

## Endsleigh Insurance Services Limited Pension and Assurance Scheme Chair's Statement regarding DC<sup>1</sup> governance for the year ending 31 December 2021





### Summary

Governance requirements apply to defined contribution (DC) (also known as money purchase) pension arrangements to help members achieve a good outcome from their pension savings. The Trustee of the Endsleigh Insurance Services Limited Pension and Assurance 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 for the ECashBuilder section of the Scheme in relation to:


- the investment options in which members' funds are invested;
- 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;
- a 'value for members' assessment'; and
- Trustee knowledge and understanding.

During the year the Trustee agreed to move ECashBuilder to the Aegon Master Trust because it believed this would provide better value for members than was available within the Scheme. This statement covers the period from 1 January – 31 December 2021.

More information can be found in the pages that follow.

	<b>Key points:</b>	<b>Rating</b>	<b>Link</b>
<b>Default investment arrangement:</b> 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.	The Trustee commenced its review of the default investment strategies on 11 September 2020 and this was completed on 28 September 2021 by the transfer of ECashBuilder to the Aegon Master Trust. The default investment arrangement was a lifestyle strategy which included the following funds: <ul style="list-style-type: none"> <li>• EFundBuilder, which outperformed its benchmark over 1, 3 and 5 years and</li> <li>• EFlexibleIncomePot, which underperformed its benchmark over the same period.</li> </ul>		<a href="#">Default investment</a>
<b>Core financial transactions:</b> The Trustee is required to make sure that core financial transactions (e.g. transfers out) are processed promptly and accurately.	The Trustee received regular reports from the administrator and monitors performance against agreed service levels. Based on this the Trustee considers that the core financial transactions were processed promptly and accurately during the Scheme year.		<a href="#">Core financial transactions</a>
<b>Value for Members:</b> 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 carried out an assessment using the methodology set out by The Pensions Regulator. This concluded that the Scheme provided fair value for members for the period 1 January – 31 December 2021.		<a href="#">Value for members</a>
<b>Trustee Knowledge and understanding:</b> The Trustee directors are required to meet certain standards of knowledge and understanding to ensure they are able to properly exercise their duties as Trustee directors.	The Trustee directors take personal responsibility for keeping themselves up to date with relevant developments and undertake regular training. The Trustee Directors consider that this, combined with the use of advisers and the specialist knowledge available within Zurich's UK Pensions and Benefits team, enables		<a href="#">Trustee knowledge</a>

<sup>1</sup> Defined Contribution: a type of money purchase pension scheme where the amount of money going in is fixed according to a given formula (usually a percentage of salary) but the final benefit is not known and depends on how much is paid in and how well the investments have performed, eg ECashBuilder.

	them to properly exercise their duties as Trustee directors.		
<b>Governance:</b> The Trustee is required to carry out an annual assessment against The Pensions Regulator’s Code of Practice 13 for the governance of DC schemes.	The Trustee carried out an assessment against the Code of Practice 13 which identified that the scheme meets all the legal requirements and the majority of the expectations set out in the Code and associated Guides.		<u>Governance</u>
<b>CONCLUSION:</b> <ul style="list-style-type: none"> <li>• <b>Taking account of all the factors considered, the Trustee believes that the Scheme provided fair value for members for the period 1 January –31 December 2021</b></li> <li>• <b>The transfer to the Aegon Master Trust should provide improved value for lesser charges.</b></li> </ul>			

## 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<sup>2</sup>) and DC benefits. The DC benefits are provided by the section called ECashBuilder and it is these benefits that were transferred to the Aegon Master Trust.

### 1 Default investment arrangements

ECashBuilder was used by the employer as a qualifying scheme for auto-enrolment purposes up to 23 March 2018 when it was closed to accrual. Members who joined ECashBuilder prior to the closure and did not choose an investment option were placed in the lifestyle arrangement (the “default arrangement”).

The Trustee is responsible for the Scheme’s investment governance, which includes setting and monitoring the investment strategy for the default arrangement. Details of the objectives and Trustee’s policies regarding the default arrangement can be found in a document called the ‘Statement of Investment Principles’ (SIP). The Scheme’s SIP is attached to this statement. There have been no changes to the SIP since it was last updated on 28 September 2020.

The aims and objectives of the default arrangement, as stated in the SIP are as follows:

- to provide a good value default option which:
  - is appropriate for the majority of members; and
  - protects members against volatility in their approach to retirement.

The Trustee must review both the default strategy and the performance of the default arrangement periodically. The latest review of the default investment strategy commenced on 11 September 2020 and the work carried out by the Trustee included:

- analysis of the membership demographics and the average projected fund value at retirement
- consideration of how the default strategy and the other investment arrangement options provided value for members and if this could be improved
- review of the performance of the default arrangement investment strategies
- benchmarking the charges against those that could be available if ECashBuilder was transferred to a master trust; and
- input from the Trustee’s investment advisers.

<sup>2</sup> Defined benefit (DB): 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 EPensionBuilder, the DB section of the Scheme.

The review had the following outcomes:

- The Trustee agreed that a master trust could provide better value for ECashBuilder members in the following key areas:
  - lower member charges with no reduction in service levels provided to members;
  - the incorporation of environmental, social and governance factors into the investments in the default arrangement;
  - the development of member communication and engagement tools across different communication channels; and
  - better member support before and into retirement, including access to pension flexibilities.
- The Trustee worked with its investment advisers to agree a set of objectives and selection criteria which were used in the assessment and shortlisting of a number of master trust providers.
- The Trustee received presentations from four shortlisted master trust providers.
- Following the presentations Aegon were selected as the preferred Master Trust and a project commenced in May 2021 to transfer the ECashBuilder benefits to the Aegon Master Trust.

The transfer to the Aegon Master Trust took place on 28 September 2021.

In addition to the strategy review above, the Trustee also reviewed the performance of the default arrangement quarterly and concluded that it was performing broadly as expected and in accordance with the aims and objectives of the default arrangement as stated in the SIP.

Prior to the transfer to the Aegon Master Trust:

- EFundBuilder, which is in the default arrangement when members are 10 or more years from retirement, outperformed its benchmark over 1, 3 and 5 years
- EFlexibleIncomePot, which is used in the default arrangement as members approach retirement, underperformed its benchmark over the same periods. In August 2020 the benchmark was reduced from CPI+2% to a cash benchmark +2%.

## **2 Requirements for processing core financial transactions**

The Trustee received assurance from the ECashBuilder administrator (Scottish Widows) and took steps to ensure that there were adequate internal controls so that the core financial transactions relating to ECashBuilder were processed promptly and accurately during the Scheme year. This included the processing of transfers in and out of ECashBuilder, transfers of assets between different investments within ECashBuilder, and payments to members and beneficiaries.

For the period 1 January – 25 November 2021 the Scheme had a service level agreement (SLA) in place with Scottish Widows which covered the accuracy and timeliness of all core financial transactions. These are split into granular detail with each step being assigned a target under the SLA. The key processes adopted by the administrator to help it meet the SLA targets included:

- Production of quarterly reports which include reporting on performance against SLAs, and which were reviewed by Zurich's UK Pensions and Benefits team and the Trustee. Any queries were raised with Scottish Widows for further information.
- As a result of the Covid-19 pandemic and the resulting move to home working in March 2020, Scottish Widows had to implement its Business Continuity Plan which was shown to be effective.
- Following the move to home working, Scottish Widows introduced some procedural changes to the bereavement claims process to help the member experience and recognise some of the challenges of remote working. These were agreed with the Trustee before being implemented.

The Trustee received quarterly reports about the administrator's performance and compliance with the SLA. Based on this information provided by the administrator the Trustee is satisfied that over the period 1 January – 25 November 2021:

- The administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA.
- 88% of the core financial transactions were processed within the SLA. This represents 3 transactions not being completed within the SLA, out of a total of 25 transactions.
- There was 1 error in processing core financial transactions, where a transfer-in was incorrectly accepted and invested. Scottish Widows resolved this before the transfer to the Aegon Master Trust took place.

The Trustee monitored the processing of core financial transactions as follows:

- Specific SLAs were in place with Scottish Widows relating to a number of processes, including the core financial transactions.
- Where core financial transactions were completed outside the SLA, Scottish Widows were asked to provide further information including by how much and why.
- No complaints were received from members in relation to the processing of core financial transactions during the year.
- The Trustee monitored the performance against SLAs for both ECashBuilder and the Scottish Widows team to ensure the ECashBuilder performance didn't fall below that provided by the team as a whole.

The bulk transfer to the Aegon Master Trust was also a core financial transaction but not part of the routine transactions referred to above. The ECashBuilder assets were disinvested on 28 September and paid across to Aegon on 12 October as agreed as part of the project. The Trustee had negotiated with Aegon that members would not be subject to any out of market risk, or subject to any transaction costs incurred during the bulk transfer.

In November a second payment was made to Aegon of approximately £56,000. This payment was made to correct an IT error which resulted in a failure to disinvest all the assets on 28 September 2021. Calculations were carried out to ensure that no members were disadvantaged by this error.

Based on the above the Trustee considers that overall the core financial transactions were processed promptly and accurately during the 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, eg administration and investment costs, since members incur these costs.

The Trustee is also required to separately disclose transaction costs that are borne by members. In the context of this statement the transaction costs shown are those incurred when ECashBuilder's fund managers buy and sell assets within investment funds. The charges and transaction costs for ECashBuilder have been supplied by Scottish Widows, who are ECashBuilder's administrator and for some funds, also the investment manager.

The charges and transaction costs shown cover the period 1 January – 31 December 2021 (however members were only invested in these funds until 28/29 September 2021). There is no missing transaction cost data.

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

Charges can have a significant impact on the total fund value over time so below we show some projected fund values for some example members both before and after the charges.

*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%.*

#### **3.1 Default arrangement**

Over time the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has set out below illustrations of the impact of the

charges and transaction costs on different investment options for members whilst they were enrolled in ECashBuilder (ie prior to the transfer to the Aegon Master Trust). The illustrations have been prepared in accordance with the DWP's statutory guidance on 'Reporting costs, charges and other information; guidance for trustees and managers of occupational pension schemes' on the projection of an example member's pension savings.'

**Notes:**

As each member had a different amount of savings within ECashBuilder, and the amount of future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions 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 projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- Retirement is assumed to be at age 65.
- The starting pot size is assumed to be £10,000
- The assumptions used in this illustration follow the Financial Reporting Council's AS TM1 guidance. Inflation is assumed to be 2.5% each year.
- It is assumed that no further contributions are made.
- The values shown are estimates and are not guaranteed.
- For the default lifestyle strategy, shown below, the projected growth rate varies over time as the funds invested in it change.
- The charges assumed for each fund are those shown in this statement.

This table shows the average projected growth rates for the default lifestyle strategy for a sample of terms to retirement. Lifestyle approaches aim to provide a balance of growth opportunities in the early years and a degree of de-risking as a member approaches retirement. The actual return will depend on the funds chosen for each stage and the actual timing of any changes. When comparing possible returns from different funds, it is noted that higher risk funds will provide higher illustrative returns.

Years to retirement	Projected Growth Rate (average)
1	1.00% below inflation
3	1.00% below inflation
5	0.90% below inflation
10	0.40% below inflation
15	0.10% above inflation
20	0.30% above inflation
25	0.50% above inflation
30	0.60% above inflation
35	0.60% above inflation

This table shows the development of the projected pot size over time for a sample of ages assuming the pension pot is invested in the Default lifestyle arrangement.

Years	Age now 60		Age now 55		Age now 45		Age now 35		Age now 22	
	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted
1	£9,920	£9,850	£10,000	£10,000	£10,100	£10,000	£10,100	£10,000	£10,100	£10,000
3	£9,740	£9,520	£10,100	£9,960	£10,300	£10,100	£10,300	£10,100	£10,300	£10,100
5	£9,560	£9,210	£10,100	£8,760	£10,500	£10,100	£10,500	£10,100	£10,500	£10,100
10			£9,680	£9,000	£11,100	£10,300	£11,100	£10,300	£11,100	£10,300
15					£11,200	£10,100	£11,700	£10,500	£11,700	£10,500
20					£10,800	£9,350	£12,400	£10,800	£12,400	£10,800
25							£12,600	£10,500	£13,100	£11,000
30							£12,000	£9,720	£13,800	£11,200
35									£14,500	£11,300

### 3.2 Level of costs and charges

In addition to the default arrangement, members also had the option to invest in two 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.

The table below sets out the annualised charges and transaction costs for the period 1 January – 31 December 2021. The member borne charges for the default arrangement complied with the charge cap.

Funds	Fund based charge (bps)	Fund manager charge (bps)	Total member charges (bps)	Transaction cost (bps)
<b>EFundBuilder</b>	26.0	29.1	55.1	12.1
<b>EFlexibleIncomePot</b>	33.0	35.0	68.0	5.9
<b>EPensionPurchasePot</b>	33.0	9.1	42.1	0.0
<b>ERetirementLumpSum</b>	22.0	23.8	45.8	1.1
Aquila UK Equity Index	34.0	7.8	41.8	0.0
Aquila World ex-UK Index	33.0	8.5	41.5	0.0
LGIM Ethical Global Equity Index	36.0	25.0	61.0	0.0
Threadneedle Global Equity	41.0	38.0	79.0	41.1
Aquila Index-Linked Over 5 Year Gilt Index	34.0	7.9	41.9	0.0
Threadneedle UK Corporate Bond	29.0	33.5	62.5	9.6
Zurich Deposit and Treasury	22.0	18.8	40.8	1.1
Zurich Property	20.0	60.1	80.1	0.0
Zurich Managed Fund	11.0	41.6	52.6	0.2
Zurich Mixed Investments Fund	36.0	36.9	72.9	10.5
HSBC Islamic (Shariah)	33.0	35.0	68.0	2.8

The age profile of ECashBuilder members means that the majority of funds were invested in EFundBuilder, which is the growth phase of the default arrangement, with a charge of 55.1bps.

The maximum charge that would have been levied on the members in the default arrangement was 68bps which applied to those who were invested 100% in EFlexibleIncomePot.

### 3.3 Self-select options: effect of costs and charges on members' pots

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 also apply to these illustrations.

The illustrations shown below are for a representative selection of the funds members may invest in. They were selected to reflect the range of projected returns and charges for the available funds. The funds are chosen as follows:

- Lowest charges
- Highest net return
- Lowest return
- Highest charges

This table shows the projected growth rates for each fund for which an illustration is provided:

	<b>Fund</b>	<b>Projected Growth Rate</b>
1	ERetirementLumpSum	1.0% below inflation
2	SW Aquila World ex-UK Equity Index CS1	1.9% above inflation
3	SW Aquila IL Over 5 Year Gilt Index CS1	2.0% below inflation
4	SW Property CS1	1.4% above inflation

This table shows the development of the projected pot size over a 35 year period assuming the pension pot is invested fully in the fund listed.

Years	ERetirementLumpSum		SW Aquila World ex-UK Equity Index CS1		SW Aquila IL Over 5 Year Gilt Index CS1		SW Property CS1	
	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted
1	£9,900	£9,860	£10,100	£10,100	£9,800	£9,760	£10,100	£10,000
3	£9,710	£9,590	£10,500	£10,400	£9,420	£9,300	£10,400	£10,100
5	£9,530	£9,330	£11,000	£10,700	£9,060	£8,870	£10,700	£10,300
10	£9,080	£8,710	£12,100	£11,600	£8,210	£7,860	£11,500	£10,600
15	£8,650	£8,140	£13,300	£12,500	£7,440	£6,980	£12,400	£10,900
20	£8,250	£7,600	£14,700	£13,500	£6,740	£6,190	£13,300	£11,300
25	£7,860	£7,090	£16,200	£14,600	£6,110	£5,490	£14,300	£11,600
30	£7,490	£6,620	£17,800	£15,700	£5,530	£4,870	£15,400	£12,000
35	£7,140	£6,180	£19,600	£17,000	£5,010	£4,320	£16,600	£12,400

## 4 Investment returns

The investment return for the default arrangements and self-select funds, after deduction of charges and transaction costs is shown in the table below. This shows the investment return over the period 1 January – 28 September 2021 when the transfer to the Aegon Master Trust commenced.

Annualised net return over	1 year	3 years	5 years
	%	%	%
<b>Default funds</b>			
<b>EFundBuilder</b>	<b>1.7</b>	<b>7.7</b>	<b>8.5</b>
Benchmark	1.6	6.0	7.4
<b>EPensionPurchasePot</b>	<b>-1.0</b>	<b>7.7</b>	<b>3.5</b>
Benchmark	-1.0	7.5	3.4
<b>ERetirementLumpSum</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>
Benchmark	0.0	0.2	0.2
<b>EFlexibleIncomePot</b>	<b>0.2</b>	<b>2.3</b>	<b>1.9</b>
Benchmark	1.5	3.8	4.2
<b>Self select funds</b>			
<b>Aquila Index Linked Over 5 Year Gilts</b>	<b>2.7</b>	<b>7.0</b>	<b>2.9</b>
Benchmark	2.3	6.6	3.3
<b>Aquila UK Equity Index</b>	<b>0.9</b>	<b>2.7</b>	<b>5.1</b>

Annualised net return over	1 year	3 years	5 years
	%	%	%
<i>Benchmark</i>	2.1	2.8	5.1
<b>Aquila World ex-UK Index</b>	<b>3.4</b>	<b>13.3</b>	<b>14.2</b>
<i>Benchmark</i>	2.3	13.5	14.4
<b>Global Equity</b>	<b>1.1</b>	<b>10.9</b>	<b>10.6</b>
<i>Benchmark</i>	1.3	7.2	7.5
<b>Managed</b>	<b>1.1</b>	<b>10.9</b>	<b>10.6</b>
<i>Benchmark</i>	1.3	6.3	6.4
<b>Property</b>	<b>3.1</b>	<b>6.7</b>	<b>7.1</b>
<i>Benchmark</i>	3.1	0.5	3.3
<b>UK Corp Bond</b>	<b>-0.6</b>	<b>5.1</b>	<b>3.6</b>
<i>Benchmark</i>	-1.0	4.4	2.6
<b>Endsleigh HSBC Islamic</b>	<b>3.7</b>	<b>18.9</b>	<b>17.6</b>
<i>Benchmark</i>	2.9	18.1	17.1
<b>LGIM Ethical Global Equity Index</b>	<b>3.8</b>	<b>13.3</b>	<b>14.0</b>
<i>Benchmark</i>	3.8	13.3	14.3
<b>Mixed Investments</b>	<b>-1.4</b>	<b>4.2</b>	<b>4.7</b>
<i>Benchmark</i>	2.0	5.8	6.2
<b>Deposit and Treasury</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>Benchmark</i>	0.0	0.2	0.2

Source: Scottish Widows Ltd

When preparing these returns the Trustee has taken account of the relevant statutory guidance.

## 5 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 ECashBuilder membership as a whole, when compared to other options available in the market.

The Trustee reviewed all member-borne charges (including transaction costs where available) over the scheme year with the aim of ensuring that members were obtaining value for money given the circumstances of the Scheme. The last review was carried out for the period commencing 1 January 2021 until the completion of the transfer to the Aegon Master Trust and noted that the Trustee had transferred ECashBuilder to the Aegon Master Trust as it believed this would provide better value for members than was available within the Scheme.

The 2021 assessment was undertaken taking account of the Pension Regulator's Code of Practice No 13 (Governance and administration of occupational trust-based schemes providing money purchase benefits) and:

- documented the scope of services provided by ECashBuilder in the four core areas of scheme governance and management, investment, administration and communications;
- identified whether the cost of the service is met all or in part by the member;
- identified the charges and transaction costs associated with those services;
- assessed the costs for comparable services in the market;
- assessed whether the benefits provided by the Scheme's services are suitable for, relevant to and valued by members;
- assessed whether the services to members performed effectively over the Scheme year;



- assessed whether the scope and quality of the services provide good value for the relevant costs and charges incurred by members;
- used judgment to determine the extent to which ECashBuilder members receive good value.

The Trustee assessment included a review of the performance of the ECashBuilder investment funds after all charges in the context of the investment objectives. The returns on the investment funds members can choose during the period covered by this statement have been consistent with the stated investment objectives in particular:

- EFundBuilder, where most members are invested, has outperformed its benchmark and met its objective to provide long term growth through dynamic exposure to a range of diversified assets.
- All other funds have performed at or near the benchmark over the year, with the exception of the ZFlexibleIncomePot which has underperformed over the year and the last 3 years. The fund offers some protection against market falls and to achieve this, invests heavily in defensive assets, (ie government bonds).

As demonstrated 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 this is expected to lead to greater investment returns net of fees over time.

Overall, the Trustee concluded that the members of ECashBuilder received fair value for money for the charges and costs they incurred, in particular:

- ECashBuilder members benefitted from good governance with a strong trustee board and the support of a professional in-house pensions team. This has been enhanced with the appointment of a specialist DC Manager.
- There is a comprehensive risk management framework in place and effective monitoring of the administration service and investment performance.
- Members benefit from an effective administration service, with no complaints. Performance against service levels for time critical processes (core financial transactions) was good, although below the 95% agreed SLA.
- Member communication channels are considered effective and the pension freedoms offering is comparable to that offered by other schemes in the market. There is a good website with modeling tools and substantial information for members including key documents, education on pensions and retirement options and investment options.
- Value is added through the provision of newsletters and newsflashes.
- The transfer to the Aegon Master Trust took place because the Trustee considered it would provide better value for members than could be offered within the Scheme. During this project:
  - The Trustee took advice from its investment adviser and legal adviser to ensure good governance of the project.
  - The project was led by the DC Manager on behalf of the Trustee and all parties involved in the project had experience of similar transitions.
  - Members were not subject to any out-of-market risk or transaction costs as a result of the move.
  - Members received communications both before and after the transition and the DC Manager reviewed the Aegon welcome communications.

The assessment of fair value is the same as the 2020 assessment as the key reasons for the assessment were the delayed investment review and the high charges. These did not change for the period being assessed, although the transfer to the master trust was the outcome of the Trustee's discussions around both of these.

## **6 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 must:

- be conversant with the trust deed and rules of the Scheme, the Scheme's current SIP 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, knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of occupational pension schemes and the investment of the assets of such schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and 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<sup>3</sup> log with a minimum requirement of completing 15 hours per year. All carry out a self-assessment of training needs, usually annually, following which individual discussions with the Chair and the Head of UK Pensions and Benefits take place to identify any additional training needs.
- The Trustee, with the help of its advisers and Zurich's UK Pensions and Benefits team, regularly consider training requirements to identify knowledge gaps, and use in-house expertise and advisers as well as external training programmes and seminars to meet identified training needs.
- During the period covered by this statement, the Trustee received training on the following topics:
  - Long term journey planning (3 March 2021)
  - Selecting a master trust (3 March 2021)
  - Assessing a master trust (23 March 2021)
  - Cyber security (30 September 2021)
- The training programme is reviewed regularly by the Trustee and Zurich's UK Pensions and Benefits team 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.
- All the Trustee directors are familiar with, and have access to copies of, the current Scheme governing documentation, including the Trust Deed and Rules, together with any amendments, and the SIP. In particular, the Trustee refers to the Trust Deed and Rules and trust and pensions law as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.
- An induction process is in place for new Trustee directors, although none were appointed during the year ending 31 December 2021.
- The Trustee board includes an accredited professional trustee firm that has supported the Scheme for some time and is conversant with the Scheme specifics and documentation, as well as bringing general pension knowledge and experience. 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.
- All the Trustee directors successfully completed The Pension Regulator's Trustee Toolkit within the required time after appointment.
- The Trustee advisers attend meetings as required. Zurich's UK Pensions and Benefits team attend all meetings and provide technical and governance support and Scheme secretarial services.
- 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 directors to have quick access to the most up to date information relating to the Scheme.

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.

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<sup>3</sup> Continuing Professional Development

## 7 Governance

To assist the Trustee in meeting its governance requirements:

- The Trustee has 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 meets all the legal requirements and the expectations set out in the Code and associated Guides with the exception of the following expectations:
  - Five expectations were assessed as Not Applicable:
    - 2 expectations relating to information from the employer which is not relevant following the closure of ECashBuilder to new contributions in 2018.
    - 1 expectation relating to the Trustee seeking professional advice in the situation where it is not clear whether an arrangement is a default arrangement.
    - 1 expectation around steps the Trustee should take if it is unlikely to comply with the charge cap.
    - 1 expectation around ensuring members are informed that the level of contributions is a key factor in determining the overall size of their pension fund.
  - Two expectations are not met:
    - 1 expectation related to assessing the effectiveness of investment decision making. This was due to having been considered as part of the investment review that commenced in September 2020 but that resulted in the move to the Aegon Master Trust.
    - 1 expectation related to obtaining member feedback. This was assessed as partially met as member focus groups had been held early in 2019. It was noted that following the closure of the scheme the opportunities for obtaining direct member feedback was limited.
- A Trustee Governance Handbook has been produced which documents how the Trustee governs the Scheme and provides a framework to signpost all the Trustee's policies and key documentation.

Every three years the Trustee undertakes a Board Effectiveness Review (BER) to identify areas where the board as a whole requires improvement. Trustee directors, senior members of Zurich's UK Pensions and Benefits team and external advisers take part in the BER to provide feedback and opinions. The last BER was conducted in 2021.

## 8 Conclusion

Taking account of all the above, the Trustee believe that ECashBuilder provided fair value for members prior to the transfer to the Aegon Master Trust and is expected to deliver improved value for members following the transfer. This statement was approved by the Trustee on 28 July 2022 and signed on their behalf by:



Clive Gilchrist

**Representing BESTrustees as Chair of Endsleigh Pension Trustee Limited, as Trustee of the Endsleigh Insurance Services Limited Pension and Assurance Scheme.**

# ENDSLEIGH INSURANCE SERVICES LTD PENSION & ASSURANCE SCHEME

## STATEMENT OF INVESTMENT PRINCIPLES

MADE AS AT 28 SEPTEMBER 2020

### 1. Introduction

- 1.1. This statement is made by Endsleigh Pension Trustee Limited (“the Trustee”) the sole trustee of the Endsleigh Insurance Services Ltd Pension & Assurance Scheme (“the Scheme”) for the purposes of and in accordance with section 35 of the Pensions Act 1995 as amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Plans (Investment) Regulations 2005 (S.I. 2005/3378), the Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (“the Investment Regulations”). The statement is intended to describe the general approach of the Trustee to investment matters as they impact on the Scheme.
- 1.2. The Scheme’s assets are held in trust by the Trustee, whose investment powers are set out in the Scheme’s governing Trust Deed. The content of this statement does not conflict with those powers.
- 1.3. This Statement has been prepared in accordance with all relevant legislative 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 Scheme’s assets and the Trustee’s policy for complying with Sections 35 and 36 of the Pensions Act 1995 and subsequent legislation.
- 1.4. The Scheme has two sections, a Defined Benefit Section (EPensionBuilder) and a Defined Contribution Section (ECashBuilder)
- 1.5. This Statement will be reviewed by the Trustee at least every three years, and may require amendment as general investment conditions alter and as the liabilities of the Defined Benefit Section, or the membership profile of the Defined Contribution Section change over time. Changes should only be made after due and proper consideration of the circumstances.
- 1.6. Before making or revising this statement the Trustee will obtain and consider the written advice from Barnett Waddingham LLP who is the Trustee’s appointed Investment Adviser (“the Adviser”) to ensure its contents are appropriate to the circumstances of the Scheme. The Trustee also consults EFS Financial Services 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.

### 2. EPensionBuilder

#### 2.1. Investment Objectives

- 2.1.1. The Trustee considers the following to constitute its overall objectives of EPensionBuilder:
  - a) to invest in assets of appropriate quality and liquidity which will generate income and capital growth to meet, together with new contributions from the Employer, the cost of current and future benefits which the Scheme provides, as set out in the Trust Deed and Rules and
  - b) over the long term to equal or exceed the real, i.e. after adjusting for the effects of inflation, investment return assumed in the actuarial valuation of the liabilities of the Scheme from time to time and
  - c) any other objective that the Trustee may, from time to time, consider appropriate.

#### 2.2. Choosing investments

- 2.2.1. The Trustee takes the overall strategic investment decisions, recognising that implementing an investment strategy requires specialist knowledge and understanding.
- 2.2.2. The Trustee appoints a Fund Manager (or more than one) to carry out all the day-to-day functions relating to the management of the fund and its administration.
- 2.2.3. The Trustee is closely involved in the wider issues relating to overall investment strategy, but is not involved in day to day decisions. In light of the size of the Scheme and the number

of Trustee directors, it is not considered appropriate to set up an investment sub-committee.

- 2.2.4. In particular, the selection of particular investments is left to the Fund Managers.
- 2.2.5. The selection of investments also reflects the Trustee's view, having consulted the Adviser and the Scheme Actuary, as to the suitability of a particular kind of investment in any given category to the nature of the Scheme's liabilities.
- 2.2.6. The Trustee reviews their investment strategy on a triennial basis (or more frequently if significant events take place). When doing so, the Trustee seeks and considers advice of the nature described above.
- 2.2.7. The Fund Managers appointed by the Trustee are given a copy of this statement and informed that the Trustee expects the principles contained in this document to be reflected in the Fund Manager(s)'s actions, in so far as reasonably practicable.
- 2.2.8. The Trustee has appointed Legal & General Assurance (Pensions Management) Limited (the "Manager") to administer on their behalf the non-LDI assets of the Scheme. The investment comprises units in pooled managed funds and the Trustee's contract with the Manager is evidenced by a policy of assurance. The Manager has delegated all duties relating to the day-to-day investment management of the portfolio of securities and cash underlying these units to Legal & General Investment Management Limited ("LGIM").
- 2.2.9. Both these companies are wholly-owned subsidiaries of Legal & General Group PLC. The Manager is monitored by the Insurance Division of the Treasury. LGIM is regulated by the Financial Conduct Authority.
- 2.2.10. The Trustee has appointed Insight Investment Management (Global) Limited (the "LDI Manager") to manage the liability driven investment (LDI) strategy of the Scheme. The investment comprises units in a pooled fund.
- 2.2.11. Collectively, and for the purposes of this document, the Manager and LDI Manager are referred to as "Fund Managers".
- 2.2.12. The Adviser advises on the suitability of certain investments having regard to the nature of the Scheme's liabilities. The Trustee from time-to-time also receives advice from other appropriately qualified experts as to the suitability of investments. The Trustee is advised by the Adviser that such advice is not necessary when straightforward, day to day decisions on particular investments of a kind and amount already agreed as being within certain fixed parameters (for example, selling one share and buying another) are made by the Fund Managers. However, where issues of a more substantial nature arise (for example, the proportion of the fund to be held in a currency other than sterling) then such advice is sought and confirmed in writing. The Trustee considers such advice before making their decisions.
- 2.2.13. The remuneration of the Fund Managers is calculated as a percentage of the fund value unless agreed to the contrary, the Adviser is remunerated based on the value of time actually spent on investment-related work.

### **2.3. The kinds of investment to be held**

- 2.3.1. Subject to the requirements of the Scheme's documentation and legislation generally, the Trustee is not restricted in the kind of investment it can make. This freedom extends, in particular (but not exclusively) to investments of the following kinds:-
  - (a) an annuity contract or assurance policy (whether with profits or not) issued by a United Kingdom office or branch of an Insurance Company;
  - (b) a scheme of deposit administration;
  - (c) a unit trust, managed fund or mutual fund;
  - (d) a deposit with a local authority, bank, building society, finance company or other financial institution.
  - (e) an LDI Fund (which includes swaps, gilt repurchase arrangements and other derivative contracts)

- 2.3.2. This list (which is not intended to be exhaustive) includes investments in currencies other than sterling.
- 2.3.3. The Trustee may impose restrictions on the proportions held in various kinds of investments. Details of any such restrictions are made known in writing to each Fund Manager and are contained in the relevant investment guidelines.

#### 2.4. The balance between different kinds of investment

- 2.4.1. The Trustee recognises that the return received from different kinds of investment is achieved in different ways (for example, a high income but little opportunity for capital growth as opposed to a low income but substantial opportunity for capital growth).
- 2.4.2. The Trustee also recognises that the liabilities of the Scheme are of different kinds (for example, current pensioners require an immediate income whereas current employees require no immediate pension income but will do so in future).
- 2.4.3. The Trustee seeks to balance the investments held against the current and future needs of the Scheme.
- 2.4.4. The Trustee will review the balance of investments periodically to ensure it continues to be appropriate for the Scheme's objectives.

#### 2.5. Risk

- 2.5.1. The funding risk within a DB Scheme sits with the Employer.
- 2.5.2. Using an integrated risk management (IRM) approach, in consultation with the Employer, the Trustee takes an overall approach to managing this risk. The IRM approach considers how covenant, funding and investment risk are all linked and inter-dependent
- 2.5.3. The Trustee has considered all of the risks it is exposed to and ways of measuring and managing risks when designing the investment strategy.
- 2.5.4. In terms of the investment strategy the Trustee views risk as the probability that its chosen strategy would result in the objectives not being met. The strategy is designed to maximise the probability of meeting the objectives whilst aiming to control those factors which may result in the objective not being met.
- 2.5.5. In arriving at the investment strategy, the Trustee therefore considers the following risks:

Risk	Definition	How we address the risk
<b>Changing demographics risk</b>	The uncertainty in the actual future benefits to be paid to members, for example related to member life expectancy or the way in which members take their benefits	<ul style="list-style-type: none"> <li>The demographic assumptions are kept under review, this is formally considered during the valuation process every 3 years.</li> </ul>
<b>Climate risk</b>	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	<ul style="list-style-type: none"> <li>Engagement with the Adviser and Fund Managers to understand the potential implications for the Scheme's assets.</li> </ul>
<b>Concentration risk</b>	The failure of some of the investments that constitute a significant proportion of the assets	<ul style="list-style-type: none"> <li>The Fund Managers invest in a range of different asset classes and in different securities in each class.</li> <li>The Trustee and its advisers monitor the Fund Manager's activity to ensure that it remains appropriate.</li> </ul>
<b>Covenant risk</b>	The employer is no longer able to support the Scheme.	<ul style="list-style-type: none"> <li>The Trustee receives regular updates from the Employer</li> <li>An external covenant review takes place as part of the triennial valuation</li> <li>Investment strategy and funding proposals consider the strength of the covenant.</li> </ul>

<b>Credit risk</b>	That one party to a financial instrument will cause financial loss for the other party by defaulting or falling in value.	<ul style="list-style-type: none"> <li>• Diversification of the Scheme's assets</li> </ul>
<b>Currency risk</b>	The currency of the Scheme's assets underperforms relative to Sterling leading to losses (or gains) in the value of the asset.	<ul style="list-style-type: none"> <li>• Currency risk is monitored on a regular basis</li> <li>• If there is ever a requirement to reduce currency risk, the Scheme would collaborate with the Fund Managers.</li> </ul>
<b>Custodian risk</b>	Actions by or insolvency of the custodian could prejudice the ability of the Scheme to meet its liabilities	<ul style="list-style-type: none"> <li>• The Trustee has delegated all duties relating to the day to day investment management of the portfolio including oversight of custody to the Fund Managers.</li> </ul>
<b>ESG (Environmental, social and governance) risk</b>	The need to consider environmental, social and governance factors (including, but not limited to, climate change) which the Trustee considers to be financially material, over the timescale relevant to the funding of Scheme benefits, for which those assets are held	<ul style="list-style-type: none"> <li>• Due to the passive nature of the investments in Funds, the Trustee is not able to influence ESG considerations taken at Fund level</li> <li>• The Trustee monitors the ESG activities of its Fund Managers and will engage periodically</li> <li>• Each Fund Manager is expected to undertake good stewardship and positive engagement in relation to the assets held.</li> <li>• The Trustee monitors these and will report on the managers' practices in their annual Implementation Statement.</li> </ul>
<b>Equity risk</b>	The risk that equities may fall in value due to fluctuations in the market	<ul style="list-style-type: none"> <li>• The Trustee has set a strategic asset allocation benchmark, the risk/return of each asset class within the benchmark is reviewed periodically.</li> <li>• Assessment of the risk relative to liabilities by monitoring the actual return from the assets against the liabilities.</li> </ul>
<b>Financial mismatch risk</b>	Scheme assets fail to grow in line with the developing cost of meeting the liabilities	<ul style="list-style-type: none"> <li>• The Trustee has set a strategic asset allocation benchmark, the risk/return of each asset class within the benchmark is reviewed periodically.</li> <li>• Assessment of the risk relative to liabilities by monitoring the actual return from the assets against the liabilities.</li> </ul>
<b>Fund Manager risk</b>	A Fund Manager underperforms against the benchmark which they are being assessed against in the long term or fails to comply with the Investment Management Agreement.	<ul style="list-style-type: none"> <li>• Performance of the Fund Managers is monitored on a regular basis</li> <li>• Regular meetings are held with the Fund Managers</li> <li>• Compliance with the regulatory requirements is monitored on a regular basis</li> <li>• The Trustee has adopted a passive investment style for the majority of the Scheme's assets that minimises the risk from underperformance by the Fund Managers. This approach also significantly reduces the costs of investment management.</li> </ul>
<b>Inflation risk</b>	An increase in inflation would mean the real investment return could be reduced and fail to keep pace with the Scheme's requirement to pay inflation linked benefits	<ul style="list-style-type: none"> <li>• The Trustee invests in liability driven investment (LDI) Funds that seeks to manage interest rate and inflation liability risks</li> </ul>
<b>Interest rate risk</b>	A fall in interest rates causes the present value of liabilities to rise	<ul style="list-style-type: none"> <li>• The Trustee invests in LDI Funds that seeks to manage interest rate and inflation liability risks</li> </ul>
<b>Liquidity risk</b>	The need to have sufficient liquidity to cover benefits or other financial obligations in the short-term	<ul style="list-style-type: none"> <li>• The Trustee has defined a clear process with its LDI Fund Manager to manage potential liquidity requirements from the LDI Fund</li> </ul>

<b>Operational risk</b>	The loss or error arising from the failure of people, processes and systems, or disruption due to an external event	<ul style="list-style-type: none"> <li>• Appropriate processes and controls are integrated into business activities</li> <li>• Key controls include segregation of duties, supervisory controls and managerial oversight and review.</li> <li>• Business continuity plans are in place</li> </ul>
<b>Political risk</b>	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	<ul style="list-style-type: none"> <li>• Diversification of the Scheme's assets</li> <li>• The Trustee assesses political risk relative to the investment strategy.</li> </ul>
<b>Systemic risk</b>	The possibility of an interlinked and simultaneous failure of several asset classes and/or Fund Managers, possibly compounded by financial contagion, resulting in an increase in the cost of meeting the liabilities	<ul style="list-style-type: none"> <li>• Diversification of the Scheme's assets.</li> <li>• The Trustee acknowledges it is not possible to address all possible scenarios presented within this risk category.</li> </ul>
Any other risk as the Trustee deems appropriate with relevant input from the Adviser and other parties.		

## 2.6. The expected return from investments

- 2.6.1. When selecting investments of different kinds the Trustee will have regard to the relative investment return that each category is expected to produce. In this context, the Trustee receives information from both the Adviser, and the Fund Managers and, from time to time, other appropriately qualified experts.
- 2.6.2. The Trustee recognises the need when making these comparisons to distinguish between nominal and real returns and to make appropriate allowance for inflation.
- 2.6.3. Having established the investment policy that the Fund Managers are expected to follow, the Trustee monitors the performance of both. A consistent failure to achieve adequate performance could result in the Manager or the LDI Manager being replaced.

## 2.7. The realisation of investments

- 2.7.1. The Trustee will consider the liquidity of a kind of investment before deciding to make an investment of that kind. In particular, they will consider liquidity in the context of the Scheme's likely need for cash in the short and longer term, the income generated from an investment of that kind and the prospects for liquidity at a future date.
- 2.7.2. Ultimately, the investments will all have to be sold when the Scheme's life comes to an end. The Trustee is advised by the Scheme Actuary as to the solvency of the Scheme should all the assets be sold immediately. In this situation, the Trustee is aware of the fact that the realisable value of some investments, were there to be a forced sale, might be lower than the market value as shown in the accounts.

## 2.8. Responsible investments

- 2.8.1. The Trustee accepts its fiduciary duties as a long term investor and believes that incorporating ESG factors into investment decisions improves long term risk adjusted returns over the remaining expected lifetime of the Scheme. The Trustee further recognises that ESG factors may, however, be outweighed in appropriate circumstances by other financially material factors.
- 2.8.2. **Selecting Fund Managers**  
The Trustee always aims to appoint the most suitable Fund Manager for each investment mandate. The selection process includes the Fund Manager's responsible investment practices and consideration of ESG factors.
- 2.8.3. **Financially material considerations**



The Trustee considers ESG factors at various steps in its investment process. The Trustee recognises that the choice of benchmark dictates the assets held by the Fund Managers and that the Fund Managers have minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believe the choice of benchmarks will deliver appropriate risk adjusted returns. The Trustee will review the index benchmarks employed for the Scheme on a periodic basis.

The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on factors they believe not to be financially material. The Trustee therefore expects that the Fund Managers will ultimately act in the best interests of the Scheme's assets to maximise returns for a given level of risk

#### 2.8.4. Stewardship

Where applicable, Fund Managers report on voting activity to the Trustee on at least an annual basis. The Trustee will monitor Fund Managers' voting activity and may periodically review Fund Managers' voting patterns. The Trustee will be reliant on the information presented by the Fund Managers regarding votes cast and identification of voting patterns.

The Trustee aims to meet with all their Fund Managers periodically. Fund Managers are challenged on the impact of any significant issues including, where appropriate, ESG factors and voting policies.

#### 2.8.5. Engagement

The Fund Managers' house policies are expected to broadly meet with the Trustee's views, if expectations are not met the Trustee will engage with the Fund Manager.

The Trustee believes it is appropriate for its Fund Managers to engage with key stakeholders which may include corporate management of issuers of debt or equity, regulators and governance bodies, relating to their investments for the Scheme in order to improve corporate behaviours (including the management of actual or potential conflicts of interest), improve performance and strategy and mitigate financial risks (including ESG factors).

The Trustee will review engagement activity undertaken by their Fund Managers as part of its broader monitoring activity periodically. The Trustee believes that such engagement incentivises the Fund Managers to preserve and enhance long term shareholder value of its investments.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each Fund Manager has an appropriate conflicts of interest policy in place. Fund Managers are required to disclose any potential or actual conflict of interest in writing to the Trustee.

#### 2.8.6. Non-financial matters

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting their strategic benchmark.

The Trustee does not have a formal policy of soliciting member or beneficiary views on non-financial matters in their investment decision making but will periodically review its position.

### **2.9. Performance Measurement**

2.9.1. The Trustee has agreed, based on advice from the Adviser and the other appropriately qualified experts, the benchmark against which the performance of each of the Fund Manager is measured.

2.9.2. The Trustee regularly monitors actual performance against the benchmarks set. The Trustee would not expect to replace a Fund Manager based on short term underperformance as the focus is on longer term outcomes; this aligns with the Trustee's beliefs on corporate governance.

- 2.9.3. An agreement with a Fund Manager could cease within a short time frame due to other factors such as a significant change in business structure or the investment team.
- 2.9.4. The Trustee will review on a regular basis the investment performance of the Scheme's assets together with the continuing suitability of the Fund Managers.

## **2.10. Fund Managers**

### 2.10.1. Turnover

In the normal course of events the Fund Managers will sell investments from time to time to be replaced by others. The Trustee monitors the turnover and the transaction costs that are generated to ensure it is not excessive. The Fund Managers are aware that the expenses involved in transactions can affect performance and that excessive transactions may give rise to an income tax liability if it were to be regarded as trading by HM Revenue & Customs.

There are no specific targets set by the Trustee on transaction costs, the Trustee will monitor that the level of transaction costs are relative to the Fund Managers' strategy and adhere to the Scheme's investment strategy.

### 2.10.2. Duration

The agreements between the Trustee and its Fund Managers will continue through until the Scheme's life comes to an end, or until the lifespan of the investment ceases. The Trustee or the Fund Manager may take measures to end the agreement, subject to any relevant notice periods.

### 2.10.3. Incentives

The Fund Managers are paid for their services based on the value or exposure of the assets they manage for the Trustee.

The Trustee is satisfied that the Fund Managers are remunerated in such a way that they are incentivised to act accordance with the Trustee's policies and in the best interest of the Scheme and its beneficiaries.

### 3. ECashBuilder

The section contains:

- 3.1. Statement of the aims and objectives for the default investment arrangements
- 3.2. Statement of the aims and objectives for investment options outside the default arrangements and
- 3.3. Statement of investment beliefs, risks and policies

Sections 3.1. and 3.3. comprise the Statement of Investment Principles for the Scheme's default arrangements.

#### 3.1. Statement of the aims and objectives for the default investment arrangements

- 3.1.1. The Trustee offers the following default strategies:
  - for DC only members, a strategy which targets drawdown at retirement;
  - for members with both DB and DC benefits, a strategy which targets cash at retirement;
- 3.1.2. The Trustee has agreed the following investment objectives for the Scheme's default arrangements where members' have not instructed their contributions to be invested elsewhere:
  - to provide good value default option(s) which:
  - are appropriate for the majority of members
  - protect members against volatility in the approach to retirement.
- 3.1.3. The Trustee believes that the 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.
- 3.1.4. 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
  - Target members who are expected to use Flexible Access Income Drawdown during their retirement (DC only strategy) and members who are expected to take cash at retirement (DB+DC strategy)
- 3.1.5. 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 investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 3.3.
- 3.1.6. The kinds of investments to be held.
  - 3.1.6.1. 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.
  - 3.1.6.2. The structure of the funds used in the lifestyle strategies allows the Trustee to accommodate changes in the underlying funds with minimum disruption.
- 3.1.7. Balance between different kinds of investments

The Trustee recognises that 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.

#### 3.2. Statement of the aims and objectives for investment options outside the default investment arrangements

- 3.2.1. The Trustee has agreed the following investment objectives for ECashBuilder:
  - a) To provide a range of funds and lifestyle strategies with the aim of helping members secure benefits in retirement
  - b) To ensure the investment strategy structure and design is based on the membership profile, where practical to do so

- c) To provide a range of lifestyle strategies which:
  - are designed to generate income and capital growth whilst members are some years from retirement with the aim of helping members secure benefits in retirement
  - in the period approaching retirement protect the capital value of investments as well as protecting members from volatility
  - are aligned to how members are able to take their benefits and consistent with the pension flexibilities enabled by the 'freedom and choice' regulations
- d) To provide a range of alternative investment options which:
  - recognises that members have different investment needs and preferences
  - enables members to invest in funds which provide real capital growth over the long term
  - is appropriate for members' attitude to risk and proximity to retirement as members' investment needs and risk appetite change
  - caters for the needs of certain groups within the memberships that have ethical or religious beliefs.
  - offers members a choice between active and passively managed funds

### 3.2.2. Choosing investments

3.2.2.1. The Trustee takes the overall strategic investment decisions, recognising that implementing an investment strategy requires specialist knowledge and understanding.

3.2.2.2. The Trustee from time to time also receives advice from other appropriately qualified experts as to the suitability of investments. The Trustee considers all advice before making its decisions.

3.2.2.3. The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings. So, while seeking good member outcomes, net of fees, it also considers the level of risk that is appropriate based on the expected needs of the members.

Taking account of this, the Trustee's policy is to offer the following options for members:

- a default strategy for members with DC benefits only in the Scheme
- a default strategy for those who have both DC and DB benefits in the Scheme
- a range of lifestyles targeting the options available at retirement
- a range of self-select investment funds designed to meet differing levels of risk

3.2.2.4. The Trustee is closely involved in the wider issues relating to the investment funds made available to members, but the Trustee is not responsible for selecting which funds a member should invest in from the range available.

3.2.2.5. The Trustee has taken advice from the Adviser to ensure the investments offered are suitable for the majority of members.

### 3.2.3. The balance between different kinds of investment

3.2.3.1. The Trustee recognises that 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 or high risk but substantial opportunity for capital growth).

3.2.3.2. The Trustee also recognises that individuals will have differing personal investment requirements and preferences and seeks to offer members a range of investment options to meet these requirements. This includes lifestyle strategies which take into account that members close to retirement will generally require more capital protection and assets best matched to their retirement outcome, whereas members a long way from retirement will generally need sufficient exposure to risks to generate investment returns.

3.2.3.3. The Trustee believes that the current default strategies and self-select range are suitable for the members with benefits in ECashBuilder. 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.

3.2.3.4. The Trustee considers the merits of both active and passive management for the investment options available and may select different approaches for different asset classes.

3.2.3.5. 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.

### 3.3. Statement of investment beliefs, risks and policies

3.3.1. 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 updates as and when appropriate.

#### 3.3.2. Risk

3.3.2.1. Investment risk in a DC Scheme ultimately sits with the members.

3.3.2.2. In terms of the ECashBuilder investment choices the Trustee views one of the key risks as the probability that its chosen funds would result in the objectives not being met i.e. that insufficient savings would be available to provide the expected income at retirement. The fund choices and lifestyle options are designed to maximise the probability of meeting the objectives whilst controlling those factors which may result in the objective not being met.

3.3.2.3. However, 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.

3.3.2.4. 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.

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

<b>Risk</b>	<b>Definition</b>	<b>How we address the risk</b>
<b>Climate risk</b>	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.	<ul style="list-style-type: none"> <li>Engagement with the Adviser, fund managers and investment platform provider to understand the potential implications for the DC assets.</li> </ul>
<b>Counterparty risk</b>	The failure of the investment platform provider.	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Concentration risk</b>	The failure of some of the investments that constitute a significant proportion of the assets.	<ul style="list-style-type: none"> <li>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.</li> </ul>

<b>Credit risk</b>	That one party to a financial instrument will cause financial loss for the other party by defaulting or falling in value.	<ul style="list-style-type: none"> <li>The Trustee uses pooled funds which invest in a wide range of corporate and government bonds to minimise the impact should anyone party default or fall in value.</li> </ul>
<b>Currency risk</b>	Where a fund invests in overseas assets, a risk that the currency of the assets underperforms relative to Sterling leading to losses (or gains) in the value of the asset.	<ul style="list-style-type: none"> <li>The Trustee has considered the need for currency hedging within the default investment strategies.</li> </ul>
<b>Equity risk</b>	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.	<ul style="list-style-type: none"> <li>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.</li> <li>All lifestyle strategies look to reduce downside risk in the years prior to retirement by switching into lower risk funds.</li> <li>A cash fund is available both in the lifestyle strategies and self-select fund range to provide capital protection.</li> </ul>
<b>ESG (Environmental, social and governance) risk</b>	The need to consider environment, social and governance factors (including, but not limited to, climate change) which the Trustee considers to be financially material over the period until DC members take their benefits.	<ul style="list-style-type: none"> <li>The Trustee has a policy on responsible investment that addresses how these risks are considered and managed.</li> <li>The Trustee monitors the ESG activities of its fund managers and will engage periodically.</li> </ul>
<b>Inflation risk</b>	That investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the member's retirement savings.	<ul style="list-style-type: none"> <li>The Trustee makes available investment options that are expected to provide a long-term real rate of return.</li> </ul>
<b>Interest rate risk</b>	The risk of a reduction in the value of a bond fund as a result of an increase in interest rates.	<ul style="list-style-type: none"> <li>The Trustee uses bond funds in combination with other asset classes to diversify risk. Members use the bond funds as lower risk investments and also if they are likely to purchase an annuity.</li> </ul>
<b>Liquidity risk</b>	The risk that a fund, or asset, cannot be traded quickly when required.	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Manager risk</b>	A fund underperforms against the benchmark that it is being assessed against in the long term.	<ul style="list-style-type: none"> <li>Fund performance is monitored on a regular basis.</li> <li>The Trustee has adopted a passive investment style for some of the funds which minimises the risk from underperformance.</li> </ul>
<b>Operational risk</b>	The loss or error arising from the failure of people, processes and systems, or disruption due to an external event.	<ul style="list-style-type: none"> <li>Appropriate processes and controls are integrated into business activities.</li> <li>The annual assessment against Code of Practice 13 includes confirmation that business continuity plans are in place and checked regularly.</li> </ul>
<b>Pension conversion risk</b>	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	<ul style="list-style-type: none"> <li>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.</li> </ul>

	particularly important following the introduction of DC flexibilities at retirement.	
<b>Political risk</b>	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.	<ul style="list-style-type: none"> <li>• Diversification of the assets within the default strategy</li> </ul>
<b>Real estate risk</b>	The risk that real estate may fall in value due to fluctuations in the market.	<ul style="list-style-type: none"> <li>• The Trustee uses a Property Fund as part of a diversified range of pooled funds.</li> </ul>
<b>Retirement benefit risk</b>	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.	<ul style="list-style-type: none"> <li>• Regular reviews of the suitability and performance of the investment options offered with the aim of helping members optimise their retirement income.</li> <li>• No contributions to ECashBuilder have been received since the Scheme closed.</li> </ul>
Any other risk the Trustee decides is appropriate with relevant input from the Adviser and other parties.		

### 3.3.3. Responsible investment

3.3.3.1. 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.

#### 3.3.3.2. Selecting managers

The Trustee always aims to select the most suitable manager for each pooled fund. 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.

#### 3.3.3.3. Financially material considerations

The Trustee recognises that in using pooled funds it has delegated consideration of stock-specific issues to the fund manager. The fund selection process includes consideration of the fund manager's responsible investment and ESG practices, including, but not limited to, climate change and how other 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.

In addition, the Trustee recognises that for the passive fund range the choice of benchmark dictates the assets held by the investment manager who therefore has limited freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and therefore takes into account financially material considerations when selecting the benchmark.

The Trustee is aware of the risks of climate change and aims to understand the potential impact that climate risk factors may have on future investment returns.

At the time of the last fund review the Trustee did not make an explicit allowance for climate change within the development or implementation of its DC investment options. The Trustee may discuss the potential impact of climate risks with its Adviser and will monitor developments in this area.

#### 3.3.3.4. Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with

agreed policies. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

The Trustee will monitor investment managers' voting activity periodically through the investment platform provider and may review investment managers' voting patterns. The Trustee may also monitor voting on particular companies or issues affecting more than one company.

#### 3.3.3.5. Voting

Whenever required, the Trustee will seek to exercise their voting rights in the best long term interests of ECashBuilder members. As the DC assets are all in pooled funds, the Trustee has adopted a policy of delegating voting decisions to the fund managers. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy which is reviewed by the Trustee every three years or more frequently if there are any material changes. The fund manager's house policies are expected to broadly meet with the Trustee's views.

#### 3.3.3.6. 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 (including the management of actual or potential conflicts of interest), improve performance and strategy and mitigate financial risks (including ESG factors). The Trustee expects the investment platform provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement. The Trustee will review engagement activity undertaken by the fund managers as part of its broader monitoring activity periodically. The Trustee believes that such engagement incentivises the fund managers to preserve and enhance long term shareholder value of its investments.

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

#### 3.3.3.7. Non-financial matters

The Trustee notes 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 ECashBuilder's investment objectives.

The Trustee does not take account of non-financial matters (such as member ethical views) within the default investment strategy.

### 3.3.4. Member engagement

3.3.4.1. The Trustee recognises the importance of member engagement in relation to the investment options offered within ECashBuilder.

3.3.4.2. 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 meets their views. The Trustee also gives members a choice of funds in which to invest their additional voluntary contributions.

### 3.3.5. The expected return on assets

3.3.5.1. 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.



3.3.5.2. 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.

### 3.3.6. The realisation of investments

In relation to the liquidity of investments, 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.

### 3.3.7. Performance measurement

3.3.7.1. 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.

3.3.7.2. 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.

### 3.3.8. Asset managers

#### 3.3.8.1. 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.

#### 3.3.8.2. 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.

#### 3.3.8.3. Incentives

The Trustee invests in pooled funds where the fund managers are paid for their services on a fixed fee basis 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.

#### **4. Compliance with this Statement**

- 4.1.** The manager(s) for both EPensionBuilder and ECashBuilder will provide the Trustee from time to time with a trading statement showing the investment or disinvestment of all monies and, not less than quarterly, a valuation statement showing the number and type of units credited to the Scheme and their current value.
- 4.2.** The manager(s) will provide the Trustee with regular reports giving a summary of investment activity since the last report and a review of the performance of the Scheme's assets.
- 4.3.** A representative of the manager(s) will be available to report in person to the Trustee at reasonable intervals.
- 4.4.** It is the Trustee's intention to review this Statement of Investment Principles from time to time and when they deem it necessary, to revise accordingly, taking particular note of any significant changes in the Scheme's liabilities.
- 4.5.** The Trustee will review on a regular basis the investment performance of the Scheme's assets together with the continuing suitability of the managers.

#### **5. Availability**

- 5.1.** A copy of this statement will be made available to the Employer, the Fund Manager(s), the Scheme Actuary and the Scheme Auditor. A copy is available on the Scheme's website [www.zpen.info](http://www.zpen.info)