

GOVERNANCE STATEMENT

Mouchel Business Services Limited Scheme (Money Purchase Section)

DC Governance statement from 1 April 2019 to 31 March 2020

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 2019 to 31 March 2020 (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 Default SIP is appended to this statement.

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

A review of the default arrangement was undertaken during May 2019. Following this review, the Trustee has decided to change the default strategy depending on the demographics of the underlying membership. Members that currently benefit from a DB underpin will be invested in a drawdown targeting lifestyle. For members with no underpin, the default strategy will target a cash focused outcome. The Trustee believes that these changes are suitable and appropriate given the risk profiles and demographics of the Scheme's membership.

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 by 10 years to retirement. In the 10 years before retirement it switches gradually into cash and bonds, with the asset allocation at retirement being designed to be appropriate for members intending to take their fund as an annuity.

The inclusion of the diversified growth allocation is to help 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 than equities.

The Trustee will monitor the relevant members' behaviour to check whether assumptions made about how members will access their benefits are borne out in practice.

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 were appointed as administrators from 1 November 2018.

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 on-going 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 average annual transaction costs incurred over the period 1 April 2019 to 31 March 2020 can be found in Section 4.3.

4.1. 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 2019 to 31 March 2020, the level of charges within the default arrangement varied between 0.18% and 0.86% pa. The 0.86% charge relates to the point that is 10 years to retirement, which is 100% invested in the Standard Life GARS Fund.

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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	0.86%
5 years	0.55%
0 years	0.19%

Source: R&M Solutions (calculations, August 2020), Fidelity (charges, as at 31 March 2020)

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

4.2. 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 2020

Manager – Fund name	Charge (pa)
L&G Cash Fund	0.200%
L&G Multi Asset Index Fund	0.255%
L&G Global Equity Fixed Weights (50:50) Fund	0.180%
L&G Pre-Retirement Fund	0.180%
Standard Life GARS Fund	0.855%
BMO Responsible UK Equity Growth	0.800%
Mouchel Global Equity Fund	0.630%
BlackRock Over 5 Years Index-Linked Gilts Index Fund	0.137%

Source: Fidelity (charges, as at 31 March 2020)

4.3. 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.

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These costs would be 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 average annual transaction costs for each fund within the default and self-select range covering the period 01 April 2019 to 31 March 2020.

Manager – Fund name	Transaction costs (ongoing frictional pa)
L&G Cash Fund	0.00%
L&G Multi Asset Index Fund	0.03%
L&G Global Equity Fixed Weights (50:50) Fund	0.01%
L&G Pre-Retirement Fund	0.00%
Standard Life GARS Fund	0.39%
BMO Responsible UK Equity Growth	0.15%
Mouchel Global Equity Fund	0.03%
BlackRock Over 5 Years Index-Linked Gilts Index Fund	0.03%

Source: R&M Solutions (calculations, August 2020), Fidelity (transaction costs, as at 31 March 2020)

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	£26,000	£26,000	£24,700	£24,700	£26,000	£26,000	£25,400	£25,100	£26,000	£25,800
3	£28,200	£28,000	£24,000	£23,900	£28,200	£28,000	£26,200	£25,200	£28,200	£27,400
5	£30,400	£30,200	£23,400	£23,100	£30,400	£30,200	£27,000	£25,400	£30,400	£29,100
10	£36,900	£36,200	£21,800	£21,400	£36,900	£36,200	£29,000	£25,700	£36,900	£33,700
15	£44,600	£43,400	£20,400	£19,800	£44,600	£43,500	£31,200	£26,000	£44,600	£39,000
20	£53,000	£51,100	£19,000	£18,300	£54,000	£52,200	£33,500	£26,400	£54,000	£45,200
25	£60,400	£57,800	£17,700	£16,900	£65,400	£62,700	£36,100	£26,700	£65,400	£52,300
30	£66,300	£62,800	£16,600	£15,600	£79,200	£75,200	£38,800	£27,000	£79,200	£60,600
35	£68,900	£64,700	£15,500	£14,400	£96,000	£90,300	£41,700	£27,400	£96,000	£70,200
40	£67,900	£63,100	£14,400	£13,300	£116,200	£108,400	£44,800	£27,700	£116,200	£81,300

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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	£26,000	£25,900	£24,500	£24,500	£25,400	£25,400	£24,700	£24,600
3	£28,200	£27,700	£23,400	£23,300	£26,200	£26,000	£23,900	£23,800
5	£30,400	£29,500	£22,400	£22,200	£27,000	£26,600	£23,200	£23,000
10	£36,900	£34,600	£20,100	£19,800	£29,000	£28,200	£21,500	£21,100
15	£44,600	£40,600	£18,100	£17,600	£31,200	£30,000	£20,000	£19,400
20	£54,000	£47,700	£16,200	£15,700	£33,500	£31,800	£18,500	£17,800
25	£65,400	£56,000	£14,500	£13,900	£36,100	£33,700	£17,200	£16,400
30	£79,200	£65,700	£13,000	£12,400	£38,800	£35,800	£16,000	£15,000
35	£96,000	£77,200	£11,700	£11,000	£41,700	£38,000	£14,800	£13,800
40	£116,200	£90,600	£10,500	£9,800	£44,800	£40,300	£13,700	£12,700

Notes:

- Values shown are estimates and are not guaranteed;
- The transaction costs used are the average annual transactions covering the period 01 April 2018 to 31 March 2020;
- 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 2019
UK Equities	6.5 (%)
Global Developed Equities	6.5 (%)
Emerging Market Equities	7.0 (%)
Property	5.0 (%)
Cash	1.1 (%)
Fixed Income Gilts	1.2 (%)
Index-Linked Gilts	0.3 (%)
Corporate bonds	1.5 (%)
L&G Pre-Retirement Fund*	1.0 (%)

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Diversified Growth Fund (GARS)	4.0 (%)
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Source: Aon (rates, as at 30 June 2019). 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

4.4. Value for members assessment

The Trustee has worked with its investment advisers during the course of 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 taken into account 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 2020. Standard Life GARS underperformed its benchmark over the same period.

The Trustee is satisfied with the service received by Fidelity. 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;

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- 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, who is a professional trustee representing the Law Debenture Company PLC. Andrew is able to draw from experience in his role as a trustee for other pension schemes and has attained a qualification in Pension Trusteeship from the Pensions Management Institute. Andrew also has 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.

Andrew Harrison

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

Date: 30 September 2020
