

## **Chair of Trustees Governance Statement Ring Automotive Ltd Occupational Pension Scheme M25F**

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustees to prepare an annual statement regarding governance, which should be included in the annual report.

This statement issued by the Corporate Trust (Ring Automotive Ltd) covers the period from 1 August 2020 to 31 July 2021 and is signed on behalf of the Corporate Trust by the Chair of the Trustees, a company representative.

This statement covers governance and charge disclosures in relation to the following:

- The Default Arrangement,
- Processing of core financial transactions,
- Member borne charges and transaction costs,
- Value for Members assessment, and
- Trustee knowledge and understanding.

The scheme is a closed scheme and provides money purchase benefits to existing members, within the Scheme year one active member has taken their benefits which therefore leaves one remaining active member and one deferred member as at 31 July 2021.

### **1. The Default Arrangement**

The Corporate Trust (Trustees) are responsible for investment governance, this includes the Trustees reviewing the default arrangement remains in the best interests of the members. A Statement of Investment Principles (SIP) is not required as the default is the Conventional With-Profits Fund and is exempt; however the Trustees have included details of the default within this Chair Statement below.

When the Scheme was originally established the Trustees took professional advice and selected a pension scheme where the Conventional With-Profits Fund was the only available investment fund option available to members.

Full details of the Conventional With-Profits Fund are recorded in the latest version of the Scottish Widows Principles and Practices of Financial Management (PPFM), version 9.0, and Scottish Widows Your Guide to With-Profits, both dated July 2021. In summary the key features of the Conventional With-Profits Fund are as follows:

- i. Smoothing is an important feature of a With-Profits Policy. It smooths out short-term stock market fluctuations so that amounts that Scottish Widows pay out are partially insulated from such fluctuations. More permanent stock market changes are inevitably reflected in pay-outs for policyholders.
- ii. Scottish Widows guarantee a minimum amount to pay out from the With-Profits Policy, however, such guarantees apply only in specific circumstances, set out in the provisions of the policy. Scottish Widows use 'Asset Shares' as a guide to determine the amounts of pay-outs when guarantees do not apply. Very broadly, 'Asset Shares' are an accumulation of premiums paid, less various deductions including deductions to cover expenses and tax. The accumulation is at the rate of investment return earned on the relevant part of the With-Profits Fund.
- iii. The fund invests in a range of different assets rather than just one to increase diversification and manage non-systematic risk; including equities, property, gilts (government bonds), corporate bonds and cash.

- iv. Risks and how these are measured and managed.
- v. The expected returns.

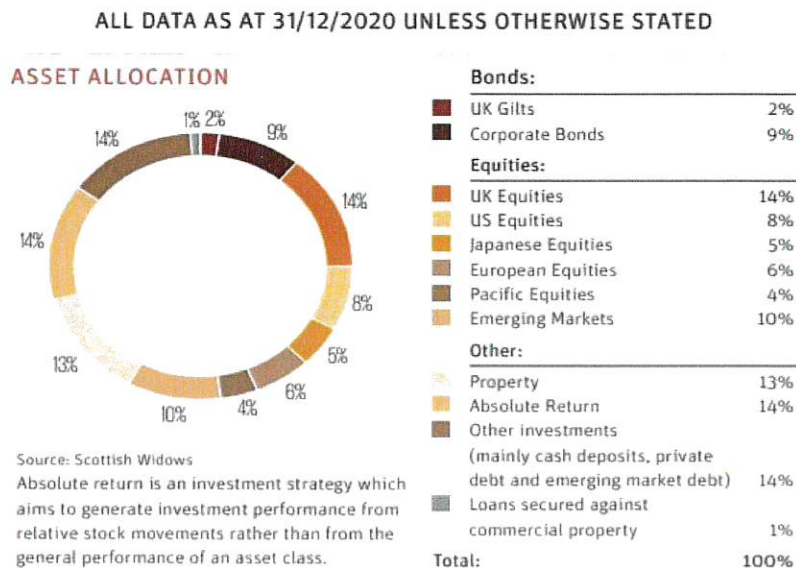
Scottish Widows manage risk within the Conventional With-Profits Fund by using 'Smoothing', as stated previously. Smoothing works by keeping back some of the gains earned in good investment years and using them to help pay bonuses in poor investment years.

Smoothing will not protect the Conventional With-Profits Fund fully from stock market steep or long-term falls in the value of investments. Scottish Widows constantly monitor investment conditions and may change levels of Terminal Bonus (details on the terminal bonus is included later in this statement).

Scottish Widows have established a With-Profits Committee, whose responsibility of the Committee is to provide an independent view on the management and operations of the With-Profits business. The Committee reviews how Scottish Widows With-Profits Fund is managed and scrutinises any major proposal that affects the Fund. The Committee meets separately from and provides advice to Scottish Widows Board.

A review of performance has been carried out by the Trustees advisers, Aon UK Ltd (Aon), based on the latest information provided by Scottish Widows, year ending 31 December 2020. The review has considered the membership profile, the needs of the members as well as consideration of expected member outcomes at retirement and associated risks. Although there are no alternative investment strategies that the Trustees could utilise, the main concern is that there is no 'de-risking' or 'lifestyling' element in the investment fund. However, as the investment fund uses a 'smoothing' feature and is well diversified the risk profile remains appropriate for the members considering the overall objective of the default arrangement strategy.

The latest available Asset Allocation and fund performance from Scottish Widows is shown below, as follows:



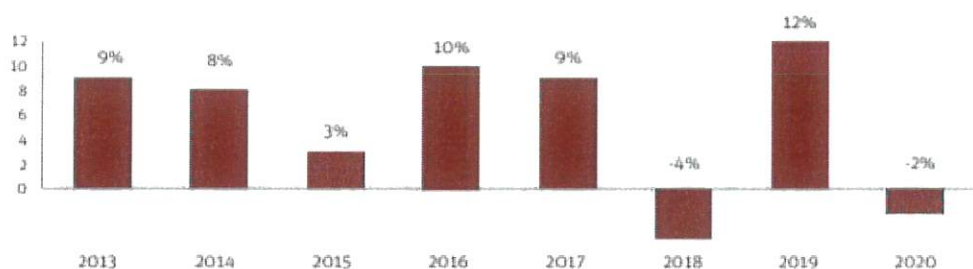
## MAIN WITH-PROFITS FUND

The majority of with-profits policies are currently backed by the same mix of assets. This mix for the last year is as follows:

	31 <sup>st</sup> December 2019	30 <sup>th</sup> June 2020	31 <sup>st</sup> December 2020
UK Gov't Fixed-interest	1%	2%	2%
Corporate Fixed-interest	3%	7%	9%
Loans secured against commercial property	3%	2%	1%
Property	12%	14%	13%
Equity UK shares	25%	18%	14%
Equity Non-UK shares	27%	23%	33%
Absolute Return	14%	13%	14%
Other Investments *	15%	21%	14%

\*The figure for the other investments in the above table at 31<sup>st</sup> December 2019 and 30<sup>th</sup> June 2020 mainly includes cash deposits. It mainly includes cash deposits, private debt and emerging market debt at 31<sup>st</sup> December 2020.

## WITH-PROFITS FUND PERFORMANCE



Source: Scottish Widows - One year to the 31<sup>st</sup> December, each year before tax.

The figures refer to past performance and are not a reliable indicator of future performance.

The value of an investment is not guaranteed and can go up and down depending on investment performance and currency exchange rates where a fund invests overseas, and you may get back less than you invested.

Conventional With-Profits Funds are made up of three components, which are as follows:

### 1. Guaranteed Cash Benefit (GCB)

- Is the amount guaranteed to be paid at Normal Retirement Date (NRD) provided all contributions that are due are paid to Scottish Widows.
- The calculation of the GCB considers the amount of premiums due to be paid, the term to NRD and the policyholder's age at the date of the calculation.

### 2. Reversionary Bonus

- Is the amount Scottish Widows may add, but not guaranteed, as a permanent increase to the amount of guaranteed pension benefit (value).
- These rates are reviewed and set (if changes are made) at least annually.
- Scottish Widows have provided bonus rates, which are split between Conventional With-Profits Fund prior 15 February 1999 and after 15 February 1999 for both the sum assured and existing bonus. The 2019 rates, which are the same for both sum assured and existing bonus, are as prior to 15 February 1999 0% and after 15 February 1999 0.25%.

### 3. Terminal Bonus

- This may be payable when a policy is claimed. This increases the benefit arising from the GCB and Reversionary Bonus, ensuring that members have a fair final value of their policy.
- There is no guarantee on the level of Terminal Bonus payable, as this is dependent on the performance of Scottish Widows investments.
- These rates are reviewed by Scottish Widows at annually.
- If the policy was taken out on or before 3 March 2000, when Scottish Widows demutualised, they may add a small figure to the final bonus.
- Scottish Widows aim that the total pay outs over many years are at least equal to the asset shares.
- Scottish Widows constantly monitor investment conditions and may change levels of the Terminal Bonus at any time. A change will be considered if the asset shares diverge by more than 15% from the expected smoothed levels or when necessary to limit losses to the Conventional With-Profits Fund.
- Terminal Bonus can sometimes move up or down very significantly, even within a few months, despite smoothing.
- The Scottish Widows annual benefits statement will include the value that a member could receive upon transfer.

Scottish Widows calculate the Terminal Bonus by selecting 'sample policies' over different periods and set a 'target pay-out level' for each sample policy. If Scottish Widows are using more than one sample policy for any year, they use an average of the results. Scottish Widows then compare this target level with the correspondence guaranteed amount and pay a final bonus if the target level is bigger.

If the policy is surrendered prior to NRD, the policy is valued to ensure that what is received reflects the share of the fund. To do this, the GCB and bonuses are added together by Scottish Widows and discounted from the NRD to the date of calculation, to consider of the charges that Scottish Widows will not receive due to the early encashment of the policy.

Scottish Widows have stated that they aim to give fair values to all policyholders, whether policyholder Conventional With-Profits benefits are retained to NRD. Scottish Widows calculate values for transfer on a basis which is consistent with calculations of values at NRD. Scottish Widows state that they regret that it is not possible for them to differentiate between guaranteed benefits, Reversionary Bonus and Terminal Bonus, as they can when benefits are held to NRD. However, Scottish Widows confirm that all benefits and bonuses are considered in their calculations.

Additionally, members may have Guaranteed Annuity Rates (GAR), which apply to qualifying contractual values (contributions invested prior to 1 July 1999) which is 11.111% at NRD, age 65, which amounts to £111.11 per £1,000 of the fund value at age 65. The GAR is only available from Scottish Widows at age 65 on a non-escalating single life basis payable in monthly instalments and guaranteed for five years. Both the deferred and active member were a member of the Scheme prior to 1 July 1999.

The standard annuity rate available for an individual aged 65 on 12 January 2022, based on a non-escalating single life basis, no tax-free cash, payable in monthly instalments, guaranteed for five years based on a fund value of £100,000 is 4.92%. (Source: moneyhelper.org.uk). This is considerably lower than the GAR, please note the fund value used cannot be split between contributions before 1999 and after so the fund value used may include premiums after 1 July 1999.

The trustees along with their advisers, Aon feel the advantages of the GAR outweigh some of the negative aspects and therefore the scheme does offer value for money to the members who wish to purchase an annuity at retirement. Maintaining the scheme, so that active members can benefit from the GAR in the

Trustees opinion will deliver the best retirement outcome for members wishing to take an annuity. Deferred members still benefit from the GAR; however, this is calculated up until the premiums cease. Pension Freedoms are also available to member's; however, the GAR is only applicable when purchasing an annuity with Scottish Widows. Also, if a member transfers out of the Scheme the GAR would be lost.

The Trustees and Aon continually review this Scheme and as there is currently 1 active member, who is due to retire shortly along with one deferred member, wind up options are now being reviewed.

### **Environmental, Social and Governance (ESG)**

The Trustees are unable to offer a range of funds aimed to address environmental and ethical considerations under the current Scheme as the only fund available under the Scheme is the Conventional With-Profits Fund.

Scottish Widows have defined how they invest responsibly through their investment principles and stewardship framework. Scottish Widows primary principle is their commitment to being a responsible investor. They aim to avoid major risks associated with ESG factors which could adversely impact the performance of companies they invest in and seek to benefit from ESG investment opportunities.

Scottish Widows will not invest in some companies at all. However, they state that removing all 'bad' companies on ESG factors would mean they lose the opportunity to drive positive changes through engaging with those companies, so they restrict their exclusions to companies involved in controversial activities such as cluster munitions, landmines or chemical weapons, where engagement would make no difference.

As the assets are held indirectly through unit linked funds, it is the responsibility of the underlying investment manager of each of the pooled funds to address ESG factors, although Scottish Widows will have influence with the investment managers.

The Trustees do not actively engage with investment managers in terms of ESG; however, have access to all information Scottish Widows provide in relation to this.

## **2. Processing of Core Financial Transactions**

The Trustees are required to report within this statement, the processes and controls in place in relation to the 'core financial transactions'.

The Scheme is an earmarked Money Purchase Scheme, as defined in the Audited Accounts Regulations (SI 1996/1975). Under those regulations, Trustees of this type of Scheme are required to obtain an auditors statement that the contributions to be paid to the Scheme have been paid. In practice the Trustees delegate responsibility for this to the Scheme administrator, Scottish Widows. There is no requirement under these regulations for either the Trustees or Scottish Widows to produce any other information for core financial transactions.

The Scheme is set up on a Level Direct Debit which means that the monthly payment is automatically collected on the 1<sup>st</sup> of each month. The Trustees have monitored the contributions within this Scheme year. Scottish Widows have also confirmed that there are no outstanding contributions and all contributions have been paid on time.

Scottish Widows have stated that they do not have any Service Level Agreements or Key Performance Indicators in respect of this Scheme. There is no confirmation from Scottish Widows as it if they would ever put these in place.

### 3. Member Borne Charges and Transaction costs

The Trustee regularly monitor the level of charges borne by members through the Conventional With-Profits Fund. The charges comprise of:

- Explicit charges
- Transaction Costs

From 6 April 2018, The Trustee is also required to produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values.

Transaction costs are largely the result of buying and selling investments in a fund. Scottish Widows have confirmed that the Annual Management Charge of 0.875%.

Scottish Widows have confirmed that they make charges to recover most of their expenses, although some of their expenses are deducted directly from the Scottish Widows Conventional With-Profits Fund, mainly investment dealing expenses.

The Trustees requested details of transaction costs from Scottish Widows. Scottish Widows have confirmed that the Transaction costs are 38bp (basis points) based on 96% of assets reported, which have been calculated using the slippage methodology. This is the total transaction cost figure for the fund (i.e. for Buy & Sell transactions and Lending & Borrowing transactions). Where the percentage of investments for which transaction costs has not been obtained exceeds 10% of the overall holdings, an explanation as to why the transaction costs have not been obtained will be provided. As in this case the percentage is 4%, no explanation has been provided. The reporting period is from 1 April 2020 to 31 March 2021, which is Scottish Widows most recent reporting period.

These charges are above the charges cap of 0.75% set by the Department of Work and Pensions (DWP), therefore this Scheme cannot be used for auto enrolment purposes. The Company have established a separate scheme for auto enrolment purposes.

#### Illustrations – Impact of charges:

Scottish Widows were unable to provide example illustrations for both active and deferred members, therefore our Advisers, Aon have produced the following illustrations. These illustrative examples below set out transactional costs and charges which apply to the Conventional With-Profits Fund together with illustrative examples of the cumulative effect of these costs and charges incurred by members.

Average Active Member aged 64 – Conventional With-Profits Fund					
Age	Estimated fund value (before charges) £	Estimated fund value (after TER) £	Effect of charges (TER) £	Estimated fund value (after TER and TCs)	Effect of charges (TER and TCs) £
64	65,500	65,500	0	65,500	0
65	68,230	67,660	570	67,500	730

**Illustrations – Impact of charges (continued):**

<b>Average Deferred Member aged 61 – Conventional With-Profits Fund</b>					
Age	Estimated fund value (before charges) £	Estimated fund value (after TER) £	Effect of charges (TER) £	Estimated fund value (after TER and TCs)	Effect of charges (TER and TCs) £
61	217,000	217,000	0	217,000	0
65	240,100	232,200	7,900	229,980	10,120

**Notes**

1. Projected pension pot value are shown in today's terms and do not need to be reduced further for the effect of future inflation
2. Retirement is assumed to be at age 65
3. The starting pot size is assumed to be £217,000 for the deferred member and £65,500 for the active member.
4. Average age assumed to be 61 for the deferred member and 64 for the active member.
5. Inflation is assumed to be 2.5% each year
6. Salary growth assumed at 0%
7. The starting gross contribution is assumed to be 2.5% per month for active members. Gross contributions are assumed to be paid from the start of the projection period until retirement.
8. The projected growth rate for the Conventional With-Profits Fund is 1.5% above inflation

Source: Aon UK Ltd

**4. Value for Members assessment**

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members.

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. The Trustees have received advice on how to assess good value from their advisers, Aon and considered regulatory guidance.

Together with its advisers Aon, the Trustee has established an assessment framework to assess the benefits of membership of the Scheme. The framework considers the following areas where benefits can be financial or non-financial in nature.

**Costs**

- Although the total charges do not comply with the DWP charges cap of 0.75%, as stated above, the GAR is a valuable benefit for members who wish to purchase an annuity at retirement. The GCB is also a valuable benefit. Therefore, charges should not be considered in isolation.

**Governance**

- An annual governance meeting is held by the Company and this meeting covers all the Pension Schemes established by the Company, including this Scheme.
- The Trustees ensure the Scheme is run in compliance with the law and regulation.

**Flexible Contribution Options**

- There is a minimum contribution that Scottish Widows require for the GAR, the contribution structure for the Scheme is not flexible; however, the Company have other pension arrangements where members (who are employed by the Company) can elect to pay additional contributions.

### **Investment Options**

- The Conventional With-Profits Fund is the only available investment option available to members. However, the risk profile remains appropriate for the members considering the overall objective of the default arrangement strategy.

### **Administration**

- The Trustee has appointed Scottish Widows to provide administration services to the Scheme; however, Scottish Widows do not have any Service Level Agreements or Key Performance Indicators in place for this type of Scheme.

### **Retirement**

- The GAR of 11.111% is potentially a valuable benefit for members wishing to purchase an annuity at retirement.
- Members have a range of options available to them to obtain information on their retirement options.

### **Member communications and engagement**

- The Scheme administrators, Scottish Widows provides effective communications that are accurate, clear, informative and timely. This includes annual statements and retirement packs to members.
- Members also have access to several online planning and retirement tools.

A separate statement setting out the full Value for Members assessment is available on request from Aon or the Trustees.

## **5. Trustees' Knowledge and Understanding**

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension Schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

Ring Automotive is appointed as the Corporate Trustee. The Trustees have met the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) during the Plan year through the following measures:

- The Trustees are conversant with the Trust Deed and Rules for the Plan. The Trustee reverts to the legal advisor for any clarification, if required.
- The Trustees have completed the Pension Regulator's trustee toolkit, including the modules relating to running a DC occupational arrangement.
- The Trustees assess training needs and consider whether any gaps exist in Trustees knowledge and understanding.
- The Trustees have a sufficient knowledge and understanding of the funding and investment of Occupational Pension Schemes.

In addition to the knowledge and understanding of the Trustees, the Trustees has engaged with their appointed professional advisers to ensure that they run the DC Section and exercise their functions properly, including the following:





- Monitoring future contributions are applied correctly and in a timely manner by Scottish Widows.
- Reviewing the default arrangement against its benchmark with advice from its adviser Aon, to monitor performance of the Conventional With-Profits Fund against targeted benchmarks and overall aim and objectives of Scottish Widows.
- Ongoing review of the Scheme to ensure it remains appropriate for the existing membership.
- A yearly statement is provided confirming whether contributions to the scheme have been paid in a timely manner to Scottish Widows in accordance with pension regulations.

Signed on behalf of the Corporate Trust of the Ring Automotive Ltd Pension Scheme

  
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Name / Position ANDREW GRATTON /Chair

Date of signing 26/01/23