

Chair's DC Governance Statement, covering 1 January 2021 to 31 December 2021

1. Introduction

As Chair of Trustees, I present this statement of governance in relation to the money purchase benefits of the Threadneedle Pension Plan (the "Plan"). The Plan is a Cash Balance Plan where the Retirement Lump Sum (which is used to purchase an annuity, provide a scheme pension or provide a lump sum) is a defined benefit, based upon pay and length of service (15% of Final Pensionable Salary for each year of Pensionable Service for Pre-1996 members and 13% of Final Pensionable Salary for each year of Pensionable Service for Post-1996 members, less a State Pension Adjustment for both sections). However, for some members, the Employer has provided an annual Additional Employer Contribution ("AEC") which is invested on a money purchase basis (these contributions ceased when the Plan closed to future accrual). When a member retires or transfers out, pension rights calculated on the defined benefit formula described above are added to the benefits available from the member's AEC and any additional voluntary contributions ("AVCs") the member may have paid. The Plan's money purchase funds are held in a policy provided by Prudential.

Governance requirements apply to defined contribution ("DC") pension arrangements such as the Plan's AECs and AVCs, to help members achieve a good outcome from their pension savings. The Trustee of the Plan is required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (ie administration of the Plan, such as investment of contributions the requirements for processing financial transactions);
- the charges and transaction costs borne by members for the default option and any other investment option 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
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

2. Default arrangements

The Plan is not used as a Qualifying Scheme for automatic enrolment purposes.

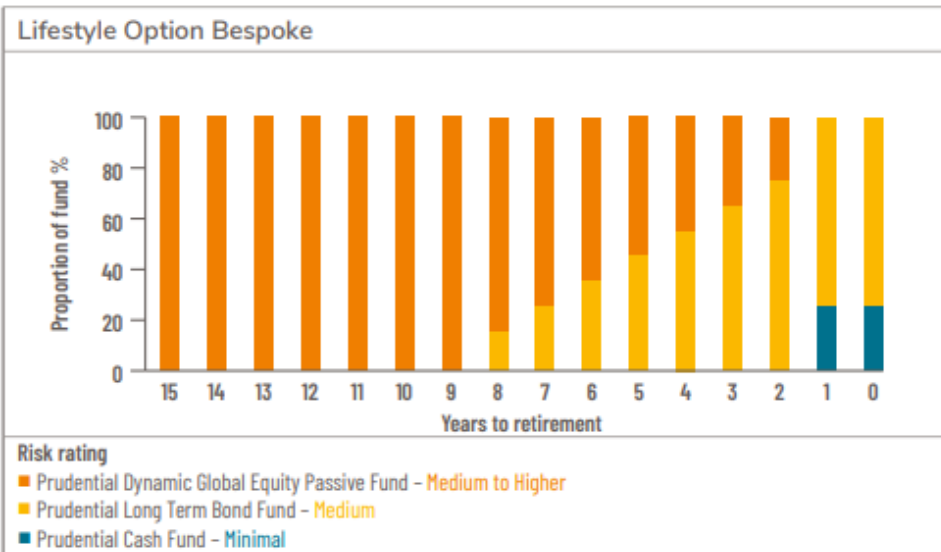
The Trustee has made available a range of investment options for members. Members who join the Plan and who do not choose an investment option are placed into the Lifestyle Option Bespoke (the "Default"). After taking advice, the Trustee decided to make the Default a lifestyle strategy, which means that members' savings are automatically moved between different investment funds as they approach their target retirement date.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the Default arrangement.

Details of the objectives and the Trustee's policies regarding the default investment strategy can be found in the Plan's Statement of Investment Principles ("SIP"). The SIP is attached to this governance statement (the "Statement"); however the key aims are set out below for ease of reference:

- The Default investment strategy is designed to be appropriate for a typical member with a predictable retirement date.
- The structure of the Default has been chosen with the aim of maximising expected long-term investment returns but to protect against changes in annuity prices as members near retirement.
- In designing the Default investment strategy, the Trustee has explicitly considered the expected risk and return characteristics of the funds used at different stages of the strategy.

The structure of the Default arrangement in place during the period covered by this Statement is illustrated in the following chart:



In January 2021, Prudential (the Plan’s DC administrator) removed five of the Threadneedle funds from the range available to members, including the Threadneedle Adventurous Pathway Fund, which previously formed part of the Default. In conjunction with its investment advisers, the Trustee reviewed a range of alternative funds and agreed to replace the fund with the Prudential Dynamic Global Equity Passive Fund, which has a similar asset allocation and lower member-borne charges.

The Trustee will formally review the Default arrangement at least every three years, or immediately following any significant change in investment policy or the Plan’s member profile. The last such review was carried out in November 2021, in which the Trustee reviewed the performance and strategy of the funds available to members (including those in the Default). Further work on this review is due to take place in 2022 but the Trustee is satisfied that the arrangements remain appropriate.

The Trustee reviews the performance of all investment options (including the Default) on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance is reviewed against benchmarks set by the investment managers. The Trustee’s reviews that took place during the Plan year concluded that the Default arrangement was performing broadly as expected and consistently with the aims and objectives as stated in the SIP.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the DC administrator of the Plan, Prudential. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Plan, transfers of assets between different investments within the Plan, and payments to members/beneficiaries.

The Plan has an End to End Service Level Agreement (“SLA”) in place with Prudential which measures the time from the first point of contact with each member until their case is closed. The target timescales for completion of different work types and the key processes adopted by the administrator to help it meet the SLA are as follows:

Task	End to End customer journey performance targets		
	Upper Target Days	Lower Target Days	Tail Target Days =
	= 75% of cases completed	= 95% of cases completed	no more than 1% of cases completed beyond
Bereavements	<29 days	<77 days	>154 days
Claims	<10 days	<22 days	>43 days
New business	<8 days	<25 days	>43 days
Servicing	<8 days	<20 days	>154 days

Prudential monitors its performance against service level targets closely and adopts a number of measures to help ensure core financial transactions are processed in a timely and accurate manner. These include:

- A dedicated contribution processing team,
- A central financial control team separate from the main administration team,
- Peer checking and authorisation of payments,
- Daily monitoring of bank accounts,
- Daily checking and reconciliation of member unit holdings.

To help the Trustee monitor whether service levels are being met, the Trustee receives quarterly reports about Prudential’s performance and compliance with the SLA. Any issues identified by the Trustee as part of its review processes

would be raised with Prudential immediately, and steps would be taken to resolve the issues.

In 2021, Prudential carried out 20 of 153 transactions in the tail of the target, representing 13% of total cases. Prudential has attributed this to difficulties migrating to a new IT system in late 2020 and training customer service teams on the system amid Covid-19 lockdowns.

The Trustee has received assurance from Prudential that there are adequate internal controls to ensure that core financial transactions for the Plan are processed promptly and accurately going forwards, and the Trustee notes that since year end service levels have improved and this will continue to be monitored.

4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by DC 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 are shown as a per annum (pa) figure.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Plan'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 Prudential, the Plan's DC platform provider and administrator. The TER figures shown include the annual management charge (which applied over the Plan year) and a small 'further costs' component, which is an indicative figure provided by Prudential. The transaction costs given are over the 12 months to 30 September 2021, as figures to 31 December 2021 were unavailable at the time of producing this Statement.

When preparing this section of the Statement, the Trustee has 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 (ie we would not expect transaction costs to be negative over the long term).

The DC funds are not subject to the charge cap of 0.75% pa as these policies are not being used to satisfy the employer's automatic enrolment duties for members.

Default arrangement

The Default arrangement is the Lifestyle Bespoke Option. The Default has been set up as a lifestyle approach, which means that members' savings 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.

Annualised charges and transaction costs are set out in the following table.

Default charges and transaction costs

Years to target retirement date	TER	Transaction costs
9 or more years to retirement	0.65%	0.06%
5 years to retirement	0.65%	0.03%
4 years to retirement	0.66%	0.03%
3 years to retirement	0.66%	0.02%
2 years to retirement	0.66%	0.02%
1 year to retirement	0.63%	0.00%
At retirement	0.63%	0.00%

Self-select options

The level of charges and transaction costs for each self-select fund (including those used in the Default) 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
Prudential Europe Equity Passive Fund	0.75%	0.00%
Prudential North America Equity Passive	0.67%	0.00%

Fund name	TER	Transaction costs
Prudential UK Equity Fund	0.76%	0.10%
Prudential UK Equity Passive Fund	0.66%	0.13%
Prudential Dynamic Global Equity Passive Fund	0.65%	0.06%
Prudential Long-Term Growth Passive	0.69%	0.05%
Prudential Discretionary Fund	0.77%	0.07%
Prudential Dynamic Growth IV	0.73%	-0.02%
Prudential Long-Term Bond Fund	0.66%	-0.01%
Prudential Long-Term Gilt Passive Fund	0.66%	0.00%
Prudential All Stocks Corporate Bond Fund	0.76%	0.01%
Prudential Dynamic Growth I	0.74%	-0.08%
Prudential Dynamic Growth III	0.74%	0.00%
Prudential With-Profits Fund*	1.04%	0.00%
Prudential Cash Fund	0.55%	0.00%

*The charges on the With-Profits Fund are not explicit; instead, they are taken into account when the bonus on the Fund is declared. Prudential currently estimates the AMC on the With Profits Fund is 0.8% assuming investment returns on the underlying assets are 5% pa, and Prudential estimates that the further costs on this Fund are 0.24% pa.

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's DC pension savings. In preparing this illustration, the Trustee 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 Prudential 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 the two years to 30 September 2021 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 Plan year. For the Prudential Dynamic Global Equity Passive Fund, we have used transaction costs over the 12 months to 30 September 2021, as the fund was only launched during 2020 and so two-year figures are unavailable.

We have taken account of the fact that the Plan has now closed to future accrual. Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Plan they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has decided to illustrate an example member, aged 52 (the median age), with a retirement age of 65 and a current pot size of £11,400 (the average pot size of members at the median age of 52).

To show the impact of different levels of charges and investment returns, illustrations have been produced to demonstrate the effect of costs and charges on the following funds available through the DC arrangements:

- The default investment strategy, the Lifestyle Option Bespoke, which is also the most popular investment option amongst members.
- The Prudential North American Equity Passive Fund: this fund (as well as the Prudential Europe Equity Fund and the Prudential Dynamic Global Equity Passive Fund) has the highest assumed investment growth rate.
- The Prudential Discretionary Fund: this fund has the highest explicit charges (ie excluding the With-Profits Fund, whose charges are not explicit).
- The Prudential Cash Fund: this fund has the lowest charges, and the lowest assumed investment growth rate.

Projected pension pot in today's money

Years invested	Default option		Prudential North American Equity Passive (highest return)		Prudential Discretionary (highest charges)		Prudential Cash (lowest growth, lowest cost)	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£11,700	£11,600	£11,700	£11,600	£11,500	£11,400	£11,100	£11,100
3	£12,400	£12,100	£12,400	£12,100	£11,700	£11,400	£10,600	£10,400
5	£13,100	£12,600	£13,100	£12,700	£11,900	£11,400	£10,000	£9,800
10	£14,300	£13,300	£15,000	£14,100	£12,500	£11,400	£8,900	£8,400
13	£14,200	£13,000	£16,300	£15,000	£12,800	£11,400	£8,200	£7,600

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.
- Inflation is assumed to be 3.1% pa, in line with the central long-term CPI inflation assumption of LCP, the Plan's investment adviser, as at 31 December 2021.
- No allowance for active management outperformance has been made.
- The assumed growth rates are based on LCP's central asset class return assumptions and costs and charges are based on those provided by Prudential. The illustrations use the average transaction costs over the last three years in line with statutory guidance to reduce the level of volatility in charges, and a floor of 0% p.a. has been used for the transaction costs if these were negative so as not to potentially understate the effect of charges on fund values over time. These assumptions are summarised in the table below:

Investment option	Growth rate (gross of fees)	Costs and charges
Lifestyle Option Bespoke (Default)	Between 1.9% pa below inflation and 2.8% pa above inflation (depending on term to retirement)	Between 0.66% pa and 0.63% pa (depending on term to retirement)
Prudential North American Equity Passive Fund (highest assumed growth rate)	2.8% pa above inflation	0.67% pa
Prudential Discretionary Fund (highest charges)	0.9% pa above inflation	0.77% pa
Prudential Cash Fund (lowest assumed growth rate and lowest charges)	2.5% pa below inflation	0.55% pa

5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the Plan year.

For the Default, returns are shown over the Plan year for a member (with a retirement age of 65) aged 56 or lower, 60 and 64 at the start of the year (DWP guidance recommends that returns are shown for members age 25, 45 and 55 but the Default is invested in the same way for all members age 56 or below so the returns have been identical).

Lifestyle Option Bespoke net returns over the Plan year

Age of member at the start of the Plan year	Plan year return
56 or lower	12.8%
60	4.0%
64	-5.2%

Self-select fund net returns over the Plan year

Fund name	Plan year return
Prudential Europe Equity Passive Fund	16.0%
Prudential North America Equity Passive	27.6%
Prudential UK Equity Fund	15.5%
Prudential UK Equity Passive Fund	17.5%
Prudential Dynamic Global Equity Passive Fund	12.9%
Prudential Long-Term Growth Passive	14.7%
Prudential Discretionary Fund	11.6%
Prudential Dynamic Growth IV	6.7%
Prudential Long-Term Bond Fund	-6.8%
Prudential Long-Term Gilt Passive Fund	-7.8%
Prudential All Stocks Corporate Bond Fund	-4.1%
Prudential Dynamic Growth I	0.3%
Prudential Dynamic Growth III	4.3%
Prudential With-Profits Fund	5.0%
Prudential Cash Fund	-0.6%

6. Value for members assessment

The Trustee is 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. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee reviews 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 Plan. The last review took place in May 2021. The Trustee notes 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.

The Trustee's 2022 review concluded that the Plan's members are receiving **fair** value for money. In making this assessment, the Trustee reviewed the Plan against the following six criteria: member charges and transaction costs, investment (default and self-select options), administration, governance, member communications and at-retirement support. The Trustee's assessment of each of these criteria is set out below, along with the Trustee's beliefs which formed the basis of the assessment.

Member charges and transaction costs

The costs have been identified as TERs and transaction costs and are detailed in Section 4 above. Although up to date cost benchmarking data is limited for schemes not used for auto-enrolment, such as the Plan, in the Trustee's adviser's experience, the TERs paid by members are within the range typically seen for small (<£100m) schemes (albeit generally above the median for their peer group- this size of benchmark has been chosen because the Plan's DC section less than £100m although the Plan in total is larger). Transaction costs can vary significantly from one year to the next depending on the extent of trades within funds; however, a high-level assessment of the transaction costs incurred by members indicates that these appear reasonable. Overall, the Trustee has assessed the level of member charges and transaction costs as being **fair**.

Scheme governance

The Trustee believes in having robust processes and structures in place to support effective management of risks and ensure members interests are protected, increasing the likelihood of good outcomes for members.

The Trustee regularly reviews the Plan to ensure governance is of a high standard, and undertakes quarterly training on a range of issues. Overall, the Trustee has assessed the Plan's governance as being of a **good** standard.

Investments

The Trustee believes that a well-designed investment portfolio that is subject to regular performance monitoring and assessment of suitability for the membership will make a large contribution to the delivery of good member outcomes.

The Trustee monitors and reviews the Plan's default strategy as appropriate and takes into account the needs of members, changes in regulatory requirements, and demographics of the Plan membership. The self-select fund range is broad, appropriate to the Plan, and not duplicated. Overall, the Trustee has concluded that the Plan's range of investments are of a **good** standard.

Administration

The Trustee believes that good administration and record keeping play a crucial role in ensuring that Plan members receive the retirement income due to them. In addition, that the type and quality of service experienced by members has a bearing on the level of member engagement.

The Trustee has a service level agreement in place with Prudential and Prudential reports performance against this on a quarterly basis. This enables the Trustee to monitor standards of administration on a regular basis. Overall, the Trustee believes that the standard of Prudential's administration service has been **poor**, and it is considering the merits of moving to an alternative provider.

Member communications

The Trustee believes that effective member communications and delivery of the right support and tools helps members understand and improve their retirement outcomes.

Prudential and the Trustee offer a good range of tailored, clear and informative communications to members. Overall, the Trustee has assessed the Plan's member communications as being of a **good** standard.

At-retirement support

The Trustee believes it is important to have retirement processes that enable members to make informed decisions and select appropriate options at retirement.

Retirement communications clearly explain the options available to members and signpost how members can access their benefits. The Trustee believes the Plan's at-retirement support to be of a **good** standard.

7. Trustee knowledge and understanding

The Plan's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. The Trustee has 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.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps, and has set aside a dedicated slot at the start of every Trustee meeting for training. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustee received training on a range of topics, including the following:

- the triennial actuarial valuation of the Plan's DB Section;
- investment strategy training from BMO Asset Management in relation to Liability Driven Investment (an investment that the Trustee subsequently put in place for the DB Section investments); and
- current legal issues including the Pension Schemes Act 2021 and cyber security.

The Trustee is familiar with and have access to copies of the Plan's governing documentation and documentation setting out the Trustee's policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Plan, and the SIP is formally reviewed annually and as part of making any change to the Plan's investments.

The Trustee believes it has 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 to fulfil their duties. Furthermore, the Trustee has individual and collective experience of investment matters either as employees of Columbia Threadneedle (the Plan's sponsoring employer) or as a professional trustee.

The Trustee is required to commit to completing the training, either at the relevant meetings or by personal study. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Plan year.

Considering the knowledge and experience of the Trustee and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as the Trustee of the Plan properly and effectively.



Date: 28 July 2022

Signed by the Chair of Trustees of the Threadneedle Pension Plan