Date: December 2020

Morris & Spottiswood Employees’ Pension Scheme

Annual Chair’s Statement for the Scheme Year

This statement has been prepared by the Trustees of the Morris & Spottiswood Employees’ Pension Scheme (“the Scheme”) in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations (“the Administration Regulations”) 1996 (as amended). It explains how the Trustees have met their legal obligations in relation to:

- The investment options in which members’ funds are invested (the default arrangement and other funds members can select or have assets in);
- Requirements for processing financial transactions;
- Assessment of charges and transaction costs; and
- The requirement for trustee knowledge and understanding,

over the period 1 January 2019 to 31 December 2019 (“the Scheme Year”).

This statement, along with other useful documents relating to the Scheme, can be found on the following website: https://www.morrisandspottiswood.co.uk/about/our-commitments/pension-statements

1. The Default Arrangement

i) Statement of Investment Principles

Appended to this statement is a copy of the Scheme’s latest Statement of Investment Principles (“SIP”) which governs the Trustees’ decisions about investments, including its aims, objectives and policies for the Scheme’s default arrangement. In particular, the SIP covers the Trustees’ investment policies on risk, return and ethical investing and how the default arrangement is intended to ensure that assets are invested in the best interests of members. The SIP covering the Scheme Year (1 January 2019 to 31 December 2019) was effective from 1 June 2017. Following the Scheme Year end, the Trustees updated the SIP so that it meets new regulatory requirements and reflects the current default arrangements. This SIP was effective from December 2020.

The Trustees have completed an Implementation Statement for the Scheme Year to 31 December 2019. This document outlines the Trustees adherence to the policies included within the SIP and has been included within the appendices.

The Trustees will review the SIP at least every three years (or after any significant change in investment policy). In the absence of any material changes, the SIP will next be reviewed in December 2023.

ii) Review of the default arrangements

The Trustees review the appropriateness of the default arrangements on an ongoing basis and formally at least every three years (or sooner, if there is any significant change in investment policy or member demographics), to ensure that the return on investments is consistent with the Trustee's aims, objectives and policies.

The Trustees will complete a formal review of the Scheme's current default arrangements at the start of 2021.

iii) Aims, objectives and policies relating to the Scheme's main default arrangement

During the Scheme Year, members were invested in With-Profits policies with Equitable Life.

In January 2020 (after Scheme Year end), Utmost Life and Pensions took on these policies and invested them for a short period in the Secure Cash Fund (a unit-linked/pooled fund investment which provided capital security for the period of investment). An uplift was applied to members accounts on transfer from Equitable Life, in compensation for the loss of the capital guarantee inherent in the With-Profits policies.

By the end of 2020, the Secure Cash Fund will close and members assets transferred into the Utmost Investing by Age Lifestyle Strategy. The aim of the Investing by Age default strategy is to provide stable growth for members further away from retirement, with a focus on wealth preservation in later years as a member begins to approach their retirement date.

A range of pooled funds are also available through Utmost for members to choose based on their own individual circumstances and expected time horizon. The funds are available across a diverse range of asset classes such as equities, bonds, and money market investments/cash.

The Trustees will review both the default strategy, the performance of the default arrangement and the fund range on a regular basis to ensure continued suitability. This will be at least every three years, or without delay, after a significant change to the membership demographic or investment policy.

2. Financial 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 Scheme are processed promptly and accurately.

As a result of the Scheme's policies with Equitable Life being transferred to Utmost Life and Pensions in January 2020 and the changes to the investment funds, Utmost have not been able to provide the necessary information in order for the Trustees to understand the Service Level Agreements ("SLAs") for the year ending 31 December 2019. There is no standard process for reporting to be received from Equitable Life (now Utmost) in relation to how they have performed against SLAs.

The Trustees will work with Utmost to request details of the SLAs in place and key Management Information on core transactions and administration activity for the Scheme in the next Chair's Statement, covering the Scheme Year 1 January 2020 to 31 December 2020.

At a Scheme level, there is some assurance of the accuracy of transactions in the form of the Trustees' annual Report & Accounts (including financial transactions) that are independently audited by the Scheme auditor, PwC.

The Trustees are intending to review the provider's SLAs in future and put in place more formal ongoing monitoring (for example by requesting regular Management Information reporting from the provider to be considered at future Trustee meetings). The Trustees will review these to consider the accuracy and timeliness of all core transactions and take action where appropriate.

3. *Charges and Transaction costs*

i) Charges borne by the members

The Total Expense Ratio (TERs) measures the total charges applied to the fund's members are invested in. These charges are already accounted for within the unit price of the fund. Minor variations in TER will occur from year to year as the funds incur some fixed costs which vary as a percentage of assets as the asset value changes.

The TER for the With-Profits policy with Equitable Life was 1.0% p.a. for the Scheme Year. This excludes the 0.5% charge for cost of guarantees.

The Scheme's policy was transferred to Utmost Life and Pensions in January 2020.

ii) Transaction costs

To achieve greater transparency about costs, new regulations came into force on 6 April 2018 which require the Trustees to provide members with additional information in relation to investment charges and core transaction costs. These are required to be set out as example member illustrations that have been prepared regarding the relevant statutory guidance: Reporting of costs, charges, and other information: guidance for trustees and managers of relevant occupational schemes.

The Equitable Life With-Profits Fund transaction costs for the Scheme Year was 1.04%. The total charges borne by Scheme members for the year was 2.04%.

As a result of the Scheme's policies with Equitable Life transferring to Utmost Life and Pensions in January 2020 and the changes to the investment funds, Utmost have not been able to provide the necessary information required for the Trustees to complete transaction cost illustrations for the Scheme Year.

The Trustees will work with Utmost to enable them to provide the information required to complete transaction cost illustrations for the new default strategy in the next Chair's Statement, covering the Scheme Year 1 January 2020 to 31 December 2020.

iii) Value for members assessment

There is no legal definition of “good value” and so the process of determining good value for members is a subjective one. The Trustee, with the support of their advisers, have undertaken a value for member assessment review to assess whether the Scheme represents good value for its members. The review is carried out across six key areas, aligned to The Pension Regulator’s DC Code of Practice and guidance on DC schemes. The Trustees have considered a method of assessment which encompasses the charges paid by members and a wide array of features and benefits which are provided by the Scheme and these were assessed on a red/amber/green basis to determine whether they were either behind, slightly behind, or in line with the market. The outcome of the review was documented with any areas for improvement captured.

This review concluded that on an overall basis, the Scheme provides poor value for members. Whilst there is a sound investment strategy in place, the charges incurred by members when considering the wider range of services available, in particular in relation to the retirement options available through the scheme and the range of member communications is significantly behind the wider DC market. A summary of the key findings is set out below. The Trustees are intending to work with the sponsoring employer (Morris & Spottiswood Limited) to explore the future pension strategy with a view to considering alternative types of DC scheme that would improve value for members.

- **Scheme Charges:** During the scheme year ending 31 December 2019, all of the Scheme’s assets were invested in With Profits policies with Equitable Life. Member charges are 1% pa plus an additional 0.5% for meeting the costs of the guaranteed interest rate (if the members’ policies entitled them to receive this).The charges borne by members are considered to be high compared to terms expected to be achieved if a Scheme of similar metrics were to go to market.
- **Investment options:** The Scheme’s default investment option has potentially valuable guarantees associated with the With-Profits Fund. In January 2020, Utmost Life and Pensions took on these policies and invested them for a short period in the Secure Cash Fund (a unit-linked/pooled fund investment which provided capital security for the period of investment). An uplift was applied to members account on transfer from Equitable Life, in compensation for the loss of the capital guarantee (and for certain with profit policies, an investment growth guarantee of 3.5%) inherent in the with-profits policies.
- **Retirement support:** The Scheme does not provide members with the same levels of flexibility at retirement as afforded by more modern schemes in the wider DC market. The Scheme’s provider, Equitable Life, provides only limited support for members in making a retirement decision via the issue of their member retirement packs. Taking the wider DC market into consideration, the Scheme is deemed below average in this area.
- **Governance:** This area was identified as a key area for review by the Trustees and a number of steps have already been taken by the Trustees to address this. These include appointing professional advisers (Isio appointed in October 2020), reviewing the Scheme Statement of Investment Principles (carried out in December 2020) and reviewing

regularity and formality of the Trustee meetings (which are now held quarterly). In the event the Scheme continues in its current form, the Trustees intend to refresh and regularly reviewing key governance documentation (e.g. risk register, governance scorecard) at least every Scheme Year, documenting a Trustees training plan and undertaking a review against the Pension Regulator's DC Code of Practice.

- **Administration:** The Trustees, via their advisers, have requested details of the SLAs in place and key Management Information on core transactions and administration activity. As a result of the Scheme's policies with Equitable Life being transferred to Utmost Life and Pensions in January 2020 and the changes to the investment funds, Utmost have not been able to provide the necessary information in order for the Trustees to understand the Service Level Agreements ("SLAs") for the year ending 31 December 2019. The lack of reporting on the timescales taken to complete member requests is significantly out of line with market practise and the Trustees are taking steps to establish a more formal monitoring process by requesting frequent Management Information reporting.
- **Member education and engagement:** Members receive annual benefit statements from the provider. All member communications are issued via the Trustees. The Scheme is below average in this area when compared against the more modern education and engagement tools available in the wider DC market, such as online calculators, video benefit statements and apps, for example.

Given the extent of improvements required, the Trustees have discussed possible improvements that will take place over the next 12 months by considering their relative importance and will continue to monitor this regularly. The Trustees are intending to work with the sponsoring employer (Morris & Spottiswood Limited) to explore the future pension strategy with a view to considering alternative types of DC scheme that would improve value for members and governance.

4. ***Trustee knowledge and Understanding (TKU)***

The law requires the Trustees to possess sufficient knowledge and understanding to enable them to properly exercise their functions as a trustee including (in relation to a DC scheme) that they must be conversant with:

- The trust deed and rules of the scheme.
- The statement of investment principles.
- Any other scheme administration policies or scheme documents.

And must have appropriate knowledge and understanding of:

- The law relating to pensions and trusts.
- The principles relating to
    - The funding of occupational pension schemes.
    - Investment of the assets of such schemes.

The Trustees' own knowledge and understanding, together with the advice which is available to them through their advisers enables them to properly exercise their functions as Trustees of the Scheme.

The Trustees held adhoc meetings throughout the Scheme year in order to discuss legislative change and requirements in order to meet their objectives. Since the 2019 Scheme year end, the Trustees have now moved to holding quarterly Trustee meetings.

The Trustees' approach to meeting the TKU requirements during the Scheme year included:

- Ensuring all existing Trustees have completed the Pension Regulator's Trustee Toolkit and a requirement for new Trustees to complete this within twelve months of appointment.
- The Trustees carry out a self-assessment of training needs and take personal responsibility for keeping up to date with relevant legislative and regulatory requirements. The Chair of Trustees reviews the self-assessments and arranges for training to be made available to individual Trustees or to the whole Trustee body as appropriate.
- The Trustees are aware and have an understanding of the Scheme's Trust Deed and Rules, SIP and other documents which are used to govern the Scheme. The Trustees use this knowledge along with the support of their advisers in order to make appropriate decisions as required during the year.

For these reasons, the Trustees believe that their combined knowledge and understanding, together with the advice that is available to the Trustees, enable them to properly exercise their function as the Trustees of the Scheme.

During the Scheme Year, the Trustees have worked towards meeting the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding).

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the regulations").

Signed on behalf of the Trustees

Paul Brown