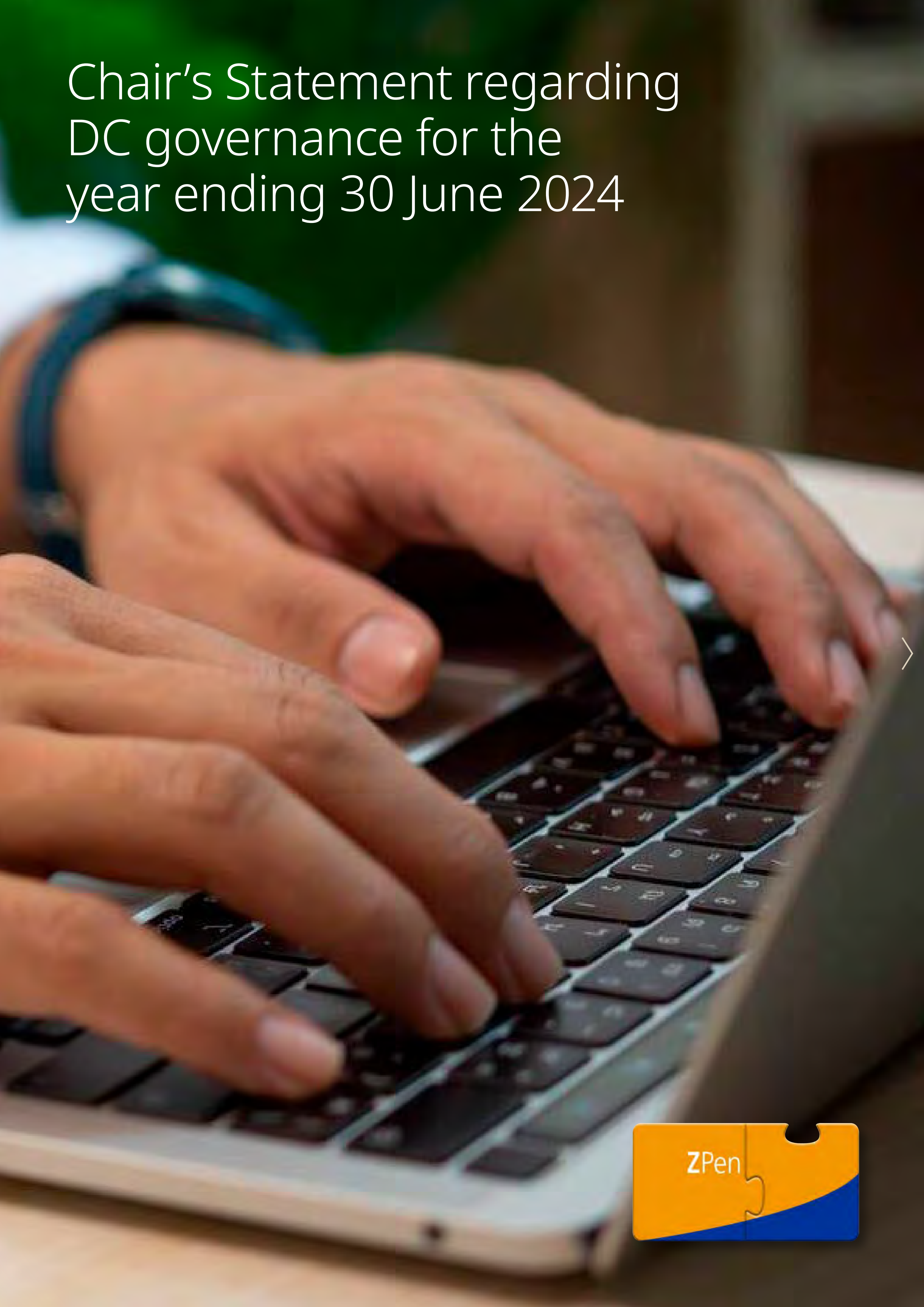
Chair's Statement regarding DC governance for the year ending 30 June 2024



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Summary

Governance requirements apply to defined contribution (DC[1]) pension arrangements to help members achieve a good outcome from their pension savings. The Trustee of the Zurich Financial Services UK Pension Scheme (the "Scheme") is required to produce an annual statement (which is signed by the Trustee Chair) to describe how these governance requirements have been met in relation to:

- the investment options in which members' funds are invested and the asset allocations at different ages for those in the default options
- the requirements for processing financial transactions
- the charges and transaction costs borne by members
- an illustration of the cumulative effect of these costs and charges
- investment returns after charges
- a 'value for members' assessment'; and
- Trustee knowledge and understanding.

The statement covers the period from 1 July 2023 – 30 June 2024. More information can be found in the pages that follow.

	Key points	Rating	Link
Default investment arrangements: The Trustee is required to review the default investment strategies at least every three years and to monitor performance against its investment aims and objectives.	A review of the default investment arrangements was carried out in 2023 and the resulting changes implemented in May 2024. As at 30 June 2024, the review of the default investment arrangements, which was carried out during 2023, was complete.	✓	Default Investments
Core financial transactions: The Trustee is required to make sure that core financial transactions (e.g. investing contributions) are processed promptly and accurately.	The Trustee receives regular reports from the administrator and monitors performance against agreed service levels. Based on this the Trustee considers that the core financial transactions have been processed promptly and accurately during the Scheme year.	✓	Core financial transactions
Value for Members: The Trustee is required to assess the extent to which the charges, and as far as possible transaction costs, paid by the members represent value for money.	The Trustee carries out an annual assessment using the methodology set out by The Pension Regulator. The assessment which was carried out during the year to 30 June 2024 concluded that the Scheme's DC arrangements provide good value for members.	✓	Value for members
Trustee Knowledge and understanding: The Trustee is required to meet certain standards of knowledge and understanding to ensure the Trustee directors are able to properly exercise their duties as a Trustee.	The Trustee directors take personal responsibility for keeping themselves up to date with relevant developments and believe that this, combined with the use of advisers and the specialist knowledge available within the employer, enables them to properly exercise their duties as Trustee directors.	✓	Trustee knowledge
Governance: The Trustee is required to carry out an annual assessment against The Pension Regulator's General Code of Practice (which superseded the previous Code of Practice 13, with effect from 28 March 2024) for the governance of DC schemes.	The Trustee carried out an assessment against the General Code, which identified that the Scheme meets all the legal requirements and the majority of expectations set out in the Code and associated Guides.	✓	Governance

[1] Defined Contribution: a type of pension scheme where the amount of money going in is fixed according to a given formula (usually a percentage of salary). Also known as a money purchase arrangement.

Introduction

The Trustee is required to produce an annual statement to describe how it meets certain governance requirements. The Trustee has taken note of the statutory guidance when preparing this statement.

The Scheme provides both defined benefit (DB)[2] and DC benefits. The DC benefits are provided through ZCashBuilder and legacy AVC providers. To assist the Trustee in meeting the governance requirements around these DC benefits, the Trustee has a DC Committee (DCC)[3] including both Trustee and company nominated representatives.

The key points that we would like members reading this Statement to take away are:

- We regularly monitor the investment arrangements, and we are satisfied that the default and other investment options remain suitable for the membership.
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Scheme year, and we remain comfortable with the administrator's performance.
- Fees for the investment options are set out in this Statement, and we remain comfortable that these fees are reasonable given the circumstances of the Scheme and represent value for the benefits members obtain.
- Please rest assured that we are looking after your best interests as members, and we undertake training and receive advice as appropriate so that we have sufficient knowledge and understanding to do so effectively.

1 Default investment arrangements

ZCashBuilder is a qualifying pension scheme for auto-enrolment and is therefore required to have a default investment option. Members who join the Scheme and who do not choose an investment option are placed into one of the following defaults:

- Drawdown Lifestyle: for members with ZCashBuilder benefits only (DC only default).
- Cash Lifestyle: for members who joined the Scheme before 31 March 2007 and have both DB and ZCashBuilder benefits (hybrid default).

The Statement of Investment Principles

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangements. On 26 September 2024, the Trustee approved a new Statement of Investment Principles (SIP) for the DC assets including the Trustee's policy on illiquid assets and its stewardship themes. This SIP includes a section which forms the SIP for the default arrangements and is attached to this statement.

The aims and objectives of the default arrangements, as stated in the SIP in effect on 30 June 2024 are as follows:

- To provide a good value lifestyle strategy which:
  - is expected to be suitable for the majority of members who do not wish to make an active choice.
  - aims to protect members against volatility in the approach to retirement.

The Trustee believes that the default strategies are suitable for the majority of members. The default arrangements are therefore lifestyle strategies which:

- gradually move investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- targets members who are expected to access Flexi-Access Drawdown (DC only strategy) and members who are expected to take cash at retirement (DB and DC strategy).

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement.

[2] Defined benefit: A pension scheme where you know what the final benefit is going to be according to a given formula, but the company doesn't know how much it will cost to provide it, eg ZPensionBuilder.

[3] DC Committee

Investment review

The default strategy and the performance of the default arrangement are reviewed at least every three years.

The latest comprehensive review was carried out by the DC Committee during 2023, working with the Trustee's DC investment adviser, and ratified by the Trustee at its meeting on 21 December 2023. The work carried out by the Committee included:

- a review of the default strategies and their suitability for the membership:
  - no changes were made to the design of the default strategies which were considered to be suitable for the membership.
- consideration of the asset allocation within each stage of the default strategies including asset classes, UK, overseas and emerging market equities and the use of currency hedging:
  - the Trustee decided to move away from a fixed proportion of the fund being held in UK equities and to continue including emerging market equities and a proportion of currency hedging in Z Growth Fund.
  - considered an actively managed bond fund for Z Cautious Growth Fund as this would provide additional flexibility for the manager given the impact on bond funds of the recent economic conditions and interest rate movements.
- consideration of the most appropriate way of incorporating responsible investment into the default arrangements:
  - noting that Z Growth Fund had the highest exposure to carbon-intense companies and did not explicitly take ESG or climate change risks into account.
  - considering a number of options for Z Growth Fund, including both low carbon and net zero and a combination of both.
  - noting that to achieve net zero many investment funds reduce their carbon footprint as much as possible and then purchase carbon credits to offset the remainder, which can add to the costs of the fund without adding to the investment performance.
- a review of the self-select options:
  - with the introduction of a low carbon fund in Z Growth Fund, the self-select fund range included a number of responsible investment equity funds. To simplify the member choice, it was decided to close the LGIM FTSE4Good Developed Equity Index to new contributors.
  - a carbon neutral fund will be added to the self-select fund range in 2025.

As a result of the investment review the following changes were made in May 2024:

- Z Growth Fund is 100% invested in a low carbon global equity fund with a net zero target
- Z Cautious Growth Fund is invested:
  - 55% in the low carbon global equity fund used in Z Growth Fund
  - 45% in an actively managed global bond fund which includes carbon targets and a commitment to net zero.
- The LGIM FTSE4Good Developed Equity Index is closed to new contributors. Members already contributing to this fund can continue doing so.

The DC Committee also carried out a review of Scottish Widows investment platform during the Scheme year which resulted in a reduction of the platform fee payable by members.

2 Processing core financial transactions

The Trustee has received assurance from the Scheme's administrator (Railpen) and has taken steps to ensure that there were adequate internal controls so that the core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members and beneficiaries.

The Scheme has a service level agreement (SLA) in place with the administrator which covers the accuracy and timeliness of all core financial transactions. These are split into granular detail with each step being assigned an SLA.

The key processes adopted by the administrator to help it meet the SLA are as follows:

- Operating appropriate procedures, checks and controls and operating within the SLA.
- Production of quarterly reports which include reporting on performance against SLAs, and which are reviewed by the Scheme management team and the Trustee.
- Holding regular calls with the Scheme management team. These take place at least monthly, and on an ad-hoc basis if required.
- Checks are carried out by Railpen before investment instructions are entered into the automated system for action by Scottish Widows.

The Trustee receives quarterly reports about the administrator's performance and compliance with the SLA. This report is also reviewed by the Scheme management team and any queries raised with Railpen. Based on this information provided by the administrators the Trustee is satisfied that over the period covered by the statement:

- The quarterly reports verify the number of transactions performed and how many were outside the SLA including by how much and why.
- During the year Railpen completed 1,093 core financial transactions of which 3 were completed outside SLA giving a performance of over 99%.
- Where a transaction is completed outside SLA the Trustee asks for further information.
- There have been no material administration errors in relation to processing core financial transactions.
- Where Railpen's internal checks identified an error had occurred, this was rectified and if appropriate, calculations and transactions carried out to ensure the member did not lose out financially.
- The Trustee reviewed the processes and internal controls implemented by Railpen on engagement and considered them to be suitably designed to enable core financial transactions to be effectively processed. In particular, the Trustee noted the high level of automation in the processes to reduce errors and inaccuracies. These processes will be reviewed as part of the implementation of the new administration system.
- The Scheme management team also compares expected contributions to actual contributions going into the Scheme on a monthly basis and at an individual level, with all material differences being investigated.
- Quarterly reports with performance against SLAs are received from Scottish Widows in relation to the Supplementary Scheme.

Based on our review processes, we are satisfied that over the period covered by this Statement:

- The administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA.
- There have been no material administration issues in relation to processing core financial transactions.
- Core financial transactions have been processed promptly and accurately to an acceptable level during the Scheme year.

3 Member-borne charges and transaction costs

The Trustee is required to set out the ongoing charges borne by members in this statement, which are annual fund management charges plus any 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 also include any costs, e.g. administration and investment costs, since members incur these costs.

The Trustee is also required to separately disclose transaction cost figures that are borne by members. In the context of this statement the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds. The charges and transaction costs for:

- ZCashBuilder have been supplied by Scottish Widows, who are the Scheme's platform provider and for some funds, also the investment manager.
- Legacy AVCs have been supplied by each of the providers.

There is no missing transaction cost data.

When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

Default arrangements

The Scheme has the following default arrangements:

1. Drawdown Lifestyle: for members with ZCashBuilder benefits only (DC only default)

2. Cash Lifestyle: for members who joined the Scheme before 31 March 2007 and have both defined benefit and ZCashBuilder benefits (DB+DC default)

These defaults have been set up as a lifestyle strategy which means that members' assets are automatically moved between different investment funds as they approach their retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested. The funds used in these defaults are Z Growth Fund, Z Cautious Growth Fund and Z Cash Fund. The charges for these funds are shown in section 3.2 of this statement.

Charges can have a significant impact on the total fund value over time so below we show some projected fund values for a typical member both before and after the charges. The member borne charges for all the Scheme's default arrangements complied with the charge cap.

On the next pages are the projected fund values which for a range of sample members show the projected fund value before and after charges for the default arrangements.

3.1 Default arrangements: effects of costs and charges on members' pots

The following pages show projected outcomes for the default arrangements and some self-select funds. These notes apply to all the projections on the following pages.

When mentioning charges in this statement we refer to bps, or basis points, which is the measure used in the investment industry. One basis point is one hundredth of a percent or 0.01% of the fund value. This means that 50 bps = 0.5% and 100 bps = 1%.

Notes:

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges can't be known in advance, the Trustee has had to make a number of assumptions about what these might be and these are explained below:

- The 'before costs' figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.
- The 'after costs' figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.
- The transaction costs figures used in the illustration are an average of those provided by the managers over the past 5 years. The Trustee has used average transaction costs over the previous 5 years, which reflects available data and the fact that, in its view, disclosing average costs is the most appropriate and proportionate method of measurement, given the fluctuations in transaction costs during this timeframe.
- Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Charges are based on the projected pension pot values so are also shown in today's terms.
- 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 following financial assumptions have been made for all projections:
  - Longer term inflation is assumed to be 2.50% each year.
  - Salaries will increase with inflation.
- Regard has been given to the DWP Guidance "Reporting of costs, charges and other information: guidance for trustees and managers of occupational schemes" issued in October 2021.

The assumptions are set by the Trustee each year, taking advice from its advisers and are in line with AS TM1 (The Financial Reporting Council's Technical Memorandum 1).

Table 1 shows the assumed growth rate and charges for the funds used in the projections.

TABLE 1: Funds	Growth (before taking account of inflation)	Charges*
Z Growth Fund	6.0%	0.34%
Z Cautious Growth Fund	4.0%	0.36%
Z Cash Fund	2.0%	0.08%

*These charges:

- are those in place at 30 June 2024. These changed during the year as a result of changes to the underlying investments and a reduction in the platform charge levied by Scottish Widows.
- take into account the total member charge, shown in 3.2 below, plus an average of the transaction costs over the past 5 years.

TABLE 2:	DC only youngest member
Starting age	17 years
Starting fund value	£1,500
Basic salary	£22,400
Future contributions:	12% until aged 68. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 3:	Drawdown Lifestyle	
	Before charges	After charges
Year 1	£2,167	£2,146
Year 3	£7,785	£7,748
Year 5	£13,794	£13,687
Year 10	£30,705	£30,201
Year 15	£50,707	£49,401
Year 20	£74,366	£71,722
Year 25	£102,350	£97,674
Year 30	£135,448	£127,847
Year 35	£174,598	£162,926
Year 40	£220,903	£203,710
Year 45	£263,194	£239,682
Year 50	£295,555	£265,867

Table 3 shows the projected fund value, both before and after charges, for the youngest member in the DC only default arrangement (the Drawdown Lifestyle). Some details of this sample member are shown in Table 2.

Using Year 40 as an example, this shows that the estimated total charges over 40 years are £17,193.

TABLE 4:	Hybrid (DB+DC) youngest member
Starting age	35 years
Starting fund value	£52,000
Basic salary	£33,400
Future contributions:	12% until aged 60 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 5:	Cash Lifestyle	
	Before charges	After charges
Year 1	£52,493	£52,117
Year 3	£64,292	£63,830
Year 5	£76,910	£75,934
Year 10	£112,425	£109,587
Year 15	£154,432	£148,714
Year 20	£195,112	£185,573
Year 25	£226,240	£213,091
Year 30	N/A	N/A
Year 35	N/A	N/A
Year 40	N/A	N/A

Table 5 shows the projected fund value, both before and after charges for the youngest member with both final salary and DC benefits in the default arrangement (the Cash Lifestyle). Some details of this sample member are shown in Table 4.

Using Year 20 as an example this shows that the estimated total charges over 20 years are £9,539.

TABLE 6:	DC only typical member
Starting age (average)	40 years
Starting fund value (average)	£59,100
Basic salary (average)	£51,100
Future contributions:	12% until aged 67 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 7:	Drawdown Lifestyle	
	Before charges	After charges
Year 1	£60,060	£59,628
Year 3	£76,705	£76,166
Year 5	£94,506	£93,349
Year 10	£144,608	£141,125
Year 15	£203,869	£196,669
Year 20	£270,298	£257,725
Year 25	£323,737	£304,943
Year 30	N/A	N/A
Year 35	N/A	N/A
Year 40	N/A	N/A

Table 7 shows the projected fund value, both before and after charges, for a typical member in the DC only default arrangement (the Drawdown Lifestyle). Some details of this sample member are shown in Table 6.

Using Year 20 as an example, this shows that after the estimated total charges over 20 years are £12,573.

TABLE 8:	Hybrid (DB+DC) typical member
Starting age (average)	52 years
Starting fund value (average)	£103,600
Basic salary (average)	£62,300
Future contributions:	12% until aged 60 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	YES

TABLE 9:	Cash Lifestyle	
	Before charges	After charges
Year 1	£104,453	£103,707
Year 3	£123,163	£122,240
Year 5	£141,905	£140,017
Year 10	N/A	N/A
Year 15	N/A	N/A
Year 20	N/A	N/A
Year 25	N/A	N/A
Year 30	N/A	N/A
Year 35	N/A	N/A
Year 40	N/A	N/A

Table 9 shows the projected fund value, both before and after charges for a typical member with both final salary and DC benefits in the default lifestyle for these members (the Cash Lifestyle). Some details of this sample member are shown in Table 8.

Using Year 5 as an example, this shows that the estimated total charges over 5 years are £1,888.

3.2 Levels of costs and charges

In addition to the default arrangements, members also have the option to invest in other lifestyle strategies and several other self-select funds. The level of charges for each self-select fund, including those used in the lifestyle strategies, are set out in the following table. The underlying funds for the lifestyle strategies, including those used in the default arrangements are shown in bold.

Transaction costs are the costs associated with buying and selling the assets within the fund. These figures include an element of 'slippage cost' which is the difference between the price at the time the instruction was sent to the market and the price that is used when the trade is carried out. It is possible for the slippage cost to be negative; for example, if the price at the time the instruction was sent is higher than the price actually paid. Negative transaction costs can also occur where managers are able to offset the purchases and sales in any one fund as a way of reducing the transaction costs paid by members.

TABLE 10:	Admin charge (bps)	Fund charge (bps)[4]	Total member charges (bps)	Transaction cost (bps)
Z Growth Fund[5]	17.5	10.5	28.0	5.7
Z Cautious Growth Fund[5]	17.5	17.5	35.0	27.7
Z Annuity Fund	17.5	10.5	28.0	0.0
Z Cash Fund[5]	Nil	6.0	6.0	1.7
UK Equity Index	17.5	8.5	26.0	11.1
World ex-UK Equity Index	17.5	9.5	27.0	2.3
LGIM FTSE4Good Developed Equity Index	17.5	25.5	43.0	0.1
HSBC Islamic	17.5	34.5	52.0	1.4
L&G Future World Fund	17.5	25.5	43.0	10.1
Scottish Widows Managed Fund	17.5	43.5	61.0	20.6
Property	17.5	69.5	87.0	0.0
Corporate Bond All Stocks Index	17.5	7.5	25.0	0.0
Index Linked Over 5 years Gilt Index	17.5	7.5	25.0	0.0

Funds in bold are used within the range of lifestyle strategies.

4 Charges are those in place at 30 June 2024. These changed during the year for Z Growth Fund and Z Cautious Growth Fund as a result of changes to the underlying investments, and for all funds except Z Cash Fund as a result of a reduction in the platform charge levied by Scottish Widows.

5 Funds used in the default lifestyle strategies.

3.3 Self-select options – effects of costs and charges on members

Below are the projected fund values, both before and after charges for a typical member in one of the self-select investment funds. The notes in Section 3.1 of this Statement apply to these projections and the assumed growth rates and charges are shown in the table on the right. These projections are over a 40 year period for the following funds:

- Z Growth Fund: is the most commonly used fund.
- Property Fund: is the fund with the highest charges.
- Z Cash Fund is the fund with the lowest charges.

	Typical member
Starting age	25 years
Starting fund value (average)	£13,300
Basic salary (average)	£34.000
Future contributions	12% until aged 67 years. This assumes no employee contributions as the scheme is non-contributory, although members are able to contribute.
Incorporates lifestyling	No

	Growth (before taking account of inflation)	Charges
Z Growth Fund	6.0%	0.28%[6]
Property Fund	4.0%	0.87% [7]
Z Cash Fund	2.0%	0.06%

	Z Growth Fund	
	Before charges	After charges
Year 1	£14,176	£14,164
Year 3	£23,460	£23,328
Year 5	£33,388	£33,062
Year 10	£61,333	£60,126
Year 15	£94,386	£91,591
Year 20	£133,481	£128,174
Year 25	£179,723	£170,705
Year 30	£234,417	£220,153
Year 35	£299,109	£277,643
Year 40	£375,627	£344,482

6 These charges changed during the year as a result of changes to the underlying investments and a reduction in the platform charge levied by Scottish Widows.

7 These charges changed during the year as a result of a reduction in the platform charge levied by Scottish Widows. The charges take into account the total member charge plus an average of the transaction costs over the past 5 years.

	Property Fund		Z Cash Fund	
	Before charges	After charges	Before charges	After charges
Year 1	£14,108	£14,075	£14,040	£14,037
Year 3	£22,744	£22,403	£22,044	£22,015
Year 5	£31,634	£30,818	£29,969	£29,902
Year 10	£55,024	£52,240	£49,447	£49,229
Year 15	£80,175	£74,224	£68,455	£68,013
Year 20	£107,222	£96,786	£87,003	£86,269
Year 25	£136,306	£119,939	£105,104	£104,010
Year 30	£167,582	£143,700	£122,767	£121,253
Year 35	£201,214	£168,085	£140,004	£138,011
Year 40	£237,380	£193,110	£156,824	£154,296

3.4 Legacy AVC funds: level of cost and charges

At 30 June 2024 approximately 220 members had DC benefits in one of the legacy AVC arrangements. These legacy AVCs attract varying levels of management charge depending on the provider and fund chosen as set out below. There are no additional administration charges paid by the members. Transaction costs are shown to the latest available date provided by the investment manager.

The ReAssure funds are not listed below as there are no admin, fund or transaction charges.

Zurich Assurance Limited (Eagle Star)	Admin charge (bps)	Total Annual Management Charge (AMC) (bps)	Transaction cost (bps)
With Profits	Nil	50.0	5.14
Global Select	Nil	117.0	20.24
Equity Managed	Nil	116.0	28.20
Managed	Nil	119.0	17.62
Secure	Nil	109.0	1.55
Scottish Widows (Supplementary Scheme)			
Zurich Long Dated Gilt	Nil	55.0	1.9
Zurich Managed	Nil	56.0	20.6
Zurich Property	Nil	83.0	0.0
Zurich Threadneedle American	Nil	69.0	32.6
Zurich Threadneedle Asia	Nil	72.0	62.0
Zurich Threadneedle European	Nil	68.0	55.7
Zurich Threadneedle Global Equity	Nil	82.0	39.5
Zurich Threadneedle Japan	Nil	67.0	27.6
BlackRock Sterling Liquidity Fund	Nil	35.0	1.6
Threadneedle			
Global Select	Nil	42.0	19.0
Aquila Over 15 yrs UK Gilt Index	Nil	15.0	0.0

4 Investment returns

The investment returns for the default arrangements and self-select funds, after deduction of charges and transaction costs is shown below. When preparing these returns the Trustee has taken account of the relevant statutory guidance.

	1 year performance (%)	1 year benchmark (%)	Relative performance
Z Growth Fund[8]	20.96	21.41	-0.45
Z Cautious Growth Fund[8]	15.06	14.86	-0.20
Z Annuity Fund	8.62	7.90	0.72
Z Cash Fund[8]	5.33	5.14	0.19
UK Equity Index	11.07	12.18	-1.11
World ex-UK Equity Index	22.34	22.70	-0.36
LGIM FTSE4Good Developed Equity Index	23.06	23.79	-0.73
L&G Future World Fund	14.90	15.65	-0.75
HSBC Islamic	30.09	30.55	-0.46
Scottish Widows Managed Fund	12.35	11.30	1.05
Property	5.40	1.26	6.66
Corporate Bond All Stocks Index	9.64	9.86	-0.22
Index Linked Over 5 years Gilt Index	-0.28	-0.16	-0.12

	3 year performance (%)	3 year benchmark (%)	Relative performance
Z Growth Fund[8]	8.02	8.35	-0.33
Z Cautious Growth Fund[8]	0.80	0.62	0.18
Z Annuity Fund	-9.38	-9.22	-0.16
Z Cash Fund[8]	2.91	2.84	0.07
UK Equity Index	5.96	6.83	-0.87
World ex-UK Equity Index	9.80	10.25	-0.45
LGIM FTSE4Good Developed Equity Index	11.51	12.11	-0.60
L&G Future World Fund	7.17	7.81	-0.64
HSBC Islamic	14.02	14.50	-0.48
Scottish Widows Managed Fund	5.73	2.24	3.49
Property	5.12	-0.69	5.81
Corporate Bond All Stocks Index	-4.14	-3.98	-0.16
Index Linked Over 5 years Gilt Index	-14.30	-14.25	-0.05

8 Funds used in the default lifestyle strategies

5 Default arrangements: asset allocation

The asset allocations for the default arrangements is shown below. When preparing this statement, the Trustee has taken account of the relevant statutory guidance.

These defaults have been set up as a lifestyle strategy which means that members' assets are automatically moved between different investment funds as they approach their retirement date. This means that the asset allocation may change depending on how close members are to their target retirement date and in which fund they are invested. The funds used in these defaults are:

Fund	Asset holdings
Z Growth Fund	100% listed equities
Z Cautious Growth Fund	55% listed equities, 45% global credit
Z Cash Fund	100% money market instruments

Drawdown Lifestyle

The default Target Retirement Age (TRA) is the individuals State Pension Age, although members are able to set their own TRA.

Asset Class	Percentage allocation – average 25 y/0 (%)	Percentage allocation – >10 yrs before TRA	Percentage allocation – 5 years before TRA	Percentage allocation – average 1 day prior to TRA (%)
Cash	0%	0%	0%	25%
Bonds[9]	0%	0%	45%	34%
Listed Equities	100%	100%	55%	41%
Private equity[10]	0%	0%	0%	0%
Property	0%	0%	0%	0%
Infrastructure	0%	0%	0%	0%
Private debt	0%	0%	0%	0%
Other	0%	0%	0%	0%

Cash Lifestyle

The default Target Retirement Age (TRA) is 60 years, although members are able to set their own TRA.

Asset Class	Percentage allocation – average 25 y/0 (%)	Percentage allocation – >10 yrs before TRA	Percentage allocation – 5 years before TRA	Percentage allocation – average 1 day prior to TRA (%)
Cash	0%	0%	0%	100%
Bonds[9]	0%	0%	45%	0%
Listed Equities	100%	100%	55%	0%
Private equity[10]	0%	0%	0%	0%
Property	0%	0%	0%	0%
Infrastructure	0%	0%	0%	0%
Private debt	0%	0%	0%	0%
Other	0%	0%	0%	0%

9 Includes corporate bonds and government bonds.

10 Includes venture capital and growth equity.

6 Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of 'good value' but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market. The assessment was undertaken taking account of The Pensions Regulator's General Code of Practice, which came into effect on 28 March 2024 and superseded Code of Practice No 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

6.1 ZCashBuilder

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 Scheme. The last review was carried out on 30 June 2024. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of service received has also been considered in this assessment. The Trustee's DC adviser has confirmed that the fund charges are competitive for the types of funds available to members. Following a request from the Trustee, Scottish Widows agreed to reduce the charges across all funds by 0.7bps with the exception of Z Cash Fund as there are no administration charges on this fund. As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes. The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and we expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustee believes this because:

- Members continue to benefit from good governance with a strong DC Committee and Trustee board which includes a professional trustee and strong support of an in-house executive pensions team.
- Members benefit from an employer contribution of 12% and a highly effective administration service with very good performance against Railpen's agreed SLAs and a low number of complaints.
- LCP, the Trustee's DC adviser, has assessed:
  - compared to schemes of a similar size members pay total charges that are either at or below median for most of the asset classes they are invested in.
  - The fund range available to members compares well with schemes of a similar size
  - The quarterly performance monitoring carried out is in line with standard practice amongst medium to large own-trust schemes.
  - There is close investment performance monitoring, and the majority of funds have performed broadly in line with their benchmarks over the period.
  - The level of information and online support present on the ZPen website goes beyond what is seen in many own-trust schemes.
  - The presence of a dedicated DC Committee is positive for governance purposes.
  - The core company contribution of 12% compares well with industry body recommendations regarding contribution rates required to achieve an adequate income.
  - The support services provided by the ZPen team go beyond what is commonly seen amongst own-trust schemes.

6.2 Legacy AVCs[11]

The Trustee assessed each provider separately on 30 June 2024 and reached the following conclusions. LCP, the Trustee's DC adviser commented that:

- The charges are broadly similar to those across other AVC mandates.
- It is positive that members are able to transfer into ZCashBuilder.

The Trustee will continue to monitor the performance of both the investments and administration services of its AVC providers.

11 AVCs: Additional Voluntary Contributions are contributions made by individuals to the Scheme to build up additional benefits at retirement. These are sometimes called Additional Pension Contributions.

AD Supplementary Scheme: there have been a number of instances where Scottish Widows did not meet its SLAs for administration services, including in relation to some core financial transactions and the assessment for administration performance was downgraded to reflect this. However, the Trustee concluded that these funds are currently providing value for members who also benefit from the rigorous investment governance oversight provided by Scottish Widows.

Eagle Star: the Trustee concluded that these funds represent value for members as whilst the charges are comparatively high, members benefit from guaranteed annuity rates at retirement. It was noted that some of these funds may not represent value for those members who do not take advantage of the guaranteed annuity rates. This was communicated to these members.

ReAssure: some issues have been experienced with the administration service and the assessment for administration performance was downgraded to reflect this. However, the Trustee concluded that these funds are providing value for members; there are no charges linked to these funds and members are benefiting from a guarantee that their fund will not reduce. Members are invested in 2 policies, one paying interest linked to the Nationwide Standard Mortgage Rate and the second linked to the Goldman Sachs Sterling Liquid Reserves Fund.

Threadneedle: the Trustee concluded that these funds are currently providing value for members. It was noted that there are no concerns regarding Threadneedle as an AVC provider and that the charges for these funds are low compared to other AVC arrangements.

7 Trustee knowledge and understanding (TKU)

The Scheme's Trustee directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee director must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's current statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally;
- Have, to the degree that is appropriate for the purpose of enabling the individual properly to exercise his or her functions as Trustee director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding and investment of assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance, knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below:

- All Trustee directors are required to maintain a CPD (Continuing Professional Development) log with a minimum requirement of completing 15 hours per year. Each Trustee director has a personal review with the Chair and Head of UK Pensions at least annually. This includes a review of their TKU and specific development areas. Any training needs identified by the assessments are met through tailored training programmes which use a variety of training tools, including interactive workshop sessions, seminars and individual study. Use is made of in-house expertise and the Trustee's own advisers as well as external training programmes and seminars.
- Professional trustees are subject to additional regulatory requirements to ensure continually high standards are attained, this includes a minimum of 25 hours relevant learning and development. The standards were developed by The Professional Trustee Standards Working Group, the latest standards were published on 26 February 2019.
- As at 30 June 2024, all Trustee directors had completed The Pension Regulator's Trustee Toolkit, which is designed to meet the minimum level of knowledge and understanding required by law.
- The Trustee board includes accredited professional trustees who have supported the Scheme for some time and are conversant with the Scheme specifics and documentation, as well as bringing general pension knowledge and experience. Two individuals are used depending on the knowledge required, e.g. one attends the Trustee Board and Funding Committee meetings and the other attends the DC Committee meetings.
- The Trustee's advisers proactively raise any changes in the governance requirements and other relevant matters as they become aware of them and would typically deliver training on such matters if they were material. During the period covered by this statement:
- The DCC received the following training:
  - Pensions Regulator's General Code of Practice (28 February 2024)
  - ESG Hot topics (4 June 2024)
  - Investment Managers stewardship practices (4 June 2024)

- The Trustee received training on the following topics:
  - The Pensions Regulator's General Code of Practice (14 March 2024)
  - The IFRS17 accounting basis (25 June 2024)
  - The Scottish Limited Partnership (SLP) (25 June 2024)
  - Pensions Dashboards (25 June 2024)
- As part of its oversight activities, the DCC received a presentation from LGIM on 4 June 2024 setting out how LGIM carries out its engagement and stewardship responsibilities, and some examples of how it believes its engagement with companies has led to action and improvement.
- The Trustee is supported by the Scheme management team providing technical and governance support and Scheme secretarial services.
- All Trustee directors are familiar with, and have access to copies of, the current Scheme governing documentation, including Trust Deed and Rules, together with any amendments, the SIP and key policies and procedures. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and where relevant deciding individual member cases.
- The induction training for new Trustee directors includes:
  - Attending external and internal training courses
  - Being allocated an existing Trustee director as a 'buddy' to provide support and answer questions.
  - Reserve member Trustee directors attend the DC Committee meetings as an introduction to the Trustee and how it works.

The Trustee has its own dedicated, secure website where Scheme documents, trustee procedures and other useful information, including contact information, meeting agendas and minutes are stored. This enables the Trustee to have quick access to the most up to date information relating to the Scheme.

On 14 November 2023 the Trustee carried out an interim Board Effectiveness Review (BER), receiving an update on actions from the 2021 and 2022 BERs.

The training programme is reviewed regularly to ensure it is aligned with the objectives of the Trustee's work plan and addresses knowledge gaps identified by the Trustee directors through self-evaluation.

The Trustee directors consider they 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 to fulfil their duties.

Taking into account the knowledge and experience of the Trustee directors with the specialist advice received from the appointed professional advisers, including investment consultants and legal advisers, the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

8 Governance

To assist the Trustee in meeting its governance requirements:

- A dedicated DC committee was set up in 2019 made up of representatives from the Trustee board and the Company. On establishment of the DC committee, it took responsibility from the Funding Committee for the investment of the DC assets. The DC Committee reports back to the full board regularly on matters relating to ZCashBuilder and the legacy AVCs.
- The DC Committee has previously completed the annual assessment of the Scheme's processes and practices against Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes and the accompanying guidance notes. This identified that the Scheme met all the legal requirements and the majority of the expectations set out in the Code and associated Guides.
- The General Code of Practice has superseded Code 13 with effect from 28 March 2024 and a review of the Scheme's compliance with the Code has been carried out. Any identified areas where the requirements are not currently being met are currently under review with the aim of ensuring compliance by Q1 2025.
- A Trustee Governance Handbook has been produced which documents how the Trustee governs the pension Scheme and provides a framework to signpost all the Trustee's policies and key documentation.
- The Trustee produced an investment governance framework setting out how the Trustee meets its key roles and responsibilities, and which regulations apply. The framework is split between DB and DC arrangements and includes the relationships between the Trustee Board, respective Committees and the key advisers involved in investment decision making.

9 Conclusion

- Taking account of all the factors considered, the Trustee believes that the Scheme's DC arrangements provide good value for members and is expected to deliver good outcomes for members at retirement.
- The Trustee continues to look for ways to improve the value for members, including planning a suite of communication materials, developing a new member website and considering ways to support members in the approach to retirement.

This statement was approved by the Trustee on 16 January 2025 and signed on their behalf by:

David Sims

Chair: Zurich Financial Services UK Pension Trustee Limited

Statement of Investment Principles for the default investment strategies

Zurich Financial Services UK Pension Trustee Limited ("the Trustee") has produced this Statement of Investment Principles ("the Statement") which sets out how the Trustee invests the defined contribution (DC) assets for the default investment strategies within the Zurich Financial Services UK Pension Scheme ("the Scheme"). Separate Statements of Investment Principles are available for the DC assets and the defined benefit (DB) arrangements held within the Scheme.

The Statement of Investment Principles for the Scheme's default arrangements* comprises items 1 and 3 of the Trustee's Statement of Investment Principles for the DC assets.

- Statement of the aims and objectives for the default investment arrangements**
- Statement of investment beliefs, risks and policies***.

This Statement has been prepared in accordance with all relevant legislations in force at the date of approval. It outlines the principles and policies governing investment decisions made by, or on behalf of the Trustee for the management of the defined contribution assets and the Trustee's policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.

This Statement will be reviewed by the Trustee at least every three years, and without delay after any significant change in the investment approach or the demographics of the Scheme. Before revising this Statement the Trustee will obtain and consider the written advice of the Trustee's appointed Investment Adviser ("the Adviser") to ensure its contents are appropriate to the circumstances of the Scheme.

The Trustee also consults the principal employer Zurich Financial Services (UKISA) Limited ("the Employer") as to the contents of this Statement as well as any material change to its investment strategy not explicitly described in this Statement.

The part of the Scheme which holds the DC assets, and provides the DC benefits, is called ZCashBuilder and is referred to throughout this Statement. Additional voluntary contributions paid by members of the Scheme are also used to provide DC benefits. Some of these are not held in ZCashBuilder but are invested separately with external providers.

Members are able to invest in any of the default arrangements or ZCashBuilder investment options outside the defaults, but have to make a choice and notify the Scheme's administrators.

* As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

** In accorgance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

*** In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

1. Statement of the aims and objectives for the default investment arrangements

The Trustee offers the following default strategies:

for DC only members which targets drawdown at retirement;

a. for members with both DB and DC benefits which targets cash at retirement;

b. for members where, for some reason, the Trustee can't invest contributions in line with the member's instructions.

To provide a good value lifestyle strategy which:

- is expected to be suitable for the majority of members who do not wish to make an active choice
- aims to protect members against volatility in the approach to retirement

1.1 Investment Aims and Objectives

The Trustee has agreed the following investment objectives for the Scheme's DC default arrangements where members' have not instructed their contributions to be invested elsewhere.

The Trustee believes that these strategies are suitable for the majority of members based on modelling the expected fund values at retirement and how members are expected to take their benefits.

The main default arrangements are therefore lifestyle strategies which:

- Gradually move investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Targets members who are expected to access Flexi-Access Drawdown during their retirement (DC only strategy) and members who are expected to take cash at retirement (DB and DC strategy).

If for some reason the Trustee cannot invest contributions in line with the member's instructions it may decide to re-direct contributions to a fund with a similar, or lower, level of investment risk. The aim of this is to invest the contributions promptly and protect against market volatility whilst members are informed of the change and given the opportunity to review their investment instructions.

1.2 Expected levels of investment returns

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement. The expected levels of return will be based on the level of risk chosen. These returns and the approach to managing investment risks including financially material considerations such as climate change are described in Section 3.

1.3 Kind of investments to be held

The Trustee invests in pooled funds accessed through the Scheme's investment platform provider. These pooled funds may invest in a wide range of assets including equities, bonds, cash, property, derivatives and alternatives, subject to complying with relevant legislation. In practice, the kinds of investments held, depend on the investment strategy of each fund within the default strategies.

1.4 Illiquid assets

The Trustee acknowledges that illiquid assets may have a role to play in the default investment strategies.

However, given the complexity surrounding the accessibility of illiquid investments (in particular, potential divestment complications), the current lack of suitable options available on the investment platform used by the Scheme, as well as the higher costs associated with illiquid investments means that they do not merit further exploration by the Trustee at this time.

The Trustee will monitor the development of this asset class with a view to considering its inclusion in the default strategies at a future date.

1.5 Balance between different kinds of investments

The expected levels of investment return will be based on the level of risk chosen.

The return received from different kinds of investment is achieved in different ways and at different rates (for example, low risk but little opportunity for capital growth as opposed to high risk but substantial opportunity for capital growth).

The Trustee considers the merits of both active and passive management for the default strategies and may select different approaches for different asset classes.

The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

The Trustee believes that the current default strategies and self-select range are suitable for the members with DC benefits in the Scheme. It will review this regularly, at least triennially or after significant changes to the demographics of the Scheme's membership.

These reviews take into account the Trustee's views of how members are likely to behave at retirement, based on a combination of an understanding of member demographics and behaviours, views of the Adviser, wider pensions industry knowledge and experience and modelling of members' expected pension outcomes.

2. Statement of investment beliefs, risks and policies

2.1 Investment beliefs

The Trustee has agreed a set of DC investment beliefs and refers to these when making strategic investment decisions. These beliefs will be revisited at regular intervals and updated as and when appropriate.

2.2 Risks

Investment risk in a DC scheme ultimately sits with the members.

The Trustee has considered a number of risks in arriving at the investment fund choices and designing the lifestyle strategies. These include, but are not limited to, those listed in the table on the next page.

The Trustee has put in place a structure both to monitor these risks and take action to mitigate them when it believes it is appropriate to do so. It is not possible to mitigate all of the risks at the same time, so members are encouraged to consider the risks that are most relevant to them and to invest to mitigate those risks.

The Trustee aims to provide information that allow members to take informed decisions.

In arriving at the investment fund choices and designing the lifestyle strategies the Trustee has considered a number of risks including:

Risk	Definition	How we address the risk
Climate risk	The extent to which climate change causes a material decrease in asset values as a consequence of factors including, but not limited to policy change, physical impacts and the expected transition to a low carbon economy. This is a macro-economic risk.	Engagement with the Adviser, fund managers and investment platform provider to understand the potential implications for the DC assets.
Counterparty risk	The failure of the investment platform provider.	The Trustee ensures that the selected investment platform provider is regulated by the Financial Conduct Authority and is required, where appropriate, by the Prudential Regulation Authority to maintain adequate financial resources to ensure that it can meet its liabilities as they fall due.
Concentration risk	The failure of some of the investments that constitute a significant proportion of the assets.	The Trustee uses a range of pooled funds across different asset classes to diversify risk. The funds available to members are also pooled funds across the different asset classes to offer diversification to members.
Credit risk	That one party to a financial instrument will cause financial loss for the other party by defaulting or falling in value.	The Trustee uses pooled funds which invest in a wide range of corporate and government bonds to minimise the impact should any one party default or fall in value.
Equity risk	The risk that equities may fall in value due to fluctuations in the market, as well as the financial risk involved in holding equity in a particular company.	The Trustee manages equity risk primarily through investing in a range of global equities and by using pooled funds which minimise the financial risk associated with any particular company. All lifestyle strategies look to reduce downside risk in the years prior to retirement by switching into lower risk funds. A cash fund is available both in the lifestyle strategies and self-select fund range to provide capital protection.
ESG (Environmental, social and governance) risk	The extent to which ESG issues (including, but not limited to, climate change) are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations, over the timescale relevant until DC members take their benefits.	The Trustee has a policy on responsible investment that addresses how these risks are considered and managed. The Trustee monitors the ESG activities of its fund managers and will engage periodically.
Interest rate risk	The risk of a reduction in the value of a bond fund as a result of an increase in interest rates.	The Trustee uses bond funds in combination with other asset classes to diversify risk. Members use the bond funds to as lower risk investments and also if they are likely to purchase an annuity.
Inflation risk	That investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the member's retirement savings.	The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Liquidity risk	The risk that a fund, or asset, cannot be traded quickly when required.	The Trustee's policy is to invest in funds that offer daily dealing as far as possible to enable members to readily realise and change their investments.

Risk	Definition	How we address the risk
Manager risk	A fund underperforms against the benchmark that it is being assessed against in the long term.	Fund performance is monitored on a regular basis. The Trustee has adopted a passive investment style for some of the funds which minimises the risk from underperformance.
Operational risk	The loss or error arising from the failure of people, processes and systems, or disruption due to an external event.	Appropriate processes and controls are integrated into business activities. The annual assessment against Code of Practice 13 includes confirmation that business continuity plans are in place and checked regularly.
Pension conversion risk	The risk that at retirement the assets held do not closely match how the member is expected to use their fund value in retirement. This is particularly important following the introduction of DC flexibilities at retirement.	For the default strategies this risk is managed by gradually switching into assets which more closely match how the Trustee expects members to access their retirement savings. A range of lifestyle strategies are available for members to select the option which best matches how they plan to take their benefits at retirement.
Political risk	The level of concentration in any one market leading to the risk of a negative influence on investment values arising from political intervention of other events.	Diversification of the assets within the default strategy
Real estate risk	The risk that real estate may fall in value due to fluctuations in the market.	The Trustee uses a Property Fund as part of a diversified range of pooled funds.
Retirement benefit risk	The risk that a member's retirement benefit falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid.	Regular reviews of the suitability and performance of the investment options offered with the aim of helping members optimise their retirement income. The level of contributions is outside the Trustee's control, but member communications include reminders to consider the level of contributions. The member retirement planner allows members to see how changing contributions affects their fund value at retirement.

2.3 Responsible investment

The Trustee recognises that members are long term investors and believes that incorporating ESG factors into investment decisions improves the long-term risk adjusted returns for them. ESG factors may, however, be outweighed in appropriate circumstances by other financially material factors.

Stewardship

The Trustee aims to be a responsible steward of the DC assets and believes stewardship includes:

- the selection and appointment of asset managers that invest on behalf of the Trustee
- asset allocation
- voting and engagement across all asset classes.

Selecting managers

The Trustee includes ESG considerations when assessing the default strategies and self-select fund choices available to members. The fund selection process includes the fund manager's responsible investment practices and consideration of ESG factors, including, but not limited to, climate change.

When appointing the investment platform provider and selecting fund managers, the Trustee will require that each has an appropriate conflict of interest policy in place.

Asset allocation

The Trustee recognises that in using pooled funds it has delegated consideration of stock-specific issues to the fund manager.

Voting

The Trustee has adopted a policy of delegating voting decisions to the fund managers. The fund manager's house policies are expected to broadly meet with the Trustee's views. The Trustee will monitor fund mangers' voting activity and may periodically review fund managers' voting patterns.

The Trustee currently uses an expression of wish form to set out its priorities on voting.

Engagement

The Trustee believes it is appropriate for its fund managers to engage with key stakeholders, which may include corporate management, issuers of debt or equity regulators and governance bodies, relating to their investments for the Scheme in order to improve corporate behaviours, improve performance and strategy and mitigate financial risks.

The Trustee periodically reviews engagement activity undertaken by the fund managers as part of its broader monitoring activity. The Trustee believes that engagement by fund managers with investee companies will enhance the long-term value of shareholder investments. Where appropriate, the Trustee communicated its views on ESG issues to fund managers.

Financially material considerations

The fund and manager selection processes include consideration of how financially material factors are taken into account when selecting, retaining and realising investments. The Trustee also assesses how these considerations are taken into account over an appropriate time horizon.

The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believes the choice of benchmarks will deliver appropriate risk adjusted returns.

Priorities

The Trustee has set the following stewardship themes for the DC assets:

- Climate Change - the Trustee believes climate change to be a source of financial risk that could have a material impact on member outcomes over the short-, medium-, and long-term as a result of the impact of the physical and transition risks on markets and, therefore, investors.
- Diversity, Equality and Inclusion (DEI) - the Trustee believes that investees that are diverse and inclusive deliver better financial performance than firms with poor DEI practices, due to their ability to make better decisions, identify risks and opportunities more effectively, and their ability to appeal to a wider customer base.
- Corporate Transparency - the extent to which a company provides open and accessible information about its activities and decision-making processes to its stakeholders, including shareholders, employees, customers, suppliers, and the wider community.
- The Trustee believes stewardship is an appropriate tool to utilise when trying to manage and mitigate the risks identified above as well as other ESG risks.

- The Trustee has communicated these stewardship priorities to its investment managers and also confirmed its more general expectations in relation to ESG factors and voting and engagement activities, specifically how these factors are taken into account when making investment decisions with the aim of improving risk-adjusted returns.
- If the Trustee's monitoring identifies areas of concern, it will engage with the relevant manager to encourage improvements.

Non-financial matters

- The Trustees note that non-financial matters can affect various investment risks which are borne by members.
- Fund managers are only expected to take non-financial factors into account when these do not conflict with the financial interests of members or beneficiaries and the Scheme's investment objectives.

Member engagement

- The Trustee recognises the importance of member engagement in relation to the investment options offered within ZCashBuilder. The DC Committee includes company representatives and regular attendance by members of the ZPen team who are both in a position to collate and present member feedback.
- The Trustee promotes member engagement via the Scheme's website **www.zpen.info**, giving members access to resources including fund factsheets, member guides and newsletters.
- The Trustee is aware that across the membership there will be differing views on responsible investment and aims to meet these through offering a range of self-select funds so members who wish to can select a fund which better reflects their views. Regular communications from the Trustee should encourage members to review their investment options to ensure they remain appropriate for their overall objectives.

2.4 Asset managers

The realisation of investments

The Trustees policy is to invest in funds that offer daily dealing as far as possible to enable members to readily realise and change their investments.

In the unlikely event of any fund having a short-term dealing suspension, the Trustee will always keep affected members informed via the ZPen website.

The expected return from investments

When considering the range of investment options made available to members, the Trustee will have regard to the relative investment return that each asset class and fund is expected to produce net of fees. In particular, when selecting investments for the default strategies, the Trustees will have regard to the relative investment return of each category and structure of the fund such that it is expected to deliver a return consistent with their investment objective.

Having established the investment options available to members, the Trustee monitors the performance of the funds within these options. A consistent failure to achieve adequate performance, or to provide continued value for members could result in a fund being replaced.

Performance measurement

The Trustee regularly monitors actual fund performance against the benchmarks set and will contact the fund manager if it has any concerns. The Trustee would not expect to replace a fund based on short term underperformance as the focus is on longer term outcomes; this aligns with the Trustee's beliefs on corporate governance.

The Trustee will review on a regular basis the investment performance of the investment funds together with the continuing suitability of the fund range made available to members. If the review showed that the performance or continuing suitability needed to be addressed, the DC Committee would either make a decision on behalf of the Trustee, or for more substantial issues would recommend an action to the Trustee.

Turnover

In the normal course of events the managers of pooled funds will sell investments from time to time to be replaced by others. The fund managers are aware that the expenses involved in transactions can affect performance and that transaction costs are reported to the Trustees for inclusion in the Chair's Statement each year.

In addition, the Trustee recognises that for the passive fund range the amount of each asset held by the investment manager is dictated by the benchmark and that the manager has limited freedom to minimise transaction costs. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and the stock turnover that comes with this.

When selecting actively managed funds, the Trustee will consider, with the help of its investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider to report on at least an annual basis on the underlying assets held within funds with details of any transaction costs incurred over the Scheme's reporting year.

The Trustee will challenge the platform provider and/or investment managers or if the level of turnover seems excessive.

Duration
The agreement between the Trustee and the investment platform provider will continue until it is no longer required; this could be when the Scheme ceases or if either party takes measures to end the agreement.

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon. The Trustee will carry out due diligence on the fund manager's investment decision making process, to ensure the investment decisions are over an appropriate time horizon and aligned with the objectives.

Incentives
The Trustee invests in pooled funds where the fund managers are paid for their services through an Annual Management Charge set and paid by the investment platform provider. For this reason, the Trustee does not have an arrangement providing incentives for the fund manager to either align its investment strategies and decisions with the Trustee's policies, or to make decisions aimed at improving their performance in the medium to long term.

The Trustee will:
- conduct an annual Value for Members assessment
- periodically review the Scheme's choice of investment platform provider and fund managers
- at least every 3 years review the suitability of both the investment options and the investment management arrangements.

The Investment platform provider and fund managers are aware that should they be found to not be providing value for members or otherwise acting in line with the Trustee's policies then the Trustee would consider replacing them.