12. CHAIRMAN'S STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2020

Ransomes Pension Scheme

CONTRACTED OUT MONEY PURCHASE BENEFITS (COMP) SECTION AND ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) ARRANGEMENTS

Annual governance statement by the Chair of Trustee for the year ended 31 December 2020

Introduction

Defined contribution governance standards apply to defined contribution (DC) pension arrangements. These are designed to help members achieve a good outcome from their retirement savings. As Chair of the Trustee of the Ransomes Pension Scheme, I have to provide you with a yearly statement which explains what steps the Trustee (with guidance from our professional advisers) has taken to meet these standards. The information included in my statement is set out in law and regulation. This statement will be published on a publicly available website.

Although the Scheme is predominantly a defined benefit arrangement, it has the following DC elements:

- The Contracted Out Money Purchase Benefits Section, or COMPS – this section was available for defined benefit members to use until 5 April 2003 if they wished to contract out of the State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P) via a contracted-out money purchase section of the main Scheme. It is, therefore, closed to new entrants and future contributions. This section is administered by Aviva and offers investment funds managed by Aviva.
- AVCs with Aegon – these are legacy money-purchase AVC arrangements that have been replaced by Fidelity for future contributions since May 2021 and all remaining funds will be transferred to Fidelity later in 2021.
- AVCs with Fidelity – these are the Scheme's current (as at May 2021) money-purchase AVC arrangements with Fidelity Pensions Management (Fidelity). At the year-end there were no assets held with Fidelity.
- AVCs with Utmost Life & Pensions (Utmost) – these are legacy holdings within the Equitable Life With Profits Fund which were transitioned to Utmost on 1 January 2020. Since August 2020 there have not been any members with AVC funds with Utmost and the policy has been terminated.

Other than the AVC arrangements with Fidelity, all arrangements no longer accept future contributions.

The Trustee decided that the Aviva COMPS and Aegon AVC arrangements would transition to Fidelity. However, this transfer was put on hold due to logistical reasons during 2019 and 2020. From May 2021 future AVC contributions are paid to Fidelity. The historic AVC and COMPS funds with Aegon and Aviva will be transferred later in 2021.

I welcome this opportunity to explain what the Trustee does to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do let us know.

Signed for and on behalf of the Trustee of the Ransomes Pension Scheme by Matthew Went, Chair of the Trustee

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Date 13/7/21

INVESTMENT CHOICES, INCLUDING DEFAULT ARRANGEMENTS

The Trustee is responsible for investment governance. This includes having a good working knowledge of investment matters relating to the Scheme and ensuring an appropriate choice of funds for the members with DC elements within the Scheme.

We take professional advice from regulated investment advisers and have appointed fund managers to manage any DC investments.

Further details of the basis on which the Trustee invests members' assets within the Scheme are recorded in the Statement of Investment Principles ("SIP"). The Trustee updated the SIP, in June 2020, to meet a new regulatory requirement to include the Trustees' policies in respect of arrangements with their investment managers and a copy is included in the appendix.

Reviewing the investment choices

Trustees are typically expected to review the strategy and objectives of any default investment strategy regularly, at least once every three years and take into account the needs of the membership when designing it.

None of the investment options for members with DC elements within the Scheme are a default arrangement for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, because none are used as a qualifying scheme for automatic enrolment purposes.

As a result, no default investment strategy review was undertaken during the Scheme year and there is no planned future date for such a review.

The Trustee Directors have previously reviewed the arrangements with Aviva and Aegon and have appointed Fidelity as the new provider. It is intended that the historic AVC holdings with Aegon will be transferred to Fidelity later in 2021. From May 2021, AVC contributions that were previously paid to Aegon are paid to Fidelity.

Self-select investment choices

The Trustee allows members to self-select from the following range of funds:

COMPS with Aviva	Aviva Secure Growth Fund Aviva BlackRock UK Equity (active) Aviva Baillie Gifford Managed
AVCs with Fidelity	Members can choose from a wide range of funds available (although as at 31 December 2020, there were no assets under management with Fidelity)
AVCs with Utmost	Utmost Managed Fund Utmost Money Market
AVCs with Aegon	Members can choose from over 300 funds that are available. The funds used by members over the Scheme year included: • Aegon Global Equity Tracker Fund • Aegon Long Gilt Fund • Aegon External Balanced Collection • Aegon Cash Fund • Aegon Mixed Fund • Aegon Fixed Interest Fund • Aegon Global Equity Tracker Lifestyle Fund • Aegon Global Equity Tracker Lifestyle 2021 Fund • Aegon Global Equity Tracker Lifestyle 2023 Fund

Members may wish to take independent financial advice before choosing funds.

CHARGES AND TRANSACTION COSTS PAID BY MEMBERS

The Trustee is required to explain the charges and transaction costs (i.e. the costs of buying and selling investments) in the Scheme that are paid by members rather than the employer.

The investment management and transaction costs can be explained as follows:

- The total ongoing charges figure is the total cost of investing in any fund or strategy and includes the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges).

- Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments *within* each fund. They include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and the costs of borrowing or lending securities, as well as any differences between the actual price paid and the quoted 'mid-market price' at the time an order was placed. These costs will vary between members depending on the funds invested in, the transactions that took place within each fund and the date at which the transactions took place. Unlike the ongoing charges figures, instead, the reported performance of the fund is typically net of these transaction costs.

- In addition, there can be switching costs occurred as a result of the buying and selling of funds. This may relate either to member-driven trades (e.g. a self-select member switching their investment arrangements) or to automatic trades (e.g. those associated with fund switches resulting from progression along a lifestyle glidepath). These costs relate to the difference between the fund price used to place the trade and the price which would have applied to that fund on that day had the trade not been placed. These are implicit costs which are not typically visible to members.

It would be impractical (and potentially confusing to members) if the Trustee sourced and listed the charges and transaction costs for all of the funds potentially available to members with DC elements within the Scheme, particularly the 200+ funds available for the COMPS held with Aviva and the 300+ funds available for the AVCs held with Aegon.

As a result, the Trustee has focused on requesting that the fund managers provide the level of charges and transaction costs applicable to the funds being used as at 31 December 2020 in the different sections.

The level of ongoing charges and transaction costs applicable to the different sections during the last Scheme year were confirmed by the managers and detailed on the next page.

	Total charges		Transaction costs for the period 1 January 2020 to 31 December 2020[1]	
	% p.a. per the amount invested	£ p.a. per £1,000 invested	% p.a. per the amount invested[2]	£ p.a. per £1,000 invested
COMPS with Aviva				
Aviva Baillie Gifford Managed Fund	1.21%	£12.10	0.23%	£2.30
Aviva BlackRock UK Equity Fund	1.21%	£12.10	0.40%	£4.00
Aviva Secure Growth Fund	0.98%	£9.80	0.01%	£0.10
AVCs with AEGON				
Aegon Global Equity Tracker Fund	0.72%[3]	£7.20	0.13%	£1.30
Aegon Long Gilt Fund	0.70%[3]	£7.00	0.04%	£0.40
Aegon External Balanced Collection	0.96%[3]	£9.60	0.11%	£1.10
Aegon Cash Fund	0.70%[3]	£7.00	0.00%	£0.00
Aegon Mixed Fund	0.71%[3]	£7.10	0.23%	£2.30
Aegon Fixed Interest Fund	0.71%[3]	£7.10	(0.04%)	(£0.40)
Aegon Global Equity Tracker Lifestyle 2021 Fund	0.75%	£7.50	0.04%	£0.40
Aegon Global Equity Tracker Lifestyle 2023 Fund	0.76%	£7.60	0.08%	£0.80
Aegon Global Equity Tracker Lifestyle Fund	0.72%[3]	£7.20	0.13%	£1.30

Completeness of charges and transaction cost information

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information. We have not obtained data for the AVC funds offered by Fidelity, as there were no AVC assets under management at 31 December 2020.

Aegon have confirmed that the securities lending fees were not available for some or all of the funds.

We were not provided with transaction costs prior to 1 January 2018 for any of the funds. As the reporting of transaction costs is a new statutory requirement, not obtaining full transaction cost data is a difficulty faced by many pension schemes. It should be noted that the transaction costs are likely to vary from fund to fund and from year to year.

[1] A charge in (brackets) is effectively a negative cost i.e. it boosts net return, rather than detracting from it.

[3] These charges are after a fund charge rebate of 0.05% has been applied to all funds

Further explanation of the With-Profit AVC arrangements

Some members with Aviva funds are invested in the Aviva Secure Growth Fund, which has no annual management charge but Aviva allows for a charge of 0.98% p.a. when declaring With Profits bonus rates.

The Trustee takes a proportionate approach to reviewing these investments based on the size of the funds invested compared to the overall value of benefits that the members hold within the Scheme. In addition, the Trustee notes that Aviva have a With Profits Committee for their Secure Growth Fund, who consider matters affecting the interests of the policyholders within each fund, including fair pay-outs.

The Trustee periodically reviews these arrangements to ensure they continue to be fit for purpose and will continue to write directly to members who have such investments if there is anything of significance to make members aware of.

Examples of the impact of costs and charges

We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on members' savings.

Aegon have prepared the following examples, having taken account of the statutory guidance issued by the Department of Work and Pensions[4]. From May 2021 the regular contribution of active members who make AVCs are made to Fidelity. However, the illustrations have been prepared by Aegon as at 31 December 2020 based on contributions continuing. From 31 December 2021, Fidelity will prepare the illustrations.

Each table in this section shows the projected pension savings in today's money for a representative member of the AVC arrangement with Aegon using:

- The median pot size of the arrangement by type of member (active & deferred).
- The mean regular contribution of active members of the Aegon AVC arrangement.
- Illustrations based on the age of the youngest member of the AVC arrangement with Aegon.
- An average of the transaction costs over the period for which they are available.
- The 'Before charges' column shows the projected fund without any transaction costs and charges being applied. The 'After all charges' column shows the projected fund after transaction costs and charges have been applied.

'Typical' actively-contributing member of the AVC arrangement with Aegon

	Mixed		Equity		FixedInterest		Cash		ExtBalCollection	
Years	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	7,472	7,403	7,570	7,496	7,275	7,223	7,226	7,180	7,488	7,409
3	10,552	10,299	10,924	10,646	9,837	9,653	9,664	9,504	10,614	10,319
5	13,603	13,100	14,356	13,791	12,205	11,855	11,877	11,576	13,726	13,140
10	21,136	19,720	23,355	21,676	17,347	16,466	16,520	15,783	21,489	19,831
15	28,598	25,855	33,111	29,674	21,501	19,966	20,059	18,807	29,300	26,065
18	33,075	29,331	39,416	34,567	23,578	21,610	21,729	20,148	34,047	29,614

[4] https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes

'Typical' deferred member of the AVC arrangement with Aegon

	Mixed		Equity		FixedInterest		Cash	
Years	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	4,096	4,055	4,155	4,111	3,979	3,947	3,949	3,921
3	4,238	4,111	4,423	4,284	3,882	3,791	3,796	3,717
5	4,383	4,168	4,708	4,464	3,788	3,641	3,650	3,524
10	4,771	4,313	5,503	4,948	3,563	3,291	3,307	3,083
12	4,935	4,372	5,858	5,155	3,476	3,160	3,180	2,922

Notes

For these illustrations, Aegon have assumed:
1. The starting age is 47 for active members and 53 for deferred members.
2. The retirement age is 65 for all.
3. The assumed contributions for active members will increase by 2.5% each year, while no future contributions are made for deferred members.
4. Projected pension fund values are shown in today's terms, and do not need to be reduced further for inflation. Inflation is assumed to be 2.5%, each year.
5. The starting pension fund value in the first year is £5,918.15 for active members and £4,027.67 for deferred members.
6. Each illustration has been produced on the basis that this is the only fund invested in and that all transaction costs and scheme charges are deducted from that fund.
7. The following growth rates, charges and transaction costs have been assumed:

	Growth rate	Total charges	Transaction costs
Aegon Mixed Fund	4.25%	0.76%	0.30%
Aegon Equity Fund	5.75%	0.75%	0.36%
Aegon Fixed Interest Fund	1.25%	0.76%	0.09%
Aegon Cash Fund	0.50%	0.75%	0.00%
Aegon External Balanced Collection Fund	4.50%	1.01%	0.21%

8. If the growth rate used is the same as the rate of inflation, this reduces the growth rate, after making an allowance for inflation, to 0%. If the growth rate is less than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.

Finally, Aegon has confirmed that the tables are not personal illustrations, they are based on the assumptions detailed in this section and the purpose of the example illustrations is to show how fund-related costs and scheme charges can affect the overall value of the funds the scheme invests in over time.

CORE FINANCIAL TRANSACTIONS

The Trustee is required to report to you about the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- Investing contributions that are paid in by members.
- Transferring assets relating to members.
- Transferring assets between different investments.
- Making payments to, or on behalf of, members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the COMPS and AVC administrators.

During the Scheme year, administration of the COMPS was delivered by Aviva, while administration of the other AVC holdings was delivered by Aegon and Utmost. This administration service included key financial tasks such as keeping track of changes in members' circumstances and arranging switching and disinvestments of designated investments.

During the Scheme year and the COVID-19 pandemic, Aviva, Aegon and Utmost continued to operate as normal and responded quickly to the changing situation.

These AVC managers are required to carry out services in accordance with good industry practice. The administration service is required to ensure transactions are carried out in a timely and effective manner. Aviva has a service standard of 10 working days in place.

Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

Overall, we are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

TRUSTEE KNOWLEDGE AND UNDERSTANDING

The law requires the Trustee Directors to be conversant with the Scheme's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Scheme effectively.

The Trustee Directors meet all the knowledge and understanding requirements and understand the Scheme and its documents. The Trustee Directors are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the SIP and the documents setting out the Trustee's current policies. They are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes. The Trustee Directors do this by regularly reviewing the relevant Scheme documents via the Scheme's online portal.

The Pensions Regulator issued a code of practice for trustees of pension schemes providing money purchase benefits (the DC code) and the Trustee Directors continue to consider the code requirements in their activities.

All of the Trustee Directors have completed, or made good progress in completing, the Pensions Regulator's on-line trustee toolkit. New Trustee Directors are required to complete the toolkit within six months of becoming a Trustee Director. Trustee Directors must review the toolkit on an on-going basis to ensure their knowledge remains up to date.

Relevant advisers are in attendance at meetings and in frequent contact with the Trustee Directors to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.

During the Scheme year, training and development in the following areas took place:

- The training log was reviewed at each Trustee's meeting.
- The Trustee Directors received "on the job" training. This means that as new topics arise professional advisers attending the Trustee meetings will provide training, so the Trustee Directors may engage in an informed manner. Items over the year included: Statement of Investment Principles regulatory update, funding updates, RPI/CPI consultation, Pension Increase Exchange exercises and factor reviews, employer covenant review, cashflow management policy, MIFID cost disclosures.

We take our training and development responsibilities seriously and each year hold a "Blue Sky" day (in addition to the regular Scheme meetings), which includes training sessions and speakers from a variety of specialisms. The Trustee keeps a record of the training completed by each member of the Trustee Board. The training log is kept up to date and regularly reviewed to identify any gaps in the knowledge and understanding across the Trustee Board as a whole.

Because of the training activities which have been completed by the Trustee Board individually and collectively and considering the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Trustee enables us to properly exercise our functions as Trustee Directors.

ASSESSING VALUE FOR MEMBERS

As part of our assessment of the charges and transaction costs, the Trustee is required to consider the extent to which member-borne costs and charges within the COMPS and AVC arrangements within the Scheme represent good value for members when this is compared to other options available in the market.

This section sets out the approach that the Trustee has taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

Categorising costs/charges

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We note 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 assessment of value to members.

In line with our legal duties and guidance issued by the Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Principal Employer.

The charges paid by COMPS members or AVC members comprise not only fund management charges and transaction costs for the investment funds used but also cover the costs of the services provided to members by Aviva, Aegon and Utmost, including services such as:

- The costs of reviewing and updating funds available to members on their platforms.
- Administration costs for the providers (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, etc).
- Member communications (e.g. the costs of producing and issuing annual benefit statements, etc).

However, for all other Scheme costs and charges, the Principal Employer bears the full cost, covering such areas as:

- Wider investment support and governance (e.g. the costs of reviewing the AVC providers, etc).
- Administration of the COMPS and AVC arrangements of the Scheme (e.g. the costs of updating and maintaining overall member records, dealing with member queries, etc).
- Member communications (e.g. the costs of producing and issuing member booklets, etc).
- The management and governance of the Scheme (e.g. the expenses of the Trustee, the costs of legal/actuarial advisers and annual audit, etc).

For the COMPS and AVC arrangements, the Trustee has applied a proportionate approach to assessing value for members given the low value of their DC holdings relative to their overall benefits in the Scheme, including any accrued defined benefits, given that the Scheme is predominantly defined benefit and these arrangements are not stand-alone DC sections.

Our overall approach

Assisted by our advisers and in line with the Pensions Regulator's guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay (including transaction costs where available).
2. We have assessed the scope and quality of the services that members receive from the COMPS and AVC arrangements.
3. We have compared the value that members receive from the services against the cost of those services, on the 'value for member' basis required by legislation i.e. ignoring the wider elements of value that members receive as a result of costs paid by the participating employers.
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

The above approach ensures that we are comparing the level of charges in each fund with the levels of return they have delivered to members, as well as comparing the costs of membership (i.e. the charges) against the benefits of membership (i.e. the services provided by the Scheme).

In attempting to compare these against other options available in the market, the Trustee has found that there are limited industry-wide benchmarks for each service area and so the Trustee has relied on the market knowledge of its advisers.

Overall, the Trustee has determined that the COMPS and AVC arrangements do not offer 'value for members' over the Scheme year to 31 December 2020 when measured against the definition required by legislation, primarily due to their charges being high (although not untypical for similar-sized AVC arrangements).

As a result, the Trustee has started the process to transfer all COMPS and AVC holdings into a new arrangement with Fidelity. New contributions from May 2021 are paid to the new arrangement with Fidelity and existing assets are scheduled to be transferred to Fidelity in late 2021.

Preparation for the assessment

The Trustee received support from advisers around how to undertake a value for member assessment and also considered the statutory guidance.

In particular, the size of the COMPS and AVC holding relative to the quantum of defined benefits savings for the members, plus the fact that a decision had already been made in principle to transfer the COMPS and AVC holdings to a new provider, meant that a 'high level' assessment would be used, which would be of a smaller scale than if any of the arrangements had been a stand-alone DC section.

Process followed for the assessment, including key factors considered

The Trustee, assisted by their advisers, performed a high-level review of these arrangements against other AVC arrangements available in the market (including some comparison against personal pensions). In particular, the Trustee considered factors like the following:

- The ways that members can access their AVC savings at retirement and how this compares to other options available in the market.
- The level of charges paid on AVC savings.

Explanation of the results

Our conclusion that the COMPS with Aviva and the AVC arrangements with Utmost and Aegon do not offer value for members over the year to 31 December 2020 is based on factors such as:

- The charges involved, particularly as they do not compare favourably to Fidelity for comparable funds and previous attempts to negotiate lower charges with Aviva had not been successful in producing rebates to member charges.
- The services provided by Fidelity give AVC members access to a more modern platform, with online access that enables members to view and manage their own funds.
- Monies held in any of the with-profits funds were thought to represent poor value to members due to, amongst other factors:
  - The lack of transparency / influence on how the with-profits funds are run.
  - The fact that the with-profits investment strategies (and therefore any future bonuses) are dependent upon the financial strength and continued solvency of Aviva.

Follow-on actions and investigations

Over the year to 31 December 2021, the Trustee plans the following:

- Facilitate the payment of future AVC contributions into the new arrangement with Fidelity.
- Transfer existing COMPS and AVC holdings to Fidelity.
- Prepare an engagement policy implementation statement, in line with statutory requirements, that describes how the Trustee has followed certain policies (including those relating to stewardship) in the Statement of Investment Principles and the Trustee's voting behaviour during the Scheme year.
- Continue to monitor developments in ESG considerations.
- Continue to review funds and monitor performance.

The Trustee will also discuss this analysis with the Principal Employer to obtain their views.