoing governance by the Trustee and the investment manager whereby any performance issues are identified and action is taken if deemed appropriate. It is the Trustee's policy to review all charges on a regular basis and seek to obtain reduced fees where this may be justified. The Trustee believes the annual management charges are reasonable.

In respect of administration, the Trustee is comfortable that members are well served by XPS Administration Limited, which it believes offers a level of service in line with the Service Level Agreements. Overall, the Trustee believes that members of the Scheme are receiving good value.

## **5. Trustee knowledge and understanding**

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding. During the Scheme Year, the Trustee Directors have ensured their knowledge and understanding is up to date as follows:

- Trustee Directors are required to complete the Pension Regulators' Toolkit within six months of being appointed, and review this on an ongoing basis to ensure their knowledge remains up-to-date;
- Trustee Directors are aware that they must be conversant with the trust deed and rules of the Scheme, the statement of investment principles, the statement of funding principles, and the Trustee's policies on matters relating to the administration of the Scheme generally (for example its Independent Dispute Resolution Policy, Conflicts of Interest Policy, and Terms of Reference for sub-committees). The Scheme uses an online storage site via which the Trustee Directors have access to these documents electronically;
- the Trustee Directors are aware that they must have sufficient knowledge of the law relating to pensions and trusts and the principles relating to the funding of occupational pension schemes and the investment of the assets of such schemes. Advisers regularly provide training to the Trustee Directors. There is an annual review of Trustee knowledge to identify any gaps in knowledge and plan to reduce them and Trustee Directors retain a training log to assist with this review;
- relevant advisers are in attendance at each meeting who can explain and provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law, to allow the Trustee to make appropriate decisions;
- there is a regular agenda item that covers current pension issues at quarterly Trustee meetings;
- the training plan includes topics relating to projects and activities that are forthcoming in the Trustee's business plan and which will require the involvement of the Trustee Directors; and
- The Trustee Directors have completed an effectiveness survey to consider the effectiveness of the Board as a whole.

The Trustee Directors are encouraged to seek training opportunities outside meetings if there are sessions available that would be beneficial. For example, the Scheme's actuary and legal advisers run seminars which some Trustee Directors have attended through the year.

The Trustee Directors have demonstrated their knowledge of the law, funding principles, and relevant documentation throughout the year. For example, in undertaking actuarial valuations, considering benefit queries and addressing data protection issues.

The Scheme also benefits from the expertise of its Chair, Andrew Harrison, and its Investment Committee Chair, Mike Jaffe, who are both professional trustees representing The Law Debenture Pension Trust Corporation PLC. Andrew and Mike are able to draw from experience in their roles as trustees for other pension schemes and are both accredited members of the Association of Professional Pension Trustees. Andrew and Mike also have a specific understanding of the Scheme in line with the other Trustee Directors.

Taking the knowledge of the Trustee Directors, with the specialist advice received from the appointed professional advisers (e.g. investment consultants, legal advisers), the Trustee believes it is well placed to properly exercise its functions as Trustee of the Scheme.

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Signed by Andrew Harrison  
Trustee Chair of the Mouchel Business Services Limited Pension Scheme (Money Purchase Section)

Date: 28 September 2021