2. DC Chair's Statement

1. Introduction

The SPX UK Pension Scheme (the "Scheme") is an occupational pension scheme providing defined contribution ("DC") benefits (a DC pension scheme is where employee and employer contributions are paid into it, and the member chooses their investments, but bears the investment risk). A number of members also have Additional Voluntary Contributions ("AVCs") in the Scheme.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustee of the Scheme, are required to produce a yearly statement (signed by the Chair of the Trustee) covering:

- The design and oversight of the default investment option;
- Processing of core financial transactions (i.e. administration of the Scheme);
- The charges and transaction costs borne by members for the default option and any other investment options members can select or have assets in, such as "legacy" funds;
- An illustration of the cumulative effect of these costs and charges;
- Net returns of the investment options;
- How the value members obtain from the Scheme is assessed; and
- Trustee knowledge and understanding.

2. Default arrangement

The Scheme is closed to new entrants and contributions from existing members. We have made available a range of investment options for members, including a lifestyle strategy as the default option for members (who joined prior to the Scheme's closure) that did not wish to make their own investment decisions (the "Default"). A lifestyle strategy is where members' assets are automatically moved between different investment funds as they approach their target retirement date.

We are responsible for investment governance, which includes setting and monitoring the investment strategy for the Default.

Details of the objectives and our policies regarding the Default are set out in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's latest SIP is attached to this Statement.

The investment objective of the Default, as stated in the latest SIP, is to generate returns significantly above inflation whilst members are far from retirement, and to switch automatically and gradually to lower risk (and expected return) investments as members move closer to retirement.

Legislation requires that DC default arrangements are reviewed every three years. However, due to the small membership of the Scheme and, as a result of the fact that the Scheme's demographics can change materially year to year, the Default is reviewed on an annual basis. The default was reviewed during the Scheme Year (June 2023), which built upon the recommendations made by the Scheme's investment adviser in its September 2021 investment strategy review.

The performance and strategy of the Default were reviewed to check whether investment returns (after deduction of any charges) have been consistent with the aims and objectives of the Default, and to check that it continues to be suitable and appropriate given the Scheme's risk profiles and membership.

At the time of writing the Trustee is considering changes to the DC investments in the best interests of members. Members will receive a communication giving notice of any changed decided upon.

<u>Asset allocation breakdown</u>

We are required to calculate the percentage of the scheme assets within the default arrangement allocated to key asset classes. In line with DWP's guidance we have shown this asset allocation, as at Scheme year end, for members aged 45, 55 and 65 (the Scheme's default target retirement age). The relevant statutory guidance also requires returns for a member 25 years old also to be shown. However, given there are no members in the Scheme as young as 25, we have not shown returns for a 25 year old member.

Default Investment Strategy

Asset class	Allocation 45 y/o %	Allocation 55 y/o %	Allocation 65 y/o %
Listed equities	70.0%	68.0%	20.0%
Corporate bonds (UK and overseas)	30.0%	32.0%	45.0%
UK government bonds	-	-	15.0%
Cash	-	-	20.0%

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Scheme, Link Pensions Administration. The administrator has documented internal control procedures that help to ensure that core financial transactions are processed promptly and accurately. These include controls and procedures to manage the accuracy of investment allocations, payments of benefits, individual transfers out, and investment switches. Controls include a requirement for two people to authorise payments, authorisation limits, and a Trustee review of large payments.

As the Scheme no longer has any active members, the settlement of benefits is monitored and reported to the Trustee. We have received assurance from Link Pensions Administration that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately.

The Scheme has a service level agreement ("SLA") in place with Link Pensions Administration that covers all major administrative processes (see the following table). There is no SLA in place with Prudential in respect of the AVC funds.

Task description	Link Pensions Administration time (working days)	Pending time (working days)	Total elapsed time (working days)	Performance indicator
Cashflow	5	10	15	90%
Death	13	40	53	90%
General enquiry	10	10	20	90%
Invoice	2	0	2	90%
Retirement – early from preserved	8	60	68	90%
Retirement – normal from preserved	8	20	28	90%
Retirement – late from preserved	8	40	48	90%
Retirement settlement	6	10	16	90%
Transfer out – quotation	12	100	112	90%
Transfer out – settlement	7	40	47	90%
Value of preserved pension	10	0	10	90%
Payroll cases	Next Payroll Run		90%	

To help ensure Link Pensions Administration meets the SLA, they utilise their own Continuity Workflow application system.

This system records all member transactions as 'cases' and monitors their individual progress. All member events are logged on receipt and the Principal Administrators and Managers of the Administration Teams monitor turnaround. The Principal Administrators review workflow and case statuses each day and cases approaching target are given additional priority within the built-in prioritisation mechanism.

To help us monitor whether service levels are being met, we receive quarterly reports about the administrator's performance and compliance with the SLA. Any issues identified as part of our review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

Over the Scheme Year, performance against the SLA was good. Relative to a target of completing the processing of 90% of core financial transactions within respective target periods, Link Pensions Administration recorded 95% in Q1, 99% in Q2, 98% in Q3 and 97% in Q4.

Based on our review processes, we are satisfied that over the period covered by this Statement:

- The administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- There have been no material administration issues in relation to processing core financial transactions; and
- Core financial transactions have on the whole, been processed promptly and accurately to an acceptable level during the Scheme Year.

4. Member-borne charges and transaction costs

We are required to set out the ongoing charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs. This is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude administration costs since these are not met by the members.

We are also required to disclose transaction cost figures separately. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by the DC Section's investment platform provider, Aegon, and the AVC provider, Prudential.

When preparing this section of the Statement we have taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (i.e. we would not expect transaction costs to be negative over the long term).

<u>Default arrangement</u>

The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the table overleaf.

Default charges and transaction costs

Years to target retirement date	TER	Transaction costs[1]
30 years to retirement	0.34%	0.05%
20 years to retirement	0.33%	0.06%
10 years to retirement	0.33%	0.06%
5 years to retirement	0.33%	0.05%
At retirement	0.30%	0.05%

[1]Aegon has not provided transaction costs to 31 December 2023 in time for this statement, and so transaction costs to 30 September 2023 have been used as proxy.

Self-select and AVC options

In addition to the Default, members also have the option to invest in several other self-select funds. These self-select funds are available to both DC Section and AVC Section members.

The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Default are shown in bold.

Self-select fund charges and transaction costs

Fund name	TER	Transaction costs
Aegon BlackRock 70/30 Global Equity Index	0.29%	0.06%
Aegon BlackRock Emerging Markets Equity Index	0.51%	0.00%
Aegon BlackRock Over 15 Year Corporate Bond Index	0.29%	0.09%
Aegon BlackRock Corporate Bond All-Stocks Index	0.30%	0.05%
Aegon BlackRock All Stocks UK Index-Linked Gilt Index	0.28%	0.05%
Aegon BlackRock Cash	0.33%	0.02%
Aegon BlackRock Long Gilt	0.15%	0.00%
Aegon BlackRock 70/30 Global Growth	0.75%	0.23%
Aegon LGIM Global Equity (50:50) Index	0.44%	0.04%
Aegon BlackRock UK Equity Index	0.28%	0.08%
Aegon LGIM Overseas Equity Consensus Index	0.51%	0.04%
Prudential Dynamic Global Equity Passive Fund	0.64%	0.02%[2]
Prudential With-Profits Cash Accumulation Fund[1]	n/a	0.17%

[1] Prudential has confirmed that there is not an explicit TER for this fund. Charges on the Fund depend on the performance of the Fund, in particular, the investment returns achieved, and the expenses incurred. Over time, if investment returns are higher, then the charges would be expected to be higher, and if investment returns are lower, the charges would be expected to be lower.

[2]At the time of writing, Prudential has not provided transaction costs to 31 December 2023. Therefore, transaction costs to for the latest available 12 months period have been used (30 June 2023).

<u>Illustration of charges and transaction costs</u>

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the three years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over this four-year period as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the Scheme year.

The illustration is shown for the Default since this is the option with the most members invested in it, as well as two funds from the Scheme's self-select fund range. The two self-select funds shown in the illustration are:

- The fund with highest annual member borne costs – this is the Aegon BlackRock 70/30 Global Growth Fund.
- The fund with lowest annual member borne costs – this is the Aegon BlackRock Long Gilt Fund.

Years Invested	Default Option		Aegon Blackrock 70/30 Global Growth		Aegon Blackrock Long Gilt	
	Before Costs	After Costs	Before Costs	After Costs	Before Costs	After Costs
1	£46,900	£46,800	£47,100	£46,700	£45,900	£45,900
3	£50,600	£50,100	£51,000	£49,700	£47,400	£47,200
5	£54,600	£53,700	£55,300	£53,000	£48,900	£48,600
10	£66,000	£63,700	£67,600	£62,100	£53,000	£52,200
15	£79,700	£75,600	£82,600	£72,800	£57,400	£56,100
20	£94,900	£88,300	£101,000	£85,300	£62,100	£60,300
25	£108,100	£98,900	£123,400	£99,900	£67,200	£64,800

Notes

Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.

Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

Annual inflation is assumed to be 2.5%.

We have assumed zero contributions as the Scheme does not accept further contributions.

The starting pot size used is £73,400. This is the approximate average (median) pot size for members of the DC section.

The projection is for 25 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.

The projected annual returns used are as follows:

Default option: 3.9% above inflation at 25 years to retirement, gradually reducing to a return of 2.1% above inflation at the ending point of the lifestyle.

Aegon BlackRock 70/30 Global Growth Fund: 4.1% above inflation

Aegon BlackRock Long Gilt Fund: 1.6% above inflation

5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options that members were invested in during the Scheme Year, and in which assets relating to members were invested during the Scheme Year.

For the Default returns vary with age, since it is a lifestyle strategy and returns are shown over one and three years (pa) to the Scheme Year end for a member aged 45, 55 and 65 at the start of 2023. The relevant statutory guidance also requires returns for a member 25 years old also to be shown. However, given there are no members in the Scheme as young as 25, we have not shown returns for a 25 year old member.

Default option net returns over 2023

Age of member at the start of the period	1 year return (%)	3 year return (% pa)
45	8.3	-0.2
55	8.1	-0.6
65	6.5	-2.1

Self-select fund net returns over 2023

Fund name	1 year return (%)	3 year return (% pa)
Aegon BlackRock 70/30 Global Equity Index	9.5	8.0
Aegon BlackRock Emerging Markets Equity Index	2.6	-3.7
Aegon BlackRock Over 15 Year Corporate Bond Index	10.0	-12.3
Aegon BlackRock Corporate Bond All-Stocks Index	8.5	-4.9
Aegon BlackRock All Stocks UK Index-Linked Gilt Index	0.5	-13.7
Aegon BlackRock Cash	4.4	1.7
Aegon BlackRock Long Gilt	1.4	-17.5
Aegon BlackRock 70/30 Global Growth	13.5	7.0
Aegon LGIM Global Equity (50:50) Index	11.3	8.0
Aegon BlackRock UK Equity Index	6.3	7.6
Aegon LGIM Overseas Equity Consensus Index	15.4	8.1
Prudential Dynamic Global Equity Passive Fund	8.7	5.6
Prudential With-Profits Cash Accumulation Fund	1.5	n/a[1]

[1] Prudential were only able to provide net returns over 1 and 5 year periods. This is why the net returns figure for 5 years is n/a.

6. Value for members assessment

We are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of ‘good value’, which means that determining this is subjective. Our general policy in relation to value for member considerations is set out below.

We review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The last value for members assessment was carried out in March 2024 (and covered the 2023 Scheme Year).

We note that 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.

Analysis produced by our investment adviser indicates that when compared to some other smaller DC schemes the charges do not appear to be competitive. However, members do benefit from not having to pay administration costs, which are paid by the Scheme sponsor.

The assessment included a review of the performance of the Scheme's investment funds in the context of their investment objectives. As part of this, the risk adjusted performance of the Default's growth phase was compared to the performance of some alternative schemes. Performance of the growth phase over 2023 and the past five years was shown to be below average compared to alternative schemes.

In carrying out the assessment, other benefits members receive from the Scheme were also considered, which include:

- the design of the Default and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

The assessment found that the range of investment options available to members could be improved within the existing arrangements, or value for members may be improved by consolidating to a larger master trust scheme.

6.1 Additional requirement – comparator schemes

For scheme years ending after 31 December 2021, trustees of schemes with under £100m of assets under management (assessed on the basis of total scheme assets, including the value of defined benefit arrangements) that have been operating for at least three years must now carry out a more detailed assessment of the value for members delivered by their scheme. During the Scheme Year, total assets in the Scheme remained below £100m and so the Trustee carried out this additional assessment as part of its ongoing governance activities.

With the help of its DC investment adviser, the Trustee assessed the Scheme against three master trusts (called 'comparator schemes') that could receive the DC assets of the Scheme, covering the following areas:

- details of the charges they would offer if they assumed responsibility for the Scheme – this compared member-borne charges for the Default and self-select arrangements; and
- comparative fund performance – this compared the net investment returns for the Default and three popular self-select fund options over the short term (3 year) and the longer term (5 years) with the most similar funds in comparator schemes (where available).

The additional requirements also stipulate that a self-assessment of the governance arrangements available in the Scheme must be carried out.

The additional value for members analysis undertaken concluded that:

- members could pay similar or potentially lower charges in a master trust than they pay in the existing Scheme (both for the Default and self-select investment options) even where administration is paid for by the members (currently the employer pays for the administration services delivered by HS Admin).
- the net investment returns for the Default used in the Scheme were below those achieved in the comparator schemes' default arrangements over the periods measured (3 and 5 years);
- the net investment returns of the popular self-select arrangements were similar to, but generally lower than, those offered by comparator schemes for the closest available funds; and
- the governance arrangements in place in the Scheme are adequate.
- Following the most recent annual value for members assessment (March 2024), we are currently taking steps to review and improve value for members, and members will be given notice of any enhancements decided upon before implementation.

7. Trustee knowledge and understanding

We are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. We have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension, and trust law.

Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below:

- newly appointed Trustee Directors are provided with a copy of the Pensions Regulator's 'A guide for new trustees', Code of Practice 7 relating to Trustee Knowledge and Understanding (TKU) and scope guidance relating to both Defined Contribution and Defined Benefit Schemes;
- all newly appointed Trustee Directors are to complete the Pensions Regulator's e-learning trustee toolkit within six months of becoming a Trustee Director. Details of how the toolkit can be accessed are provided to a new Trustee Director once appointed. All Trustee Directors have completed the trustee toolkit and remain cognisant of any additional learning modules that may be added;
- trustee training is a regular agenda item at Trustee meetings, with training provided by our advisers, as appropriate. Ad hoc updates on key issues are also provided by the Trustee's advisers when required;
- the Trustee Directors are encouraged to attend and have attended external pension related seminars and events run by their professional advisers;
- the Trustee maintains Trustee Knowledge & Understanding (TKU) logs which are updated on a quarterly basis and reviewed annually to establish future training requirements. Areas of training undertaken in the preceding 12 months were: Net Zero ambitions, DWP’s Stewardship Guidance and Master Trusts; and
- the Trustee Directors have access to a document portal, which contains the key Scheme documents that the Trustee Directors should be familiar with and which they can access at any time, as required. These documents include the Scheme's Trust Deed & Rules, amending deeds, member booklets, the Statement of Investment Principles (SIP) and the Trustee Business Plan

In addition to the knowledge and skills within the Trustee board itself, we have appointed a number of professional advisers, who provide specialist support and advice. This includes the Scheme's third-party administrators, legal advisers, investment consultants, Scheme Actuary and auditors. Key advisers attend the majority of meetings held by the Trustee as required by the meeting agenda, and any formal advice sought and received is in written form. An annual review of adviser performance is undertaken by the Trustee. Pooling of these resources together means that the Trustee Directors are well equipped to exercise their duties and manage the Scheme effectively.

Conflicts of duty or interest is a regular agenda item at the start of each Trustee meeting and, should any conflicts of duty or interest be declared by any Trustee Director, the required action will be decided by those present at the meeting. Such action may be for the conflicted Trustee Director to be excluded from the meeting or excluded from the particular item causing the conflict. Actions are determined by the Trustee’s Conflicts of Interest Management Policy (December 2022). In accordance with this policy, a conflicts of interest register is maintained, which captures actual or perceived conflicts of interest identified by either the Trustee or its advisors.

The Trustee maintains a Risk Register which is reviewed at least annually.

With the help of our advisers, the Trustee considers training requirements to identify any knowledge gaps. During the Scheme year, the Trustee received training on master trusts from its investment adviser. The training covered an overview of the Master Trust market, as well as the pros and cons of master trusts relative to the Scheme's current arrangements. The purpose of this training was to provide the Trustee with a greater understanding of master trust options with a view to considering whether a move to master trust might be appropriate. In addition to this, the Trustee received training on the importance of setting a Net Zero ambition, as well as a session on stewardship, which focused on the release of the Department for Work and Pension's formal Stewardship Guidance.

Considering our knowledge and experience and the specialist advice received from the appointed professional advisors (e.g. investment consultants, legal advisors), we believe that we are well placed to exercise our functions as Trustee of the Scheme properly and effectively.

Signed by the Chair of Trustee of the SPX UK Pension Scheme:

Chair		**Date**	Jul 18, 2024