

# **THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)**

**Report and Financial Statements for the year ended  
31 March 2020**

Scheme Registration No: 10253831



PO Box 485, Middlesbrough, TS1 9EE

XPS Administration is a trading name of XPS Administration Limited  
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB.

Part of XPS Pensions Group

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# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## TRUSTEE'S ADVISERS

<b>Actuary and Consultant:</b>	K Wesbroom FIA J Sydenham Aon Solutions UK Limited The Aon Centre The Leadenhall Building 122 Leadenhall Street London EC3V 4AN	(retired 8 May 2019) (appointed 9 May 2019)
<b>Auditor :</b>	RSM UK Audit LLP Central Square 5 <sup>th</sup> Floor 29 Wellington Street Leeds LS1 4DL	
<b>Legal Advisers :</b>	Hogan Lovells International LLP Atlantic House Holborn Viaduct London EC1A 2FG	
<b>Bankers :</b>	National Westminster Bank plc 27 High Street, Brecon Powys LD3 7LF	
<b>Administrators :</b>	XPS Administration PO Box 485 Middlesbrough TS1 9EE	
<b>Sponsoring Employer :</b>	Kier Limited 81 Fountain Street Manchester M2 2EE	
<b>Participating Employers :</b>	Kier Highways Limited Kier Business Services Limited	
<b>Investment Advisers :</b>	River and Mercantile Solutions One Aldermanbury Square London EC2V 7HR	
<b>Secretary to the Trustee :</b>	G Graham Punter Southall Governance Services Forbury Works 37 – 43 Blagrove Street Reading RG1 1PZ	

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

The Investments for the Scheme are held by Fidelity Investments which are then invested with the below Investment Managers.

## ***Investment Managers and Custodians:***

<b><i>Manager</i></b>	<b><i>Portfolio</i></b>	<b><i>Custodian</i></b>
Legal & General Investments	Overseas Assets	Citibank NA
	UK Assets	HSBC plc
Standard Life	Pooled Investment Vehicles	Citigroup NA
Baillie Gifford	Pooled Investment Vehicles	HSBC
Fidelity	Pooled Investment Vehicles	
BMO Global Asset Management	Pooled Investment Vehicles	State Street
Blackrock	Pooled Investment Vehicles	

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Trustee presents to the members their annual report and financial statements for the year ended 31 March 2020.

### **Scheme Information**

The Scheme is a defined contribution scheme and provides benefits for the staff of the Sponsoring Employer. Members who joined the Scheme prior to 1 October 2005 were contracted out of the State Second Pension (S2P) under a certificate issued by the Inland Revenue National Insurance Contributions Office. As this section of the Scheme was contracted out on a Reference Scheme Test basis, the Trustee must ensure that a triennial valuation of the Scheme is carried out and that a Schedule of Contributions is maintained. A Consolidated Deed and Rules for the Scheme was approved and signed at the Trustee Board meeting on 13 September 2018, and by the Company on 27 September 2018.

The Scheme is governed by the Third Definitive Trust Deed dated 4 October 2013, and was an "exempt approved scheme" under the terms of the Income and Corporation Taxes Act 1988 until April 2006. From April 2006 the Scheme became a 'registered pension scheme' for tax purposes.

The Scheme is managed by a corporate Trustee, Kier Group Pension Trustees Limited (KGPT), Forbury Works, 37-43 Blagrove Street, Reading, RG1 1PZ (Registered No. 7032057). This company was set up especially for the purpose.

Directors of the Trustee Company:

Law Debenture(Chair)	Company appointed	represented by Andrew Harrison represented by Mike Jaffe as Chair of the Investment Committee
J Ballinger (KGPS)	Member nominated	
G Barnes (KGPS)	Member nominated	
L Cupac (KGPS)	Member nominated	
R Hobbs (Mouchel)	Member nominated	
M Holland (Mouchel)	Member nominated	
A Loughlin (MGPS)	Member nominated	
A Findlay-Shirras (KGPS)	Company appointed	
M Spink (Mouchel)	Company appointed	died 14 February 2020
P Staniland (KGPS)	Company appointed	
J Sturman (MGPS)	Company appointed	
I Woods (KGPS)	Company appointed	

In addition to the Scheme, KGPT is also Trustee to the following Schemes:

- Kier Group Pension Scheme (KGPS)
- May Gurney Pension Scheme
- Mouchel Business Services Limited Pension Scheme (Final Salary Section)
- Mouchel Staff Pension Scheme
- Mouchel Superannuation Fund

The Trustee is appointed and removed from office by the principal employer in accordance with the Trust Deed, and the Trustee's Articles of Association. The Trustee has the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents, and in the best interests of the members.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

Under the provisions of the Pensions Act 2004, at least one-third of the Trustee Directors must be nominated by Scheme members. In accordance with these provisions six Member Nominated Trustee Directors have been appointed.

During the year the Trustee met regularly to review the management of the Scheme and to monitor the performance of the investment managers, administrators and advisers.

## ***The Governance Committee (GC)***

This Committee met four times during the year to monitor the effectiveness of the Scheme's internal controls; agree the Scheme's overheads budget; monitor regulatory compliance; to review insurance arrangements and professional adviser's terms; facilitate assessment by the full Trustee board of their own knowledge and effectiveness. The GC is also responsible for reviewing the draft annual report and accounts. The GC also reviews the Scheme's risk register and any outstanding actions are considered by the full Trustee board.

## ***Employer Covenant Group (ECG)***

The covenant is the Employer's legal obligation to fund the pension scheme now and in the future. It takes into account the employer's willingness to meet its obligations and the robustness of the legal agreements enforcing them. The Pensions Regulator's guidance on monitoring employer support emphasises the need for trustees and employers to take proactive action to ensure adequate security for the scheme, by assessing the covenant and establishing a monitoring framework.

The ECG met or held conference calls on five occasions during the year to monitor the strength of the Company's covenant, and consider possible Company transactions. The Trustee also delegated the ECG the task of conducting all of the negotiations in relation to the triennial valuation as at 31 March 2019.

## ***The Investment Committee (IC)***

This Committee is responsible for considering matters relating to the investment of the Schemes' assets and making recommendations on investment issues to the Trustee as delegated to it by the Trustee. It met five times during the year to February to review individual investment managers, investigate new investment opportunities, and consider strategic and tactical recommendations from the Scheme's advisers. Then the COVID-19 crisis struck causing disruption to economic activity and falls in financial markets, and the IC responded by monitoring the position closely and meeting via video conference call on a regular basis.

The IC is also responsible for directing and monitoring the work of the investment consultant as well as regularly assessing their performance.

## **Change in Actuary**

During the year Kevin Wesbroom retired from Aon Solutions UK Limited and resigned his position as Scheme Actuary. In his statement he noted no circumstances connected with his resignation which, in his opinion, significantly affected the interests of the members or beneficiaries under the Scheme. His colleague John Sydenham was appointed as Scheme Actuary in his place.

## **Membership**

The number of members as at the year-end was:	2020	2019
Deferred pensioners	539	572
Pensioners	2	2
Undecided leavers	1	2
Total	<u>542</u>	<u>576</u>

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## **Defined Contribution Scheme Governance Standards**

The Defined Contribution (DC) Code of Practice issued by The Pensions Regulator introduced governance standards which apply to trustees of most occupational pension schemes which provide defined contribution benefits. These governance standards focus on the scheme's default arrangements, charges and administration processes. A key responsibility of the Chair of the Trustee Board is to sign off a yearly statement explaining how the scheme meets the new governance requirements.

## **Transfer Values**

As a result of the COVID -19 pandemic, and in light of the considerable volatility in the Stock Markets, the Trustee took the decision in April 2020 to temporarily suspend the quotation of Transfer values to 1 July 2020.

## **Financial Development of the Scheme**

	£'000s
Net assets at 31 March 2019	17,159
Net withdrawals from dealings with members	(922)
Net returns on investments	(341)
Net assets at 31 March 2020	<u>15,896</u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

## **Contingent Asset**

Kier Group plc has given a guarantee to the Trustee that it will meet the Pension Protection Fund deficit. It gave this guarantee on behalf of the participating employers in the Group.

## **Guaranteed Minimum Pension (GMP) Equalisation**

On 26 October 2018, the High Court made a judgement on a case brought to the court by the Trustee of certain Lloyds Bank pension schemes. It concluded that pension schemes who have members whose pension include a GMP will need to make sure that GMP benefits built up between 17 May 1990 and 6 April 1997 are equal between men and women.

## **Late valuation**

It did not prove possible to complete the actuarial valuation as at 31 March 2019 by the statutory deadline of 30 June 2020, and as negotiations with the Employer were ongoing, the Trustee entered into an Interim Agreement. Under this agreement the payment of £1.3m which had been due on 1 July 2020 was deferred to 1 October 2020, and the Employer agreed to pay an additional amount of £12,500 per month for the period 1 July to 30 September 2020. Accordingly a revised Schedule of Contributions and Actuarial Certificate (in relation to the actuarial valuation as at 31 March 2016) was signed on 30 June 2020.

The Pensions Regulator (TPR) recognised that trustees finalising their valuations when the COVID-19 crisis struck, might need more time to complete them. In March 2020 they announced that they would not take regulatory action if the delay in agreeing a valuation and recovery plan for valuations that should have been completed at around this time was less than three months after the 15 month statutory deadline. However in June TPR announced that from 1 July the reporting requirements would resume and therefore the Trustee made a formal report to TPR to notify them of failure to complete the Scheme funding valuation.

The valuation as at 31 March 2019 was subsequently completed on 22 September 2020.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## **Enquiries**

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustees

c/o XPS Administration Limited  
PO 485  
Middlesbrough  
TS1 9EE  
Email: [contactpensions@xpsplc.com](mailto:contactpensions@xpsplc.com)

## **Money & Pensions Service (MaPS)**

The MaPS is a new service which was introduced in 2019 combining pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MaPS can be contacted at:

Money & Pensions Service  
Holborn Centre  
120 Holborn  
London EC1N 2TD

MPS Tel: 0115 965 9570  
Email: [contact@maps.org.uk](mailto:contact@maps.org.uk)  
Website: [www.moneyandpensionsservice.org.uk](http://www.moneyandpensionsservice.org.uk)

## **Pensions Ombudsman**

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
London E14 4PU

Tel: 0800 917 4487  
Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)  
Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

## **The Pensions Regulator (TPR)**

The Pensions Regulator can intervene if they consider that a Scheme's Trustee, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House  
Trafalgar Place  
Brighton BN1 4DW

Tel: 0345 600 7060  
Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)  
Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

***The Pension Scheme Registry***

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10253831. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

## **INVESTMENT REPORT**

The Trustee determines its investment strategy after taking advice from the investment adviser. It has delegated the management of the investments to the investment managers listed on page 3.

### ***Statement of Investment Principles***

A Statement of Investment Principles has been produced as required under Section 35 of the Pensions Act 1995 and a copy is available on request. All investments made during the year were in accordance with this Statement.

The Trustee periodically reviews its investment managers' policies with regard to the exercising of voting rights attached to investments. The Trustee may request the investment managers to exercise these rights in a certain manner, subject to the Trustee acting in the best financial interest of the Scheme's beneficiaries. Where the Scheme's assets are held in pooled investments, the Trustee accepts that it is the manager of the pooled investments who exercises the voting rights attached to the underlying investments on behalf of all participants in the pooled funds.

The Trustee may make its views known to the investment managers on environmental, social and governance (ESG) factors and may ask them not to hold certain investments but any request will have regard to the Trustee's duty to act in the best financial interest of the Scheme's beneficiaries. The Trustee accepts that the policy on social, environmental and ethical factors is set by the fund manager in respect of the pooled investments held.

### ***Custodial Arrangements***

The pooled fund investment managers appoint custodians over their respective funds. The Trustee is not involved in this appointment.

The custodians are responsible for the safekeeping of share certificates and other documentation relating to the ownership of listed investments, settlement of trades and income collection.

The Trustee is responsible for ensuring that the Scheme's assets continue to be held securely. It reviews the custodian arrangements from time to time.

### ***Employer-related investments***

The Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005, and Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 detail restrictions on employer-related investments.

The Scheme has no direct exposure to Kier Group plc but may have exposure through pooled investment vehicles. The level of employer-related investments is significantly less than 5% of Scheme assets.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## Investment performance and benchmarking

The performance of each investment fund against its objective is detailed in the tables below. Performance is shown for the year, and three years ending 31 March 2020.

	Fund and Benchmark	Year		3 Years pa	
		Return	Relative	Return	Relative
Fund Benchmark	Fidelity L&G Global Equity 50/50 Fund Composite	-12.3%	0.0%	-1.4%	-0.1%
Fund Benchmark	Mouchel Global Equity Fund Composite	-10.3%	3.7%	1.8%	3.9%
Fund Benchmark	F&C Responsible UK Equity Growth Fund Composite	-16.5%	2.0%	-1.6%	2.6%
Fund Benchmark	Fidelity L&G Multi Asset Fund Composite	-5.6%	2.6%	0.8%	1.6%
Fund Benchmark	Fidelity Standard Life GARS Fund Composite	1.1%	0.3%	0.4%	-0.4%
Fund Benchmark	BlackRock Ovr 5Yr I-L-Gilt Fund Composite	6.9%	0.3%	4.6%	0.1%
Fund Benchmark	Fidelity L&G Pre-Retirement Fund Composite	5.9%	0.1%	3.8%	0.1%
Fund Benchmark	L&G Cash Fund Composite	0.5%	-0.1%	0.3%	-0.1%

### Active Funds

- Performance after charges equal to or above benchmark
- Performance after charges below benchmark

### Passive Funds

- Performance before charges within 0.5% of benchmark (+/-)
- Performance before charges more than 0.5% above benchmark
- Performance before charges more than 0.5% below benchmark

## Composite Benchmarks

Fund	Benchmark
L&G Global Equity Fixed Weights (50:50) Index Fund	50% FTSE All Share, 17.5% FTSE AW Developed Europe ex UK, 17.5% FTSE AW Developed North America, 8.75% FTSE AW Japan, 6.25% FTSE AW Developed Asia Pacific ex Japan
Mouchel Global Equity Fund	50% FTSE All Share, 14% FTSE North America, 14% FTSE W Europe ex UK, 14% MSCI Pacific GDR, 8% MSCI Emerging Markets GDR. From 31/08/2017: 60% FTSE All Share, 11.2% FTSE W North America, 11.2% FTSE W Europe ex UK, 11.2% MSCI Pacific GDR, 6.4% MSCI Emerging Markets GDR.
F&C Responsible UK Equity Growth Fund	100% FTSE All Share
L&G Multi-Asset Fund	ABI UK Mixed Investment 40%-85% Pension Sector
L&G Pre-Retirement Fund	Composite of underlying
BlackRock (50:50) Global Equity Index Fund	50% FTSE All Share, 16.7% FTSE Europe ex-UK, 16.7% FTSE North America, 8.3% FTSE Japan, 8.3% FTSE Asia Pacific ex Japan
BlackRock LifePath Fund 2025	Composite of underlying
BlackRock LifePath Fund 2018	Composite of underlying
BlackRock LifePath Capital Fund 2049-2051	Composite of underlying
BlackRock LifePath Capital Fund 2025-2027	Composite of underlying
BlackRock LifePath Mature Fund	Composite of underlying
BlackRock LifePath Flexi	Composite of underlying
BlackRock LifePath Retirement	Composite of underlying

Risk Warning: Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the full amount originally invested.

Sources: LGIM, River & Mercantile

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2019. This showed that on that date:

The value of the technical provisions was £19.8 million

The value of net assets was £17.2 million

The deficit was £2.6 million and the funding level was 87%.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles). Further information about the financial development of the Scheme can be found in the annual Summary Funding Statement (SFS) which is issued to members each year.

### Method

The actuarial method used is the Projected Unit method.

### Significant actuarial assumptions

Pre-retirement discount rate	Fixed interest gilt yield curve at the valuation date less 0.2% pa at all terms
Post retirement discount rate	Aon Bulk Annuity Market Monitor yield curve for pensioners with a 10% loading (to account for the difference in bulk and individual annuity rates)
Price Inflation (RPI)	'Break-even' RPI curve less an inflation risk premium of 0.1% pa
Price Inflation (CPI)	Derived as the RPI inflation curve less 0.9% pa at all terms
Pension Increases	Derived from the RPI and CPI inflation curves allowing for the maximum and minimum annual increases using term dependent Aon best estimates of future inflation volatility
Post retirement Mortality	Standard tables S3PxA with a scaling factors derived from the Aon Demographic Horizons model, with an allowance for improvements from 20013 in line with the CMI2018 core projections (Sk=7.0 and A=0.5%) assuming a long-term annual rate of improvement in mortality rates of 1.5% per annum for males and females.

**ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS**

**Certification of Schedule of Contributions**

**Name of scheme:** Mouchel Business Services – Money Purchase

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2019 to be met by the end of the period specified in the recovery plan dated 22 September 2020.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 22 September 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature:

Date: 22 September 2020

Name: John Sydenham

Qualification: Fellow of the Institute and Faculty of Actuaries

Address:  
1 Redcliffe Street  
Bristol  
BS1 6NP

Name of employer: Aon

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- contain the information specified in Regulation 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed for and on behalf of the Trustee:

Date 30 September 2020  
Date .....

## **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)**

### **Opinion**

We have audited the financial statements of the Mouchel Business Services Limited Pension Scheme (Money Purchase Section) for the year ended 31 March 2020 which comprise the fund account, the statement of net assets (available for benefits) and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identifiable material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION) (continued)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Scheme's Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of Trustees**

As explained more fully in the Trustee's responsibilities statement set out on page 13, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION) (continued)**

**Use of our report**

This report is made solely to the Scheme's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP  
*Statutory Auditor, Chartered Accountants*  
Central Square  
5<sup>th</sup> Floor  
29 Wellington Street  
Leeds LS1 4DL

Date: \_\_\_\_\_

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## FUND ACCOUNT

For the year ended 31 March 2020

	Note	2020 £'000s	2019 £'000s
<b>CONTRIBUTIONS AND BENEFITS</b>			
Employer contributions	4	<u>326</u>	<u>326</u>
<b>Total contributions</b>		<u>326</u>	<u>326</u>
		<u>326</u>	<u>326</u>
Benefits paid or payable	5	287	12
Payments to and on account of leavers	6	960	258
Administrative expenses	7	<u>1</u>	<u>3</u>
		<u>1,248</u>	<u>273</u>
<b>NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<u>(922)</u>	<u>53</u>
<b>RETURNS ON INVESTMENTS</b>			
Change in market value of investments	8	(341)	748
Investment management expenses		<u>-</u>	<u>(11)</u>
<b>NET RETURNS ON INVESTMENTS</b>		<u>(341)</u>	<u>737</u>
<b>NET (DECREASE)/INCREASE IN THE FUND FOR THE YEAR</b>		(1,263)	790
<b>OPENING NET ASSETS</b>		<u>17,159</u>	<u>16,369</u>
<b>CLOSING NET ASSETS</b>		<u><u>15,896</u></u>	<u><u>17,159</u></u>

The notes on pages 19 to 29 form part of these financial statements.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 31 March 2020

	Note	2020 £'000s	2019 £'000s
<b>INVESTMENT ASSETS</b>			
Pooled investment vehicles	9	15,619	16,919
Insurance policies	10	45	47
AVC investments	11	49	47
Cash in Transit	8	57	-
<b>TOTAL NET INVESTMENTS</b>		<u>15,770</u>	<u>17,013</u>
<b>CURRENT ASSETS</b>	15	133	157
<b>CURRENT LIABILITIES</b>	16	(7)	(11)
<b>NET ASSETS at 31 March</b>		<u><u>15,896</u></u>	<u><u>17,159</u></u>

The notes on pages 19 to 29 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 11 of the Annual Report and these financial statements should be read in conjunction with this Report.

These financial statements were approved by the Trustees on 30 September 2020 . . . . .(date)

Signed on behalf of the Trustees

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2018).

This is the first set of financial statements in which the Scheme Trustee has adopted the amendments to FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 incremental improvements and Clarification issued 2017, and the SORP (revised 2018). The adoption of the revised SORP has had no material impact on the financial statement. However, it has required certain additions to or amendments of disclosures in the financial statements.

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments for at least the next twelve months. In reaching this conclusion, the Trustee has considered the strength of the covenant of the Sponsoring Employer, and their ability to pay the contributions due. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the financial statements on a going concern basis.

### 2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is:  
XPS Administration, PO Box 485, Middlesbrough, TS1 9EE

### 3. ACCOUNTING POLICIES

#### (a) *Accounting Convention*

The financial statements are prepared on an accruals basis.

#### (b) *Contributions*

Employer deficit funding contributions are recognised on the due dates in accordance with the Schedule of Contributions, or if received earlier on a receipts basis. Other contributions are recognised when due under the Schedule of Contributions.

#### (c) *Payments to Members*

Benefits, and any associated taxation due to lifetime or annual allowances where the member has elected for the Scheme to settle the liability on their behalf, are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

#### (d) *Expenses*

The expenses of the Trustee are met from a Trustee budget agreed with and funded by Kier in accordance with the Expenses Deed dated 28 April 2018. If the budget is exceeded, then the Scheme is expected to pay those invoices to the relevant providers with no reimbursement from Kier Group plc. There were no expenses paid through the Scheme on behalf of the company during the year.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 March 2020

**3. ACCOUNTING POLICIES (continued)**

**(e) Investment Income**

Interest receivable is taken into account on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

**(f) Investments**

Investments are included at fair value as follows.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

**(g) Scheme Annuities**

Scheme Annuity policy values are written down by their annual income unless the Trustee decides that they have a material value in which case they are valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date.

**(h) Foreign Currency Translation**

Monetary items denominated in foreign currencies are translated into Sterling using the closing exchange rates at the Scheme year-end. Asset and liability balances are translated at the bid and offer rates respectively. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

**(i) Currency**

The Scheme's functional and presentation currency is Pound Sterling (GBP). Monetary amounts in these financial statements are rounded to the nearest £'000 Sterling.

**4. CONTRIBUTIONS**

	2020 £'000s	2019 £'000s
Employer contributions	326	326
	<u>326</u>	<u>326</u>

In accordance with the Schedule of Contributions deficit contributions are payable to 30 June 2026 as follows:

- o £27,167 per month in the period 1 April 2019 to 31 March 2020
- o £27,100 per month in the period 1 April 2020 to 30 September 2020
- o Not applicable in the period 1 October 2020 to 30 June 2021
- o £22,000 per month in the period 1 July 2021 to 30 June 2026

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

<b>5. BENEFITS PAID OR PAYABLE</b>	2020 £'000s	2019 £'000s
Commutation of pensions and lump sum retirement benefits	119	-
Purchase of annuities	150	2
Lump sum death benefits	18	10
	<u>287</u>	<u>12</u>
<b>6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS</b>	2020 £'000s	2019 £'000s
Individual transfers out to other schemes	<u>960</u>	<u>258</u>
<b>7. ADMINISTRATIVE EXPENSES</b>	2020 £'000s	2019 £'000s
Administration	<u>1</u>	<u>3</u>
	<u>1</u>	<u>3</u>

The majority of the Scheme expenses were paid directly by the employer.

## 8. RECONCILIATION OF INVESTMENTS

	Value at 31.03.2019 £'000s	Purchases at cost £'000s	Sales proceeds £'000s	Change in market value £'000s	Value at 31.03.2020 £'000s
Pooled investment vehicles	16,919	796	(1,750)	(346)	15,619
Insurance policies	47	-	(2)	-	45
AVC investments	47	-	(3)	5	49
	<u>17,013</u>	<u>796</u>	<u>(1,755)</u>	<u>(341)</u>	<u>15,713</u>
Cash in transit	-				57
	<u>17,013</u>			<u>(341)</u>	<u>15,770</u>

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the scheme such as fees, commissions and stamp duty.

In addition to the transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

For the Defined contribution section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to the members leaving the Scheme prior to vesting.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

### 8. RECONCILIATION OF INVESTMENTS (CONTINUED)

Defined Contribution assets are allocated to members and the Trustee as follows:

	2020 £'000s	2019 £'000s
Members	12,274	14,443
Trustee	<u>3,046</u>	<u>2,570</u>
	<u>15,770</u>	<u>17,013</u>

### 9. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2020			2019		
	Main Fund £'000s	AVC £'000s	Total £'000s	Main Fund £'000s	AVC £'000s	Total £'000s
Equity	10,543	265	10,808	12,435	388	12,823
Bonds	4,509	83	4,592	3,797	87	3,884
Cash	206	13	219	206	6	212
	<u>15,258</u>	<u>361</u>	<u>15,619</u>	<u>16,438</u>	<u>481</u>	<u>16,919</u>

### 10. INSURANCE POLICIES

The Scheme held insurance policies at the year-end as follows:

	2020 £'000s	2019 £'000s
Annuity policies	<u>45</u>	<u>47</u>

### 11. AVC INVESTMENTS

The Trustee holds assets invested separately from the main fund securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to the year-end confirming contributions paid and the value of their fund. The aggregate amounts of AVC investments are as follows:

	2020 £'000s	2019 £'000s
Fidelity	361	481
Prudential	<u>49</u>	<u>47</u>
	<u>410</u>	<u>528</u>

The AVC investments held by Fidelity are included in Pooled Investment Vehicles balance of £15,619,000 as shown in the Statement of Net Assets and note 9. The AVC's held by Prudential are shown directly as AVC Investments in the Statement of Net Assets.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

### 12. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 31 March 2020			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Pooled investment vehicles	-	15,619	-	15,619
AVC's	-	-	49	49
Insurance Policies	-	-	45	45
	-	15,619	94	15,713

  

	At 31 March 2019			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Pooled investment vehicles	-	16,919	-	16,919
AVC's	-	-	47	47
Insurance Policies	-	-	47	47
	-	16,919	94	17,013

### 13. INVESTMENT RISK DISCLOSURES

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

### 13. INVESTMENT RISK DISCLOSURES (continued)

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

#### Investment Strategy

The Scheme's assets are all invested through a unit-linked insurance policy, designed for occupational pension schemes. The unit-linked policy invests in a wide range of investments through several investment managers.

The Scheme's investment strategy comprises 8 "member funds", which are made available to members through the "Default Lifestyle" arrangement and/or on a self-select basis. The funds in which the investment funds themselves invest are known as "underlying funds".

The member funds are invested in a wide range of "underlying investments" (through the underlying funds) in different asset classes, including stocks and shares (equities), bonds, cash and other types of investment. The value of the member funds is worked out daily and will rise or fall. Members' investments are directly linked to the performance (after any applicable fees or charges) of the underlying funds in which money is invested.

For example, members may invest in the Fidelity L&G Cash Fund – this is a member fund. This fund is itself 100% invested in the L&G Cash Fund – this is an underlying fund. The L&G fund will hold various cash investments – these are underlying investments.

The value of the total policy is also worked out daily, based on the total number of units each member has in the unit-linked policy. As the value of the underlying funds rises or falls, so will the value of members' holdings in the policy. The policy can be cashed in on any working day that reflects up to date market valuations.

The investment strategy includes several options for members. The "Default Lifestyle" arrangement switches members across four member funds, called Core Options. Each Core Option is made up of a variety of underlying investments, managed by different investment managers.

For members who choose not to use the Default Lifestyle arrangement, the investment strategy provides a range of self-select funds. This range includes the Core Options underlying the Default Lifestyle arrangement, as well as one diversified fund and three funds broadly representing more traditional equities and gilts.

To facilitate the investment strategy, an "investment platform" is necessary. The Trustee has appointed FIL Life Insurance Limited ('Fidelity') as provider and therefore assets are held by Fidelity.

Over the period the underlying funds comprised a series of funds managed by professional investment managers (the "underlying managers"): BlackRock Life Limited, Legal & General Investment Management Limited, Aberdeen Standard Investments, BMO Global Asset Management, Baillie Gifford: Asset Management and Investment Trusts.

All assets held by the Scheme are held through Pooled Investment Vehicles ("PIVs").

Each of the underlying investment managers has a custodian that holds assets in safekeeping.

The Scheme's assets are held in a life fund where Fidelity owns the assets. The Trustee holds an insurance contract with Fidelity on members' behalf, where the value of the contract is equal to the value of the underlying investments.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

### 13. INVESTMENT RISK DISCLOSURES (continued)

#### Risk assessment

The Scheme is subject to various types of risks, which vary by member fund. The main types of risks include (but are not limited to) credit risk and market risk, arising from the underlying investments in the underlying funds. Market risk is composed of foreign exchange ("FX"), interest rate and other price risks.

While the Trustee governs the underlying funds individually, it considers risks at a member fund level to be more important, recognising the benefit of diversification and offsetting risks within the investment funds.

Risks are classified as "Direct" if they relate to an investment held directly by the Scheme, or "Indirect" if they relate to an investment held by one of the pooled underlying funds.

All member funds would be exposed to different risks to some degree (for example, a large shift in interest rates could affect equity markets) - the main risk exposures of each of the member funds within the investment strategy are set out below.

Fund	Risk				
	Credit (Direct)	Credit (Indirect)	FX	Interest Rate	Other Prices
L&G Global Equity Fixed Weights (50:50) Index Fund	✓		✓		✓
Mouchel Global Equity Fund	✓		✓		✓
BMO Responsible UK Equity Growth Fund	✓		✓		✓
L&G Multi-Asset Fund	✓	✓	✓	✓	✓
Standard Life GARS	✓	✓	✓	✓	✓
BlackRock Over 5 Years Index Linked Gilts Index Fund	✓	✓		✓	✓
L&G Pre-Retirement Fund	✓	✓	✓	✓	✓
L&G Cash Fund	✓			✓	✓

#### Credit Risk

All assets of the Scheme are subject to direct credit risk in relation to Fidelity through the Scheme's holding in unit linked insurance funds provided by Fidelity. Direct credit risk relates to insolvency of Fidelity, the underlying managers or the custodians used by the underlying managers to hold fund assets.

Fidelity is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and the Prudential Regulation Authority and maintains capital for its policy holders. In the event of default by Fidelity, the Trustee can apply for compensation from the Financial Services Compensation Scheme ("FSCS").

As well as the regulatory environment in which the investment platform operates, direct credit risk is mitigated at the investment platform level by the assets backing the Scheme's policy being ring-fenced from those of the investment platform.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 March 2020

**13. INVESTMENT RISK DISCLOSURES (continued)**

**Credit Risk (continued)**

Direct credit risk in the underlying funds operated by the underlying managers is mitigated by the underlying investments being ring-fenced from those of the underlying manager and through the regulatory environments in which the underlying managers operate. The amount that can be claimed by the investment platform in the event of an insolvency of the underlying manager will depend on the structure of the underlying fund and the contractual terms between the manager and the investment platform. In the event of a custodian becoming insolvent, the level of asset recovery will depend on the custody agreement in place between the underlying manager and the custodian.

The Trustee carries out due diligence checks on the appointment of the investment platform and new investment managers. On an ongoing basis, it monitors any changes to the regulatory and operating environments of both.

The Scheme's investments are all held in pooled investment vehicles. At the end of the Scheme year, the total value of member funds subject to direct credit risk was £15.6m (£16.9m at 31 March 2019).

The Scheme is also subject to indirect credit risk arising on the underlying investments held by the underlying funds. Credit risk is mitigated by utilising investment managers whose mandate includes one or more of the following:

- invest in government bonds where the credit risk is minimal;
- invest in corporate bonds which are rated at least investment grade;
- diversification of the underlying investments.

A summary of the pooled investment vehicles by type of arrangement is set out below.

	2020	2019
	£'000s	£'000s
Legal Structure		
Unit Linked Insurance Policy	15,619	16,919
	15,619	16,919
	15,619	16,919

**Currency Risk**

Some member funds are subject to indirect currency risk because some of the underlying investments are held in overseas markets via pooled investment vehicles. The Trustee regards currency risk as one which can, in some cases, add value and manages this risk through advice from its investment advisor.

There is no direct exposure to currency risk. All member and underlying funds are priced in GBP and no foreign denominated assets are held directly.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

### 13. INVESTMENT RISK DISCLOSURES (continued)

#### Interest Rate Risk

Some member funds are subject to indirect interest rate risk because some of the underlying investments are held in bonds or cash through pooled vehicles. If interest rates fall the value of these investments will rise (all else equal) and vice versa.

The Scheme manages this risk through the following:

diversification, where appropriate, to reduce the impact of a change in interest rates; or

allowing the risk, where appropriate, in recognition that a change in interest rates will likely be correlated with a change in annuity rates and therefore this degree of "matching" is desirable.

No assets are subject to direct interest rate risk as no interest rate sensitive investments are held directly.

#### Other Price Risks

All assets are subject to indirect other price risk. Other price risk arises in relation to risks not mentioned above, such as those affecting equity markets, property, non-investment grade bonds etc.

The Scheme manages this risk by making available member funds with a diverse portfolio of investments across various markets, designed to minimise the overall price risk. Members may also invest in funds with a higher degree of overall price risk should they choose.

No assets are subject to direct other price risk as no price sensitive investments are held directly.

### 14. CONCENTRATION OF INVESTMENTS

The following holdings had a value exceeding 5% of the Scheme net assets as at 31 March.

	2020		2019	
	£'000s	%	£'000s	%
L&G Global Equity 50:50 Index	4,126	26	5,394	31
L&G Consensus	974	6	1,433	8
Standard Life GARS Fund	4,754	30	4,709	27
L&G Pre-Retirement	1,548	10	1,326	8
Mouchel Global Equity Fund	776	5	1,049	6
Blackrock 5 Year Gilt	3,043	19	2,558	15

### 15. CURRENT ASSETS

	2020	2019
	£'000s	£'000s
Bank balance	103	127
Contributions receivable – employer	27	27
Other assets	3	3
	<u>133</u>	<u>157</u>

All contributions receivable were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

<b>16. CURRENT LIABILITIES</b>	2020 £'000s	2019 £'000s
Other Creditors	1	1
Unpaid benefits	1	10
Tax payable	5	-
	<u>7</u>	<u>11</u>

## 17. TAXATION STATUS

The Scheme is a registered Pension Scheme within the meaning of Section 153 of the Finance Act 2004.

## 18. RELATED PARTY TRANSACTIONS

- (a) Where the Trustee Directors are members of the Scheme their membership and benefits are administered in accordance with the normal Scheme Rules. The Trustee Director M Spink was a member of the Scheme.
- (b) As detailed in note 7, the majority of Scheme expenses were paid directly by the employer. This totalled £2,799,787 for the year ended 31 March 2020 covering the expenses for the six KGPT schemes noted on page 4.
- (c) Independent Trustee fees were paid to LawDeb Pension Trustees totalling £153,072 for the year ended 31 March 2020 (2019: £238,087). These were borne by Kier Group plc.
- (d) Trustee's remuneration received from the Scheme during the year ended 31 March 2020 amounted to £nil (2019: £nil). This was borne by Kier Group plc. Trustee's remuneration for their role as directors of KGPT covering the six schemes noted on page 4 totalled £128,726 for the year ended 31 March 2020.

## 19. GUARANTEED MINIMUM PENSION (GMP) EQUALISATION

On 26 October 2018, the High Court made a judgement on a case brought to the court by the Trustee of certain Lloyds Bank pension schemes. It concludes that pensions schemes who have members whose pension include a GMP will need to make sure that GMP benefits built up between 17 May 1990 and 6 April 1997 are equal between men and women.

The Trustee is considering how this judgement affects the Scheme and will be making decisions as to the next steps.

Based on an initial assessment the Trustee does not expect the amount of backdated GMP equalisation benefit adjustments, and related interest thereon, to be material to the financial statements and therefore has not included a liability for them in these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2020

### 20. COVID-19

As a result of the COVID-19 (Coronavirus) pandemic, there was a dramatic downturn in global markets in March 2020. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, the economies of certain nations, and individual issuers, all of which may negatively impact the Scheme's investment return and the fair value of the Scheme investments.

Given the extreme volatility affecting all asset markets, and the extreme global economic uncertainty prevailing, it is not practicable to provide a quantitative estimate of the impact of the virus on the Scheme's assets at this time and no adjustments have been made.

The Trustees have designed and implemented an investment strategy which takes a necessarily long-term view, whilst also having built in resilience to withstand short term fluctuations. The Trustees continue to take proactive and considered steps, in conjunction with their advisers, to assess the situation and respond to it.

## **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)**

### **Statement about contributions payable under the Schedule of Contributions**

We have examined the summary of contributions payable to the Mouchel Business Services Limited Pension Scheme (Money Purchase Section) on page 31, in respect of the Scheme year ended 31 March 2020, to which this statement is attached.

In our opinion the contributions for the Scheme year ended 31 March 2020 as reported in the attached summary of contributions on page 31 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary on 15 September 2017.

### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 31 in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

### **Respective responsibilities of Trustee and the Auditor**

As explained more fully on page 13 in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

### **Use of our statement**

This statement is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

### **RSM UK Audit LLP**

*Statutory Auditor, Chartered Accountants*  
Central Square  
5<sup>th</sup> Floor  
29 Wellington Street  
Leeds LS1 4DL

Date: \_\_\_\_\_

**SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR**

During the year, the contributions paid to the Scheme by the employer under the Payment Schedule were as follows:

	£'000s
Employer deficit funding contributions	<u>326</u>
Reconciliation to the financial statements:	
Contributions paid under Schedule of Contributions	<u><u>326</u></u>

This summary was approved by the Trustee on 30 September 2020 (date)

Signed on behalf of the Trustee

## 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)
<b>L&amp;G Cash Fund</b>	<b>0.200%</b>
L&G Multi Asset Index Fund	0.255%
<b>L&amp;G Global Equity Fixed Weights (50:50) Fund</b>	<b>0.180%</b>
<b>L&amp;G Pre-Retirement Fund</b>	<b>0.180%</b>
<b>Standard Life GARS Fund</b>	<b>0.855%</b>
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.

## THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

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)
<b>L&amp;G Cash Fund</b>	<b>0.00%</b>
L&G Multi Asset Index Fund	0.03%
<b>L&amp;G Global Equity Fixed Weights (50:50) Fund</b>	<b>0.01%</b>
<b>L&amp;G Pre-Retirement Fund</b>	<b>0.00%</b>
<b>Standard Life GARS Fund</b>	<b>0.39%</b>
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

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

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 (%)

# THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

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;

## THE MOUCHEL BUSINESS SERVICES LIMITED PENSION SCHEME (MONEY PURCHASE SECTION)

- 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.

**Signed by Andrew Harrison**

**Trustee Chair of the Mouchel Business Services Limited Pension Scheme (Money Purchase Section)**

**Date:** 30 September 2020

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# **Mouchel Business Services Limited Pension Scheme (Money Purchase Section)**

## **Statement of Investment Principles**

**September 2020**

## Version Update

Version	Effective from
1.0	August 2019
2.0	September 2020

## Statement of Investment Principles

September 2020

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# 1 Introduction

This document constitutes the Statement of Investment Principles (the “**SIP**”) required under Section 35 (as amended) of the Pensions Act 1995 for the Mouchel Staff Pension Scheme - Money Purchase Section (“the **Scheme**”). The Scheme comprises both Final Salary and Money Purchase sections. This SIP covers Money Purchase Section only.

It describes the investment policy being pursued for the Scheme by the Trustee of the Scheme (“the **Trustee**”) and is in compliance with the Government’s voluntary code of conduct for Institutional Investment in the UK (“the 2001 Myners Principles” and subsequent revisions). This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005 and 2015, and the Code of Practice in relation to governance of DC pension schemes issued by the Pensions Regulator in July 2016.

The Trustee confirms that, before preparing this SIP, it has consulted with Kier Highways Limited (the “**Employer**”) and taken appropriate advice from its advisors. The Investment Advisor is River and Mercantile Investments Limited and the Legal Advisor is Hogan Lovells, collectively termed “the **Advisors**”.

The Trustee believes its advisors to be qualified by their ability and practical experience of financial and legal matters respectively and to have appropriate knowledge, and experience of the management of the investment arrangements that the Scheme requires. The Trustee also confirms that it will consult with the Employer and take advice from the relevant advisors as part of any review of this SIP.

The Trustee is responsible for the strategic decisions regarding the investment of the Scheme’s assets and arranging Scheme administration. Where they are required to make an investment decision, the Trustee always receives advice from the relevant advisors first and it believes that this ensures it is appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustee sets general investment policy, but have delegated the day-to-day investment of the Scheme’s assets to professional fund managers (the “**Investment Managers**”) in accordance with Section 34(2) of the Pensions Act 1995. The Managers are authorised under the Financial Services & Markets Act 2000, provide the expertise necessary to manage the investments of the Scheme competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

## 1.1 Declaration

The Trustee acknowledges that it is their responsibility, with guidance from their advisors, to ensure the assets of the Scheme are invested in accordance with these Principles.

Date ..... 28 September 2020

**For and on behalf of the Trustee of the Mouchel Staff Pension Scheme.**

## 2 Governance

The Trustee is responsible for the governance and investment of the Scheme’s assets. It considers that the governance structure set out in this SIP is appropriate for the Scheme, as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers or the relevant advisors as appropriate. The responsibilities of each of the parties involved in the Scheme’s governance are detailed in **Appendix A**.

The Trustee maintains a Statement of Investment Arrangements (“SIA”) which sets out the specifics of investment implementation and further information on the default strategy and self-select funds offered by the Scheme. This document is referred to later in this SIP.

### 3 Investment Objectives

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. It also recognises that members have different attitudes to risk.

The Trustee believes that members should make their own investment decisions based on their individual circumstances.

The Trustee's Scheme objectives are:

- To provide a pension plan designed to deliver valuable benefits into retirement.
- To help members manage the risks they face as far as possible.
- To provide members with a range of investment options to enable them to tailor investment strategy to their needs.

In aiming to meet these Scheme objectives, the Trustee has specified a number of investment objectives:

- i. To provide an appropriate range of investment options, reflecting the membership profile and the variety of ways that members can draw their benefits in retirement; and
- ii. to provide a default investment strategy that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions. The objective of the default strategy is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

## 4 Default Strategy

The default strategy is designed to be in the best interests of the majority of the Scheme's members, based on the demographics of the membership. The default option targets 100% cash withdrawal at retirement, since the Trustee believes that most members will wish to take their benefits in this form. Therefore in the initial growth phase the default option is invested to target a return significantly above inflation, and then in the 10 years before retirement, it switches gradually into cash, with the asset allocation at retirement being designed to be appropriate for members taking cash at withdrawal.

At this time the Trustee is undertaking an investment strategy review which aims to assess whether the current investment solutions remain suitable for the Money Purchase Section of the Scheme. Once completed, the outcome of this assessment will be reflected in next year's governance statement and an updated SIP if relevant.

### 4.1 Aims and Objectives of the default strategy

The Trustee's aims and objectives in relation to the default strategy are to support members' investment needs where members either choose the default option or do not choose any option. Broader aims and objectives in relation to the default strategy are set out in Section 3, titled "Investment Objectives".

### 4.2 Trustee's policies in relation to the default strategy

- i. The kinds of investment to be held**
- ii. The balance between different kinds of investments**

The kinds of investments held within the default strategy and the balance between them are designed to be adequately diversified and suitable. Sections 5.3, 'Diversification' and 5.5, 'Suitability and Review' set out further details.
- iii. Risks (including the ways in which risks are to be measured and managed)**

Risks applicable to the Scheme as a whole are shown in Section 9, titled "Risks". All of the risks shown, including how they are measured and managed, are relevant to the default strategy.
- iv. Expected return on investments**

The Trustee's policy on expected return is considered in Section 5.2 "Performance Objectives", which covers both the default strategy and the investment strategy as a whole.
- v. Environmental, Social and Governance ("ESG") considerations**

The extent to which the Trustee considers ESG issues within the default strategy is shown in Section 10 "Other Risks".
- vi. Realisation of investments**

Funds used within the default strategy are unitised, pooled funds which are dealt daily.
- vii. Financially and non-financially material investment considerations**

The extent to which the Trustee considers financially and non-financially material considerations, including, but not limited to, social, environmental or ethical issues is shown in Section 10, 'Other Risks'.

**viii. Corporate governance and stewardship policy**

The Trustee's policy in respect of these considerations is shown in Section 10, titled 'Other Risks'.

**ix. Exercise of rights (including voting rights) attaching to the investments**

The extent to which the Trustee considers the exercise of rights within the default strategies is shown in the Section 10, titled 'Other Risks'

### **4.3 Best interests of members and beneficiaries**

In designing the default strategy, the Trustee has considered members' changing risk and return requirements over time and member outcomes, including the choices members might make upon reaching retirement.

The Trustee is currently reviewing the Scheme's investment options and their suitability to the membership. Once the assessment has been completed, any changes to the Scheme will be reflected in next year's governance statement and an updated SIP.

## 5 Investment Strategy

Having due regard for the objectives and the members of the Scheme, a number of investment options have been made available. Members can choose to invest their contributions in one or more of these investment options, or may rely on the default strategy, as detailed in the SIA.

The Trustee will ensure that each member's investments are invested in accordance with the fund options selected by the member, or in the absence of an investment choice, the default strategy.

### 5.1 Investment Options

The investment options comprise the default strategy and self-directed self-select options.

Details of the investment options are set out in the SIA.

### 5.2 Performance Objectives

The Trustee considered the expected returns of the investment strategy (including the default) in constructing benchmarks to assess performance against. The objectives of the funds available within the investment options are set out in the SIA.

### 5.3 Diversification

The choice of investment options for members is designed to ensure that members are able to choose investments that are adequately diversified and suitable for their profile and attitude to risk. The Trustee monitors the investment options regularly to ensure it is comfortable with the choice of funds offered to members.

### 5.4 Active and Passive Management

The Trustee takes advice from the Advisors on the choice of whether to offer active and/or passive fund options, which is in part determined by the range of Investment Managers offered by the Platform Manager.

### 5.5 Suitability and Review

The suitability and range of investment options, including the default strategy, will be reviewed regularly. Members are responsible for choosing which of the self-select funds is most appropriate based on their own individual circumstances, or otherwise relying on the default strategy for the investment of their own and the Employer's contributions.

The Trustee will review, in conjunction with the Investment Advisors, any investment option offered to members that either underperforms its benchmark over a significant timeframe or carries a level of risk which may be thought to be unreasonable in the context of the Money Purchase Section's investment objectives.

## 6 Strategy Implementation

### 6.1 Investment Platform

The Trustee has entered into an insurance policy with Aegon UK Plc (“Aegon”) in order to offer funds to members of the Scheme via Aegon’s investment only platform. Aegon is responsible for unitising and pricing the funds, and for all other transactions.

### 6.2 Investment Managers

The investment managers’ primary role is the day to day investment management of the Scheme’s investments. The managers are authorised under the Financial Services and Markets Act 2000 to carry out such activities.

### 6.3 Administrator

Administration is carried out by XPS Administration Limited.

### 6.4 Fund Options

The range of funds offered to members has been chosen to give members a diversified range of investments from which they can select according to their individual circumstances. The funds available to members are detailed in the SIA.

### 6.5 Investment of Contributions

A member’s contributions will be invested in line with their selected choice of funds. Where a member has not made an active selection, their contributions will be invested in the default strategy, which is detailed in the SIA.

### 6.6 Transitions

The Trustee, in conjunction with its advisors, will look to mitigate the potential risks and costs to members as a result of any investment transitions to the best of their ability.

## 7 Monitoring

### 7.1 Managers

The Trustee, or its advisors on behalf of the Trustee, will monitor the performance of the Investment Managers against their own benchmarks or the Trustee's specified benchmarks.

The Trustee will regularly review the activities of the Investment Managers to satisfy themselves that each Investment Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the Scheme's assets.

As part of this review, the Trustee will consider whether or not each Investment Manager is carrying out its function competently. The Trustee will evaluate the Investment Manager based on, amongst other things:

- The default strategy and self-select funds' performance versus their respective benchmarks or Trustee specified benchmarks.
- The level of risk within the portfolios given the specified risk tolerances.
- Whether it has regard to the suitability of each investment and each category of investment.
- Whether it has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustee is not satisfied with an Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustee's requirements, the Trustee will remove the Investment Manager.

### 7.2 Advisors

The Trustee will monitor the advice given by their advisors on a regular basis.

### 7.3 Statement of Investment Principles, Statement of Investment Arrangements

The Trustee will review this SIP and the SIA at least triennially, or as soon as is practical following any changes to the investment strategy and modify it with consultation from the relevant advisors and the Employer if deemed appropriate. There will be no obligation to change this SIP and the SIA, any Investment Manager, Platform Manager or advisor as part of such a review (although strategy changes will be reflected in this SIP, if appropriate).

### 7.4 Trustee's Recordkeeping

The Trustee maintain a record of all investment related decisions that have been taken, together with the rationale in each case.

## 8 Fees

### 8.1 Charges

The Trustee recognises that the provision of investment management and advisory services to the Scheme results in a range of charges to be met, directly or indirectly, by deduction from the Scheme's assets.

The Trustee has agreed Terms of Business with the Scheme's investment advisors, under which work undertaken is charged for by an agreed fixed fee or on a "time-cost" basis.

The investment managers receive fees calculated by reference to the market values of assets under management, and also in some cases a performance related fee. The fee rates are believed to be consistent with the managers' general terms for institutional clients and are considered by the Trustee to be reasonable when compared with those of other similar providers.

The fee structure used in each case has been selected with regard to existing custom and practice, and the Trustee's view as to the most appropriate arrangements for the Scheme. However, the Trustee will consider revising any given structure when it is considered appropriate to do so.

Details on the charges are set out in the SIA.

### 8.2 Value for Members

The Trustee reviews, as far as possible based on the data available, all sources of fees levied on members' accounts (including management charges, additional expenses and platform charges as appropriate) to ensure value for members is present. The Trustee considers, among other items, the absolute level of charges, the competitiveness of applicable charges relative to the marketplace and the levels of service provided by each of the advisors and Managers.

The Trustee also reviews, as far as is reasonable and practical, transaction costs paid by members to assess the extent to which these represent good value for money.

The Trustee's conclusions in respect of value for members are documented in the Scheme's annual report and accounts.

## 9 Risks

The Trustee recognises a number of key risks to themselves and to the Scheme's members:

- i. **Value for Members Risk** – the risk that the Scheme fails to offer good value for members. This is addressed through ongoing monitoring and annual 'Value for Members' reviews.
- ii. **Inflation Risk** – the risk that the purchasing power of members' investment accounts is not maintained. To try to manage this risk, the Trustee has offered a range of funds reflecting asset classes expected to provide long term returns in excess of price inflation.
- iii. **Pension Purchase Risk** – the risk that the value of pension benefits that can be obtained by a given defined contribution amount is not maintained. This risk cannot easily be mitigated as it depends on the form(s) and timing of a member's retirement income decision and market conditions as retirement approaches. However, the Trustee has offered a range of funds to reflect different retirement income decisions.
- iv. **Capital Risk** – the risk that the value of any element used to provide a cash sum at retirement is not maintained. To try to mitigate this risk, the default strategy de-risks into cash starting three years from retirement.
- v. **Active Manager Risk** – the risk that the active investments underlying the Scheme's investment options underperform due to the underlying Investment Manager underperformance. The Trustee mitigates this risk by monitoring the investment managers on a regular basis. Prior to appointing an active investment manager, the Trustee receives written advice from its Investment Advisor, and will typically undertake an investment manager selection exercise.
- vi. **Platform Risk** – the assets are currently held by the Platform Manager. This risk relates to potential losses that could arise if the Platform Manager ran into financial difficulties. The Trustee considered the choice of platform at the implementation phase of the current strategy, to ensure it was comfortable with the choice of Platform Manager. The Trustee continues to monitor the Platform Manager to ensure it remains comfortable.
- vii. **Communication Risk** – the risk that communication to members is misleading or unclear and leads to inappropriate decisions being made. This is addressed through the Trustee receiving advice from their advisors and regular monitoring and updates, where appropriate, of member communications.
- viii. **Inappropriate Member Decision** – the risk that members make inappropriate decisions regarding their investments. This is addressed where possible through communication to members and the recommendation that members seek independent financial advice. The Trustee has also offered a default strategy with a "lifestyling element" designed to phase members into lower risk investments as they approach retirement.
- ix. **Organisational Risk** – the risk of inadequate internal processes leading to problems for the Scheme. This is addressed through a regular monitoring of the Investment Managers and advisors.
- x. **Liquidity Risk** – the risk that members are not able to realise the value of their funds when required. The Trustee has addressed this risk by only offering funds which are considered liquid.
- xi. **ESG Risk** - the risk of adverse performance due to ESG related factors including climate change. This is addressed by ESG assessment at the point of investment with the Underlying Managers where applicable, or by requesting information on the ESG policies, adopted by the Underlying Managers.

The importance of each risk varies with time. Inflation is important throughout the whole period to retirement whereas pension conversion risk and capital risk become more significant as retirement approaches, depending on how the member chooses to access their pension saving at retirement.

The Trustee has provided a default strategy that aims to address the above risks through a member's life. The Trustee may vary the underlying asset allocation and Investment Managers within this strategy from time to time in response to changing market conditions and manager developments.

The Trustee also provides members with a range of self-select investment options into which they may direct their contributions so as to allow each member to determine the appropriate mix of investments based on their own attitude to risk, term to retirement and investment objective.

In addition to the risks noted above, the Trustee also recognises the options they have selected are subject to underperformance risk. This is addressed through providing options with appropriate diversification and through regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate.

The Trustee recognises that an efficient process for identifying, evaluating, managing and monitoring risks needs to be in place for the Scheme. The Trustee will identify and assess the impact of any risk, what controls can be put in place to manage the risk and review both the individual risks and the effectiveness of the risk management process as a whole.

The Trustee will keep these risks and how they are managed under regular review.

## 10 Other Risks

### 10.1 Corporate Governance and Stewardship Policy

As part of the appointment of the Investment Managers to the Scheme, the Trustee has accepted the terms of pooled investment vehicles, setting out the scope of each pooled fund vehicle's activities, their charging basis and other relevant matters. The Trustee periodically reviews the overall value-for-money of using the Investment Advisor (as specified in the Scheme's Investment Consultant objectives) and Investment Managers.

The Scheme's investments are made via pooled investment funds via the Platform Manager, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to the Investment Managers.

The Trustee has delegated responsibility for monitoring and voting on decisions relating to its Underlying Manager holdings to the Platform Manager, which implements its fund voting policy.

The Trustee and Investment Advisor undertake regular reviews of the Investment Managers. These reviews incorporate benchmarking of performance and fees as well as performance reviews (including understanding key drivers of performance). The Trustee and Investment Advisor review the governance structures of the Investment Managers, as well as assessing whether their fees, expenses and any other charges are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Trustee and Investment Advisor assess whether the Investment Managers' remuneration arrangements are aligned with the Trustee's objectives. The Trustee expects the Investment Managers':

- to align their investment strategy and decisions with the Trustee's investment policies, such as its return target and any restrictions detailed in the Trustee's policy documentation with the Platform Manager.
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of an issuer of debt or equity, and to engage with the issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Scheme's performance, which is reflected and measured relative to the Trustee's long-term performance objectives.

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing investment management business activities. Where investment managers are regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Trustee and Investment Advisor monitor this as part of ongoing review. As an FCA regulated firm, the Investment Advisor is required to prevent or manage conflicts of interest. The Investment Advisor's Conflicts of Interest policy is available publicly here:

[https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate\\_Governance/RMG\\_Conflicts\\_of\\_Interest\\_Policy.pdf](https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf)

The Trustee oversees the transaction costs, including turnover costs (where available) incurred by the Investment Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Advisor's expectations. Where there are material

deviations the Trustee and Investment Advisor engage with Investment Managers to understand the rationale for such deviations and take appropriate action.

## 10.2 Financially material investment considerations

These considerations which include the above “Risks” can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as ESG) where relevant. The Trustee delegates the consideration of financially material factors to the Platform provider, who consider these factors for funds that are available to beneficiaries through the default arrangement and as self-select funds, when making funds available on its investment platform. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered in the context of long term performance, by the Trustee (in conjunction with its advisors) as part of the manager selection criteria. This review occurs before funds are approved for investment. For invested funds, the Trustee requests the platform provider monitors ongoing compliance with ESG and other factors, like stewardship, as a part of overall engagement.

The Trustee is in the process of drafting the first policy in line with provisions of section 3 of Regulation 2 of The Occupation Pension Schemes (Investment) Regulations 2005, specifically section (3)(d) inserted by The Occupation Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, and this will be in place by 1 October 2020.

## 10.3 Non-financial matters

The Trustee does not at present take into account non-financial matters (such as members’ ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as part of the default arrangement, as there is no likely common view on any ethical matters which members are likely to hold.

The Trustee is in the process of drafting the first policy in line with provisions of section 3 of Regulation 2 of The Occupation Pension Schemes (Investment) Regulations 2005, specifically section (3)(d) inserted by The Occupation Pension Schemes (investment and Disclosure) (Amendment) Regulations 2019, and this will be in place by 1 October 2020.

## 10.4 Security of Assets

The Trustee is aware of the importance of the safe custody and security of members’ funds. The Scheme’s assets are held via an investment policy with Aegon. The Financial Services Compensation Scheme (“FSCS”) would provide cover to the Scheme in the event of insolvency of Aegon. Aegon, who also has contractual agreements in place with underlying managers and would seek compensation as a result of insolvency of underlying managers and other related parties. Appropriate due diligence is done on the financial strength, custody and administration agreements of the underlying investment managers and

Aegon before an appointment is made and this is reviewed regularly by the Advisors in conjunction with the Trustee.

## Appendix A - Responsibilities

### Trustee

The main investment related responsibilities of the Trustee include:

- i. Reviewing, at least triennially (or following significant changes to the investment strategy), the content of this SIP and modifying it if deemed appropriate.
- ii. Reviewing, at least triennially (or following significant changes to the investment strategy), the content of the SIA and modifying it if deemed appropriate.
- iii. Reviewing the investment policy for the Scheme in terms of providing a range of funds from which members may choose to invest (see the SIA).
- iv. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, through meetings and written reports.
- v. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.
- vi. Appointing and dismissing Platform Managers and Investment Managers.
- vii. Assessing the performance of its advisors.
- viii. Consulting with the Employer when reviewing investment policy issues.
- ix. Providing any appointed organisations/individuals with a copy of the SIP or the SIA, where appropriate.

### Investment Advisor

The Investment Advisor will be responsible for, amongst other things:

- i. Participating with the Trustee in reviews of the SIP.
- ii. Informing the Trustee of any material breaches of this SIP, internal operating procedures or changes in the knowledge and experience of those involved in managing the Scheme's investment options.
- iii. Advising the Trustee of any changes in respect of the Scheme's Investment Managers that could affect the interests of the Scheme.
- iv. Advising the Trustee of any changes in the investment environment that could either present opportunities or threats to the Scheme.
- v. Undertaking reviews of the Scheme's investment arrangements including reviews of the Scheme's structure, current Investment Managers, and selection of new Investment Managers as appropriate.

### Platform Manager

The main responsibilities of the Platform Manager are:

- i. At its discretion, but within the guidelines agreed with the Trustee, selecting and undertaking transactions in specific investments within each fund.
- ii. Providing the Trustee (via the Investment Manager) with sufficient information each quarter to facilitate the review of its activities, including:

- Performance and rationale behind past and future strategy for fund options offered to members.
  - A full valuation of the assets.
  - A transaction report.
- iii. Informing the Trustee immediately of:
- Any serious breach of internal operating procedures.
  - Any material change in the knowledge and experience of those involved in managing the Scheme's AVC and RAP investment options.

## Legal Advisor

The Legal Advisor will be responsible for, amongst other things:

- i. Acting on Trustee instructions to ensure legal compliance including those in respect of investment matters.