

Governance statement for Pertwee Estates Limited Retirement Benefits Scheme

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) require the Trustees to include an annual statement regarding governance in the annual report.

Default arrangement

As explained in note 3 to the financial statements, the Scheme is a hybrid scheme whose investments are not divided into defined benefit and money purchase sections. Members of the DC section of the Scheme are all invested in this default arrangement which applies to all benefits provided by the Scheme.

The objective of this fund is to provide income and investment growth by investing in return seeking assets in a diversified portfolio with a moderate risk profile.

The DC section follows the same investment strategy as that adopted by the final salary section which is set out in the Statement of Investment Principles annexed to this report. The investments held meet the requirements for social, environmental and ethical considerations as set out in the Trustees’ Statement of Investment Principles.

The invested funds are managed actively. The Trustees have previously aimed to achieve returns at least as high as the discount factor assumed in the actuarial valuation of the defined benefit liabilities of the Scheme in arriving at its technical provisions. They monitor the actual return achieved by the Scheme against a benchmark of the returns earned by comparable funds prepared by Asset Risk Consultants PCI in semi-annual meetings with the Scheme’s investment advisers. Meetings were held in February, July and September 2021, as well as February 2022.

As explained more fully in the Trustees’ Report, at their meeting held in September 2021, the Trustees decided to de-risk the investment strategy. They exited all 8 investment funds previously held in the Growth Fund and 5 of the 14 funds held in the Income Fund. One new fund was added to the portfolio. As a result, the asset allocation changed from 52% equities, 42% cash and fixed interest and 5% other assets to 29% equities, 71% cash and fixed interest and 0% other assets. The targeted investment return was reduced to 1% pa above the yield on 10 year gilts.

There were a significant number of changes in the asset managers as a result of these changes and a total of 16 managers in the 12 funds that were exited no longer manager any of the Scheme’s funds. The new fund that was added to the portfolio, the WorldWide Income Fund, is managed by Ninety One. Of those funds that remained in the portfolio throughout the year, the following changes in asset managers occurred during the year:

- BlueBay Asset Management LLP and GLG Partners LP were added to the managers of the Diversified Bond Fund and Brigade Capital Management was removed;
- Threadneedle asset Management Limited was added to the Investment Grade Corporate Bond Fund.

By investing in this manner, the Trustees expect to maintain the funding level within the scheme as they seek to achieve a buy-in or buy-out of the Scheme’s liabilities. The Trustees consider this approach to be in the best interests of relevant members and relevant beneficiaries.

Processing scheme transactions

The Trustees have a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately.

These transactions are undertaken on the Trustees' behalf by the Scheme administrator, Atkin & Co, the Sponsoring Employer, Pertwee Estates Limited, and the Scheme's investment manager, St James Place. Contractual agreements are in place with Atkin & Co and St James Place setting out their respective obligations under these arrangements. All work has been completed in line with their normal turnaround times and the Trustees have not had any issues with delays.

The Trustees have reviewed the processes and controls implemented by those organisations and consider them to be suitably designed to achieve these objectives. It is noted that Atkin & Co have been audited for compliance with ISO9001/27001 and AAF0106. The Trustees receive monthly reports from Atkin & Co which include comments on administrative issues where actions or decisions are required and they monitor the actual operation of these processes by considering administrative matters at regular Trustee meetings. No issues relating to these arrangements arose during the year and all core financial transactions relating to the DC section were processed promptly and accurately.

In the light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations have been met.

Transaction costs

The Administration Regulations require the Trustees to make an assessment of charges and transactions costs borne by DC section members and the extent to which those charges and costs represent good value for money for members.

The Scheme holds investments through St James's Place Wealth Management in pooled funds managed by a diverse range of managers, as set out in the Statement of Investment Principles. It has appointed the Duley Practice, an agent of St James's Place, as its investment adviser. The Scheme is charged an annual management fee by St James's Place Wealth Management out of which all investment management fees due to St James Place and the managers of the pooled funds in which the Scheme is invested are settled, as well as the fees due to the Duley Practice for advisory services. In the year ended 31 January 2022, the annual management fee was £30,298 (1.62% of the total fund at the end of the financial year) and transaction costs were £2,992 (0.16%). Future charges and costs are expected to reduce the investment growth of the fund by 1.8% and 0.2% each year respectively over the next 10 years.

The Trustees assess whether the management fees and transaction costs borne by members represent good value for money by regularly reviewing the investment return earned by the Scheme net of all fees and costs against their target for the Scheme and comparable benchmarks noted above. They last did this for the Scheme year ended 31 January 2022 and the summary of the relative returns over 1, 3 and 5 years is given in the Investment Advisor's report which forms part of the Trustees' Report. The average net return earned by the Scheme over the 3 years ended 31 January 2022 was 6.6% per annum.

Cumulative effects of charges and transaction costs over time

The table below shows projected pension pot values in today's prices after allowing for inflation, before and after charges and costs are deducted.

ILLUSTRATIVE EXAMPLE – Paid Up

Projected pension pot in today's money		
Years	Before charges	After all charges + costs deducted
1	100,000	100,000
3	112,486	106,121
5	121,665	110,408
10	148,024	121,899
15	180,094	134,587
20	219,112	148,595
25	266,584	164,061
30	324,340	181,136

Notes

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. It is assumed that the member is aged 35 at the start of the projection and retires after 30 years at age 65.
3. The starting pot size is assumed to be £100,000.
4. Inflation is assumed to be 2.5% each year.
5. It is assumed that no further contributions are paid.
6. Values shown are estimates and are not guaranteed.
7. The charges assumed are 2% each year which is based on the investment managers estimates.
8. The projected growth rate used is 4% above inflation.

All other administration costs, with the exception of bank charges, are met by the employer directly.

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 07. The comments in this section relate to the Trustees as a body in dealing with the whole scheme and are not restricted to the DC section.

The Trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. This is reviewed no less frequently than annually at a Trustee meeting.

The Chairman chairs another board of pension trustees and attends industry seminars and conferences as well as reading professional journals. He is also a member of a pension chair network group through which he receives regular updates on current topics. He shares this knowledge with his fellow trustees, as appropriate, and all Trustees are kept informed of current pensions issues via a monthly newsletter from the actuarial advisers which includes discussion of how these impact on the Scheme.

All the Trustees are aware of the need to complete the Pension Regulator's Trustee Toolkit and did so within six months of taking up office.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

The Trustees of the Pertwee Estates Limited Retirement Benefits Scheme have reviewed and assessed that their systems, processes and controls across key governance functions are consistent with those set out in (1) The Pensions Regulator's Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes, and (2) Regulatory guidance for defined contribution schemes. These are underpinned by the DC quality features.

Based on this assessment the Trustees believe that they have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help to demonstrate the presence of DC quality features, which the Trustees believe will help deliver better outcomes for members at retirement.

Where we adopt a different approach to that set out in the DC code and DC regulatory guidance we explain why below.

The Scheme offers a single default arrangement which may not necessarily reflect the needs of the individual members. The investment strategy is set out in the SMPs that are issued to members each year and they have the option to transfer elsewhere. The Trustees do not believe that the costs of providing members with additional flexibility would represent good value for money for a small scheme like this one.

Where we do not have systems and processes in place to demonstrate particular features, we explain why below.

Not applicable.

Where we are seeking to achieve or maintain 'best practice' level, we explain this below.

The Statement of Investment Principles is regularly reviewed and the Trustees have semi-annual meetings with their investment advisors.

The Statement regarding DC governance was approved by the Trustees on 3 May 2022 and signed on their behalf by:

R A Holmes
Chairman