GOVERNANCE STATEMENT
FOR THE DEFINED CONTRIBUTION SECTION OF THE MOUCHEL STAFF PENSION SCHEME

Governance Statement from 1 April 2020 to 31 March 2021

1. Introduction

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

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

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

2. Default arrangement

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

The default option is designed to be in the best interests of the majority of members, based on the demographics of the Scheme's membership. The default option targets cash at retirement, which the Trustee believes should help members optimise their income, as it reflects the way the Trustee believes members are most likely to take their benefits. Therefore, in the initial growth phase, the default option targets a return significantly above inflation, then switches gradually into cash 10 years before retirement, with the asset allocation at retirement being designed for members intending to take their fund as cash.

A review of the default arrangement was undertaken during May 2019. Following this review, the Trustee determined that the default arrangement continues to be suitable, given the risk profiles and demographics of the Scheme's membership.

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.

The performance of the default arrangement is assessed regularly by comparison to an appropriate benchmark. The Trustee considers that historic performance and expected returns are satisfactory, taking into account the aims and objectives in the SIP.

3. Requirements for processing financial transactions

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

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

- should monitor and reconcile bank receipts, including transactions made by investment managers, made into the Scheme's bank account;

- should monitor the receipt of contributions from employers and advise of late or non-payment; and
- must deal with transfers of members in and out of the Scheme within specified prompt timeframes.

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

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

4. Charges and transaction costs

During the Scheme Year, the Scheme used the Aegon investment platform, in order to provide a range of investment options to members. This section provides details of the investment arrangements and the associated costs. Members do not bear any costs for the administration of the Scheme.

For the purpose of this statement "charges" are defined as the ongoing charges figures, which are the annual fund management charges plus additional fund expenses (e.g. for custody, but excluding transaction costs). The stated charges were supplied by Aegon, and met by the sponsoring employer.

Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments. Full details of the annual transaction costs incurred over the period 1 April 2020 to 31 March 2021 can be found in Section 4.3.

4.1. Default arrangement

The default arrangement has been set up as a lifestyle approach using BlackRock's LifePath Funds. Members' assets are automatically moved between different asset types within the LifePath Funds as they approach their retirement date.

The ongoing charges figure (total expense ratio or TER) applicable to the default arrangement (the cash targeting triennial LifePath Funds) for the Scheme Year was 0.21% pa. The ongoing charges figure did not vary over time as BlackRock bore the cost of the additional expenses within the LifePath Funds.

The annual management charges were met by the sponsoring employer.

4.2. Self-select funds

The level of ongoing charges (per annum) for each self-select fund (including the LifePath Funds used for the default arrangement) over the Scheme Year are set out in the table below. The ongoing charges for the funds are met by the sponsoring employer.

Self-select fund charges year to 31 March 2021

Manager – Fund name	Charge (pa)
LifePath Capital (Default option)	0.21%
LifePath Retirement	0.40%
LifePath Flexible	0.21%
LifePath Retirement Year	0.44%
BlackRock DC Aquila UK Equity Fund	0.11%
BlackRock DC Aquila World (ex-UK) Equity Fund	0.26%
BlackRock DC Aquila 50:50 Global Equity Fund	0.16%
BlackRock DC Aquila Over 5 Year Index-Linked Fund	0.11%

Source: Aegon (charges, as at 31 March 2021)

4.3. Transaction costs (ongoing frictional)

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

These costs 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 annual transaction costs for each fund within the default and self-select range covering the period 01 April 2020 to 31 March 2021.

Manager – Fund name	Transaction costs (ongoing frictional p.a.)
LifePath Capital (Default option)	0.031% to 0.071%
LifePath Funds (targeting either cash, drawdown or annuity at retirement)	0.004% to 0.141%
BlackRock DC Aquila UK Equity Fund	0.000%
BlackRock DC Aquila World (ex-UK) Equity Fund	0.000%
BlackRock DC Aquila 50:50 Global Equity Fund	0.026%
BlackRock DC Aquila Over 5 Year Index-Linked Fund	-0.014%

Source: Aegon (transaction costs, as at 31 March 2021).

Some of the ongoing transaction costs shown are negative, which indicates a gain. This is mainly a result of an anti-dilution offset (an adjustment made by the manager so that the cost of buying and selling fund units is met by those transacting). Where the anti-dilution offset outweighs the other sources of transaction costs, this results in an overall gain for invested members.

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 DC pot size. The example outlines the effects of total fund charges (the TERs) and transaction costs across the Scheme's fund range.

Details of these costs and charges over the Scheme year are set out in the notes below.

Projected pension pot, in today's terms								
Years	Default Lifestyle (LifePath Capital)		LifePath Retirement Year		BlackRock DC Aquila UK Equity Fund		BlackRock DC Aquila World (ex-UK) Equity 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	£26,000	£25,900	£26,000	£26,000	£26,000	£26,000
3	£28,000	£27,700	£28,000	£27,600	£28,200	£28,100	£28,200	£27,900
5	£30,100	£29,600	£30,000	£29,400	£30,400	£30,200	£30,400	£30,000
10	£35,900	£34,800	£35,600	£34,100	£36,900	£36,300	£36,900	£35,800
15	£42,400	£40,500	£41,700	£39,100	£44,600	£43,600	£44,600	£42,600
20	£49,200	£46,300	£48,000	£44,100	£54,000	£52,400	£54,000	£50,900
25	£56,100	£52,000	£54,500	£48,900	£65,400	£62,900	£65,400	£60,700
30	£62,900	£57,400	£61,000	£53,600	£79,200	£75,600	£79,200	£72,400
35	£69,900	£62,800	£67,900	£58,400	£96,000	£90,800	£96,000	£86,300
40	£77,700	£68,800	£75,500	£63,600	£116,200	£109,100	£116,200	£103,000

Projected pension pot, in today's terms				
Years	BlackRock DC Aquila 50:50 Global Equity Fund		BlackRock DC Aquila Over 5 Year Index-Linked Fund	
	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	£24,500	£24,500
3	£28,200	£28,100	£23,400	£23,300
5	£30,400	£30,200	£22,400	£22,300
10	£36,900	£36,300	£20,100	£19,900
15	£44,600	£43,600	£18,100	£17,700
20	£54,000	£52,400	£16,200	£15,800
25	£65,400	£62,900	£14,500	£14,100
30	£79,200	£75,600	£13,000	£12,600
35	£96,000	£90,800	£11,700	£11,200
40	£116,200	£109,200	£10,500	£10,000

Notes:

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

Asset class	Suggested (capped) annual SMPI return for 2020
UK Equities	6.5 (%)
Global Developed Equities	6.0 (%)
Emerging Market Equities	7.0 (%)
Property	6.0 (%)
Cash	1.0 (%)
Fixed Income Gilts	1.4 (%)
Index-Linked Gilts	0.3 (%)
Corporate bonds	1.5 (%)

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

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 the Scheme represents good value for members. Charges and transaction costs are not however borne by members and are instead met by the sponsoring employer.

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.

All of the investment funds made available to members in the Scheme are managed on a passive basis. The Trustee is satisfied that the after fee returns of the investment funds has been closely in line with the relevant benchmark returns, over short and longer term periods.

The Trustee was satisfied with the service received by Aegon during the Scheme Year. In particular:

- The Trustee was pleased that members could take advantage of the flexibilities given by the Freedom & Choice regulations in a straightforward way by using BlackRock's LifePath Fund range.

- The breadth of the fund range was an advantage of Aegon's Money Purchase platform compared to other Money Purchase platforms.

- If Aegon were to have become insolvent, members would be covered by the FSCS, which would not necessarily have been the case if members were investing in the same funds on a different Money Purchase platform.

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 majority of members are invested in the BlackRock LifePath funds which have an annual management fee of 0.21%. The Trustee's investment advisers have confirmed that this is a competitive fee for this style of investment. Furthermore, the members themselves do not pay the charges, all annual management charges for the BlackRock funds that members invest in are met by the sponsoring employer.

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 Standard 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, and the Trustee's policies on matters relating to the administration of the Scheme generally (for example its Independent Dispute Resolution Policy, Conflicts of Interest Policy, and Terms of Reference for sub-committees). The Scheme uses an online storage site via which the Trustee Directors have access to these documents electronically;

- the Trustee Directors are aware that they must have sufficient knowledge of the law relating to pensions and trusts and the principles relating to the funding of occupational pension schemes and the investment of the assets of such schemes. Advisers regularly provide training to the Trustee Directors. There is an annual review of Trustee knowledge to identify any gaps in knowledge and plan to reduce them and Trustee Directors retain a training log to assist with this review;

- relevant advisers, including legal and actuarial advisers, are in attendance at each meeting and can explain and provide information on topics under discussion. This can either be specific to the Scheme or generally in respect of occupational pension schemes. This aids the Trustee in making informed and 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 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 also 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 considering benefit queries, addressing data protection issues, and considering the exercise of trustee discretions.

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

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

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Signed by Andrew Harrison
Trustee Chair of the Mouchel Staff Pension Scheme

28 September 2021

Date