Annual Chair's Statement for the Defined Contribution Section of the Marmon Group Limited Retirement Benefits Plan (the "Plan")

This Chair's Statement is in relation to the Defined Contribution (DC) assets held in the Plan and governed by the Trustees. Since the last Statement the majority of the Plan's DC assets were transferred to The Marmon Section of the Aon Master Trust. Members were sent letters to explain the transition and can now contact the Aon Master Trust for any enquiries regarding that scheme. The Aon Master Trust can be contacted on 0345 646 1315 or admin@theaonmt.co.uk.

The Plan holds DC investments with BlackRock and Prudential for the remaining members.

Since 6 April 2015, the **Occupational Pension Plan (Charges and Governance) Regulations 2015** (the "Regulations") introduced minimum governance standards that apply to all trust-based DC schemes, such as the Plan. The requirements include ensuring that trustees:

- meet the governance standards,
- explain how they have done so in an annual statement (this "Chair's Statement") which must be included in the Trustees' report and accounts,
- have an appointed Chair who signs the annual statement, and
- are compliant with the charge controls where they are being used by employers to comply with their duties under automatic enrolment legislation.

This statement covers the period from **6 April 2021 to 5 April 2022.**

Areas that we have considered when drafting this statement:

1. The Default Arrangement.
2. Net investment returns.
3. Processing of core financial transactions.
4. Member borne charges and transaction costs.
5. The Trustees' assessment of how the charges and transaction costs paid by members represent good value for members.
6. Trustees' knowledge and understanding.

October 2021 transfer to the Aon Master Trust for majority of DC members

As mentioned above, the majority of DC funds held in the Plan were transferred to the Aon Master Trust in October 2021. The funds transferred were in relation to members whose Plan benefits were solely DC in nature. Following the transfer there remains two small groups of members in the Plan with a certain type of DC fund as follows:

- Members whose DC fund was accumulated through paying Additional Voluntary Contributions (AVCs) whilst accruing service in the Plan's connected defined benefit section.
- The 'Wheeler' category of membership where the pension benefit features a Guaranteed Minimum Pension (GMP) underpin to the DC pension fund.

As required the Trustees have published this Chair's Statement on a website where individuals can view, download and print a copy. The Chair's Statement can be accessed at: https://marmon.pensions-directory.co.uk/

1. The Default Arrangement

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Plan's default arrangement. The Plan was used as a qualifying workplace pension scheme for its former active members (to meet auto-enrolment requirements for that group).

The default strategy is a lifestyle strategy, which means members' assets are automatically moved between different investment funds as they approach retirement date. The default arrangement initially invests in a multi-asset fund until five years before retirement where it starts gradually introducing an allocation to a bond fund and a cash fund. When a member is more than five years from retirement the strategy aims to maximise investment growth on the pension fund with a considered level of risk. At retirement the strategy invests 75% in the bond fund and 25% in cash which is intended to be appropriate for members withdrawing 25% of their fund as tax-free cash with the remainder used to purchase an annuity. An annuity is an insurance product which pays an income guaranteed until death.

The default strategy should be reviewed every three years or sooner if there is any significant change in investment policy or the Plan's membership profile. A review of the default strategy was last undertaken on 13 July 2016. The three yearly reviews of the default that were due to take place in July 2019 and then again in July 2022 were not carried out. This is because the sponsor had commenced a review of the wider structure of the Plan following feedback from members and awareness of potentially more modern alternative pension arrangements and the Trustees wished to understand the conclusion of this review before undertaking an investment strategy review. When investment changes are carried out members may be subject to transaction costs and the Trustees did not want members to incur such costs if the intention was to move members to another pension arrangement in the near future. This wider review led to the Company moving to the Aon Master Trust on 1 July 2021 to replace the Plan. This followed a comprehensive communication exercise with the membership. A bulk transfer of the majority of DC assets took place in October 2021 but two groups of members with a certain type of DC fund remain as explained above. There are plans in the near future to fully close the Plan and its connected defined benefit section which will see all members move to an alternative scheme. Given this plan, the Trustees have again decided not to proceed with a review of the default strategy as given the expected longevity of the Plan it is felt any short term changes to the default are unlikely to improve member outcomes when taking transaction costs into account.

The Trustees have a Statement of Investment Principles in place for the Plan including the default investment strategy. A copy of the Statement of Investment Principles for the DC assets, which governs decisions about investments in the Plan including the specific requirements of the default strategy together with the details of how the default is currently invested, is appended to this statement.

Performance Monitoring

The Trustees receive and review quarterly reports from Aon showing the performance of the default arrangement. The performance is considered against the Trustees' aims and objectives for the default set out in their SIP including analysis of fund performance to check that the risk and return levels meet expectations. Performance is reviewed against target benchmarks that have been agreed with the investment managers. The component funds of the default strategy are passive funds and have tracked their benchmarks within acceptable levels in recent reporting periods. The Trustees therefore have no concerns with the performance of the funds.

2. Net Investment Returns

The net investment returns have been prepared having regard to statutory guidance. It is important to note past performance is not a guarantee of future performance.

As well as the default, the Trustees also make available a range of self-select investment options. Net returns of these funds have been included below. Performance for longer periods is not available from the fund managers.

2.1 – DC Section Default Arrangement

Performance to 31 March 2022	**Annualised returns (%)**	
Age of member in 2022	1 year	5 years
25	8.3	6.0
45	8.3	6.0
55	8.3	6.0
65	-6.2	1.6

Source: BlackRock

2.2 – Self-select funds

Performance to 31 March 2022	**Annualised returns (%)**	
Fund name	1 year	5 years
BlackRock Consensus	8.3	6.0
BlackRock Over 15 Year Corporate Bond Index	-8.4	2.0
BlackRock Cash	0.1	0.3
Prudential With-Profits*	1.5	1.7

*This figure represents the Reversionary Bonus declared by Prudential. It excludes terminal bonus where payable

Source: BlackRock and Prudential

3. Processing of Core Financial Transactions

The Trustees have a specific duty to ensure core financial transactions are processed promptly and accurately.

> **What are core financial transactions?**
> Transactions we consider include:
>
> - ongoing contributions paid to the Plan up until the closure,
> - transfer of members' funds in and out of the Plan,
> - transfers between different investments within the Plan, and
> - payments to and in respect of members, such as on retirement or death.

These transactions are undertaken and managed on behalf of the Trustees by Capita, the Plan administrator, who work directly with the Plan's DC fund managers.

The Trustees review the promptness of the settlement of core financial transactions regularly via Capita's administration reports which show these against the agreed service standards in place. This reporting helps the Trustees to undertake timely and effective governance of the administration through greater and more regular monitoring of activity. They review the Plan administration, particularly any cases that require Trustees' discretion and/or any member complaints, and they review the service level achievements.

> **Administration summary for the year:**
> - **491** work items completed
> - **84%** completed in agreed time levels (on average across the year)

If any errors or unreasonable delays or responses are identified, the Trustees hold the administrator to account and seek to ensure such issues are rectified and prevented from reoccurring. Once identified, such cases are discussed by the Trustees to agree the approach to be taken to rectify the issue.

At 84% Capita's performance is below expectations but is an improvement from last year’s 63%. The Trustees continue to hold discussions with Capita regarding future improvement. These statistics apply to the Plan's separate defined benefit section as well as the DC section as Capita are unable to separate the figures.

The Trustees encourage feedback from the membership and take this on board to determine what action can be taken to improve the Plan. During the period covered by this Statement there was one complaint from a member due to the time taken to resolve a query regarding the level of pension benefit. However, this was not in relation to the DC section and was resolved with the member and did not result in a formal complaint being made under the Trustees’ Internal Dispute Resolution Procedure. There was no notable feedback from members.

In terms of the accuracy of core financial transactions, the Trustees have reassurance from Capita suitable controls are in place. These include:

- a full member and Plan reconciliation being undertaken annually as part of the annual preparation of the Trustees' Report & Accounts
- monthly reconciliations of the DC units held by the investment managers against Capita's records,
- daily monitoring of bank accounts,
- full reconciliation of bank statements,
- all transactions are recorded in the Plan's Cash Tracker,
- a peer-review process for checking calculations and investment and banking transactions.

Capita's administration controls are independently audited on an annual basis and considers the suitability and effectiveness of the administration system and general IT controls adopted by Capita.

In addition, the Trustees receive an annual Plan Audit Report, from the Auditor, an independent party that audits the pension scheme.

The Trustees are satisfied that during the period of this report, that:

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

4. Member Borne Charges and Transaction costs

The Trustees are required to assess the costs associated with the Plan, which are paid by the members. These costs are comprised of **Charges** and **Transaction costs**.

Charges – these include the **Annual Management Charge** (**AMC**) which is the annual fee charged by the investment manager for investing in a fund, and **additional expenses**. Together, the AMC and additional expenses make up the **Total Expense Ratio** (**TER**), which is the total cost of investing in the fund. For the Plan's BlackRock funds, the AMC and TER information is readily available to the Trustees and members as these charges are explicit and are deducted as a percentage of members' funds.

Transaction costs – are costs which are incurred within the day to day management of the assets by the fund manager. This covers things such as the cost of buying and selling securities within the fund.

Member charges and transaction costs

The Plan's default strategy invests in three BlackRock funds. Those same funds are also available to invest in outside of the default strategy. In addition, a with-profits fund with Prudential is available.

For the Plan's funds provided by BlackRock, the TERs and transaction costs that applied over the period of this Statement were as follows:

Fund	TER (per year)	Transaction costs (per year)	Total cost
BlackRock Aquila Life Consensus fund	0.164%	0.014%	0.178%
BlackRock Aquila Life Over 15 Year Corporate Bond Index fund	0.165%	0.029%	0.194%
BlackRock Aquila Life Cash fund	0.083%	0.016%	0.099%

All three of the above funds form the Plan's default strategy.

Prudential With-Profits fund
The Plan also offers a with-profits fund with Prudential. Prudential has confirmed there is no explicit charge for this fund. Instead, an amount to cover the expenses of running the with-profits fund is deducted before bonuses are declared. This is currently restricted to 0.65% per year but this can change in future. For the period of this statement Prudential has confirmed transaction costs were 0.09% for the fund.

Illustration of the effect of costs and charges on member fund values

Since 6 April 2018 the Occupational Pension Plans (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs. As part of the changes, the Trustees are required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits.

We have produced the following illustrations to demonstrate the effect of the costs and charges set out above for the funds available through the Plan on different combinations of terms to retirement and accumulated fund value and investment selection. We have selected two example members to be representative of the remaining membership for illustration purposes only. Following the October 2021 transfer, there is only one member still invested in the Prudential With-profits fund so an illustration has not been produced for that fund and instead that member can review their individual annual illustration.

Example 1 – Youngest member (assuming they invest in the default arrangement)

For a member with 17 years to normal retirement age and invested in the default, the estimated impact of charges on projected retirement values is shown below. Projections are based on a starting fund value of £6,000 and are shown in current money terms.

Age	Estimated fund value (before charges)	Estimated fund value (after charges)	Effect of charges
17 years to normal retirement age	£6,000	£6,000	£0
15 years to normal retirement age	£6,510	£6,490	£20
10 years to normal retirement age	£8,000	£7,910	£90
5 years to normal retirement age	£9,820	£9,630	£190
Normal retirement age	£10,790	£10,500	£290

Example 2 – Average member (assuming they invest in the default arrangement)

For a member with 9 years to normal retirement age and invested in the default, the estimated impact of charges on projected retirement values is shown below. Projections are based on a starting fund value of £30,000 and are shown in current money terms.

Age	Estimated fund value (before charges)	Estimated fund value (after charges)	Effect of charges
9 years to normal retirement age	£30,000	£30,000	£0
5 years to normal retirement age	£35,360	£35,130	£230
Normal retirement age	£38,850	£38,290	£560

Assumptions for illustrations:

The following assumptions have been made for the purposes of the above illustrations:

1. *Accumulated fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.*
2. *Inflation is assumed to be 2.5% each year.*
3. ***The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.***
4. *The TERs and transaction costs used in the illustrations can be found in the tables above.*
5. *The assumed growth rates (gross of costs and charges) are as follows:*

Fund	Assumed gross growth rate (per year)
BlackRock Aquila Life Consensus fund	6.8%
BlackRock Aquila Life Over 15 Year Corporate Bond Index fund	3.1%
BlackRock Aquila Life Cash fund	2.2%

5. Value for members assessment

The Trustees are required to assess the extent to which member-borne charges and transaction costs represent good value for members. As part of this process the Trustees must consider the investment performance after charges and costs (referred to as the 'net investment performance') of similar funds under three alternative 'large' pension schemes compared to the investment performance members of the Plan have received. In addition, as part of this value for members assessment, the Trustees assess the following Governance and Administration areas:

1. Level of trustee knowledge, understanding and skills to operate the pension scheme effectively;
2. Effectiveness of management of conflicts of interest;
3. Appropriateness of the default investment strategy;
4. Quality of investment governance;
5. Quality of member communications;
6. Promptness and accuracy of core financial transactions and
7. Quality of record keeping

Where it is found through the Trustees' assessment the Plan did not offer good value for members considering all these areas then the Trustees would be required to take some action to resolve this.

It should be noted the Company pays for the majority of services related to running the Plan including (but not limited to) administration services, audit costs, communication costs and professional advice including legal, actuarial and investment advice. By the Company meeting these costs this reduces the charge the members would otherwise pay. The charges paid by members are to meet the cost of investing their pension funds. Therefore, the Trustees have a legal duty to assess whether the investment costs borne by members represent Value for Members in this Statement. However, members also benefit for the wider services the Company pays for and as such the Trustees also take a view of whether all of the services members benefit from represent good value.

The Trustees review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring members are obtaining value for money given the circumstances of the Plan. The date of the last review was on 17 October 2022. The Trustees note value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment.

<u>Value for Members Assessment</u>

As highlighted above, members of the Plan only pay a charge to meet the cost of investing their pension fund. The Trustees believe a well-designed investment portfolio subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes.

To assess if this meets good value the Trustees have taken into account:

Cost and charges	✓ The cost and charges paid by members of the Plan are comparable to the 3 alternative large schemes analysed by the Trustees.
The net investment performance of the funds compared to those of three alternative large pension schemes	✓ The net investment returns of the funds available under the Plan have been compared to the net investment returns of funds available from 3 alternative large schemes. This has led the Trustee to conclude the net returns for the default strategy and self-select funds have performed well compared to the three comparator schemes' net returns.
The performance of the funds compared to the relevant objectives of the fund	✓ The default strategy has met its objectives of reducing risk in the approach to retirement. ✓ Its objective also includes providing the opportunity for real growth. Over the year, the growth-targeting phase of the default has provided real growth over inflation.
Governance and management of funds offered	✓ The Trustees review performance of the funds at least annually.

The design of the default strategy and how this reflects the membership	✓ A default strategy is designed to be appropriate for a member purchasing an annuity at retirement. ✓ Following the transfer of the majority of DC Section members out of the Plan there now only remains members with AVC funds and DC members with a GMP underpin. In all but once case the cost of securing the GMP is likely to be greater than the member's corresponding DC fund. Therefore, the DC investment strategy is of less relevance for this group as their retirement benefit will only be formed of a GMP, which the Trustees will secure for them at retirement. For those with AVCs, a de-risking strategy ending fully in cash may be preferable given it is expected most would use their AVC fund for their overall scheme tax-free cash. However this can be managed manually by members through a series of fund switches if required.
The range of funds offered	✓ A range of self-select funds are available covering the main types of investments available to members of a DC scheme.
The ability to switch investments	✓ Members can switch investments at any time.
The information available to members regarding the available funds	✓ Fund factsheets are produced quarterly and these are available to download or can be requested via Capita.

Based on the assessment set out above, the Trustees are happy the charges members pay represent **good value** for members.

The Trustees believe the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and the Trustees expect this to lead to greater investment returns net of fees over time.

Trustees' view on whether the Plan offers good value

The Trustees also look at whether overall the Plan offers good value to members. In addition to considering investment options, the Trustees also consider a number of other areas, which include:

Area	Examples of the areas considered by the Trustees
Plan Governance *The Trustees believe in having robust processes and structures in place to support effective management of risks and ensure members interests are protected, increasing the likelihood of good outcomes for members*	✓ The Trustees regularly meet to discuss the Plan and discussions at these meetings are documented in writing. The Trustees' professional advisers also attend these meetings to give advice and guidance to the Trustees. ✓ All Trustees receive training both at outset and ongoing and are required to complete an agreed number of training hours per year to ensure that they can fulfil their duties. ✓ The Trustee Board includes both Company and member nominated Trustees. ✓ The Trustees have processes in place to deal with conflicts of interest and have a risk register that helps the Trustees to mitigate any risks related to running the Plan.
Investment Governance *A well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes.*	✓ See comments made above

Administration *The Trustees believe that good administration and record keeping play a crucial role in ensuring that scheme members receive the retirement income due to them. In addition, that the type and quality of service experienced by members has a bearing on the level of member engagement.*	✓ As highlighted in section 3, the Trustees are comfortable with the quality and efficiency of the administration processes.
Member communications and engagement *The Trustees believe that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.*	✓ Members are issued with a member-friendly annual benefit statement to enable members to see the key information about their retirement savings. ✓ The Trustees have undertaken a comprehensive communication programme in relation to the closure of the DC Section which applied to the majority of members.

The above sets out some of the areas considered by the Trustees in coming to the conclusion that the Plan represents **good value** for members.

6. Trustees' Knowledge and Understanding

The comments in this section relate to the Plan as a whole including its defined benefit section and not solely the DC section.

The Trustees have processes and procedure in place to meet the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- Undergoing regular training for the year – the details are given below.
- All three of the Trustees have completed the Pension Regulator's Trustee toolkit. The Trustees' toolkit is an online module-based training tool that trustees can complete to gain an understanding of the key elements of managing a pension scheme. It is provided by the Pensions Regulator.

The Trustees received training on topics which were relevant to the Plan. The Trustees received training from advisers during meetings. The areas of training covered during the year included:

- DC Chair Statement requirements
- DC closure work and bulk transfer processes
- Options for the GMP underpin group

There is not currently a formal process in place to assess gaps in Trustee knowledge. The Trustees will consider developing a process now the DC section closure project is concluded given the shape of the scheme is now different.

Demonstrating a working knowledge of key scheme documents

The Trustees have engaged with their professional advisers regularly throughout the year to ensure they exercise their functions properly and take professional advice where needed. In exercising their functions this has required knowledge of key scheme documents such as their governance documents, Trustees' Report & Accounts and Statement of Investment Principles. A few of the areas that support this statement are set out below:

- Review of the Statement of Investment Principles
- Sign off of the Trustees' Report and Accounts
- Review of quarterly administration reports to monitor service delivery against agreed service levels standards and assessing the member experience
- Reviewing quarterly investment reports to assess fund performance against benchmarks, and funds against overall Plan aim and objectives, as set out in the statement of Investment Principles.

Demonstrating knowledge of principles relating to investment and funding of DC schemes

To show how the Trustees have demonstrated that they have sufficient knowledge and understanding of principles relating to investment of DC schemes they also undertook the following actions:

- Production of this Chair Statement and Implementation Statement.
- Reviewed the quarterly investment reports to assess fund performance against benchmarks, and funds against overall Plan aim and objectives, as set out in the Statement of Investment Principles.
- Received quarterly investment market updates from their managers/investment advisers.

Demonstrating knowledge and understanding of the law relating to pensions and trusts

To show how the Trustees have demonstrated that they have sufficient knowledge and understanding of principles relating to pensions and trusts the Trustees undertook the following actions:

- Updating the risk register and updating their business plan,
- Reviewed and signed various documents relating to the DC closure.
- Training around the legal requirements for the bulk transfer of DC members to the Aon Master Trust.

The Trustees also considered the impact of the COVID-19 pandemic on the Trustees board and put in place appropriate plans to ensure that the board could continue to perform effectively during this time.

The Trustee board is made up of three Trustees with varying skill sets. The Trustees have varying backgrounds including investment and administration expertise.

The Trustees consider that they meet the Pension Regulator's Trustee Knowledge and Understanding requirements and are confident that their combined knowledge and understanding, together with the support of their advisers, enables them to properly exercise their functions as the Trustees of the Plan. In the year covered by this statement the Trustees have not reviewed the effectiveness of the Trustee board but will consider such an exercise now the DC section closure project is concluded given the shape of the scheme is different now.

Signed by the Chairman of the Trustees of Marmon Group Limited Retirement Benefits Plan

Chairman of the Trustees

Date of signing 02.11.2022