

**URENCO UK PENSION SCHEME – DEFINED CONTRIBUTION SECTION AND DEFINED BENEFIT SECTION AVC AND SHIFT PAY PLAN ARRANGEMENTS (COLLECTIVELY REFERRED TO AS “THE SCHEME”)**

**ANNUAL CHAIR’S STATEMENT FOR THE YEAR ENDING 5 APRIL 2021**

**PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME ADMINISTRATION) REGULATIONS 1996 (THE “REGULATIONS”)**

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**Summary and Contents**

As Chair of the Trustee Board, I am pleased to present the Trustee’s statement of governance, covering the period 6 April 2020 to 5 April 2021.

This statement covers the following parts of the Scheme:

- the Defined Contribution (“DC”) section, and
- the Additional Voluntary Contribution (“AVC”) and Shift Pay Plan arrangements related to the Defined Benefit (“DB”) section of the Scheme.

This statement is a reasonably formal document as there are certain aspects that must be included to meet legal requirements. In particular, I would like to draw attention to the following areas in relation to the **DC section**:

- The Default Investment Arrangements, which are described in **Section 1**. This sets out the current default, including how the investments change as members approach their retirement age. A number of changes have taken place over the year in respect of the default, which are described in this section.
- The processing of core financial transactions, which are described in **Section 2**. These relate to payments into the Scheme (such as contributions) and payments out of the Scheme (such as benefit payments to members) and we set out the measures taken to ensure that transactions are conducted in both a timely and accurate way.
- The costs and charges applied to members’ funds are described in **Section 3**. The UK pensions market is moving towards greater disclosure of costs and the Trustee advocates this improved transparency. **Section 4** develops this by setting out the potential impact that charges can have on a member’s fund. We are required to show projected pension pots before and after charges for a range of different funds and separate tables are included for the “typical” member as well as a younger member of the Scheme. We then assess the extent to which the Scheme provides value for members in **Section 5**.

In relation to the **AVCs** and **Shift Pay Plan**, we cover similar aspects, including

- **Section 6** with commentary on the fact that these sections of the Scheme are not required to have a default investment option;
- **Section 7** on the processing of core financial transactions;
- **Section 8** with details of the costs and charges, **Section 9** will show the potential impact of costs and charges on a member’s fund, (but as at the date of this draft, no data has been received from the AVC providers), and commentary on value for members in **Section 10**. The Trustee is taking all possible steps to ensure the AVC information is provided as soon as possible and is in regular contact with the AVC providers (via its advisors) to obtain this information.



Finally, **Section 11** provides details of some of the work and training that the Trustee Board has undertaken over the year. I am grateful to my fellow Trustee Directors for their diligence and commitment over the year. I look forward to working with them in the future with a view to helping our members to achieve good outcomes from the Scheme.

### **Introduction and Governance Structure**

I am pleased to present the Trustee's statement of governance, covering the period 6 April 2020 to 5 April 2021.

This statement describes how the Trustee has governed the Scheme during the period. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This statement covers the following areas:

- The investment strategy relating to the Scheme's default investment arrangements;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme and the value for money provided to members;
- The Trustee's compliance with the statutory knowledge and understanding requirements.

As Chair of the Trustee Board, it is my pleasure to report on these areas in respect of the period 6th April 2020 to 5th April 2021, for the DC section and the AVC and Shift Pay Plan funds, which are linked to the DB section.

Throughout 2019 and most of 2020, the Trustee carried out a provider review exercise, in order to assess whether the current provider, Aegon, was continuing to meet the Trustee's requirements for members. This review considered other providers in order to allow a comparison with the services currently offered by Aegon and considered a number of areas. These included, but were not limited to, the following:

- The provider's capabilities – the quality of service members receive, the range of investments, how members are able to access benefits in retirement, and the level of support that members receive;
- The ability to tailor different elements of their offering to Urenco, and flexibility in this area, and;
- Future proofing – the ability to offer alternative saving platforms in the future.

After this exercise, the Trustee decided Aegon provided a competitive proposition and provides a comparable range of services and features to other providers in the market. As a result of the review, Aegon agreed to improve the terms for members by reducing the fees that members pay. In addition, as part of the provider review exercise, the Trustee reviewed the Scheme's investment arrangements and a letter was issued in September 2020 to members communicating the changes to the default arrangements and to the self-select fund range. These changes went 'live' in November 2020. Further details of these changes can be found in **Section 1**.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, they should visit the Financial Conduct Authority website <https://www.fca.org.uk/consumers/finding-adviser>. If members choose to use a financial advisor, they should check the advisor's area of expertise. The advisor will inform members of any charges that apply in return for their advice.

This statement will be published on a publicly available website and the information with regards to cost disclosures will be signposted in the annual benefit statements.



## Defined Contribution Section

### 1. Default Investment Arrangement

1.1 A copy of the Scheme's Statement of Investment Principles ("SIP"), dated November 2020 covering the default investment arrangements is appended to this governance statement. The SIP has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The SIP covers our aims and objectives in relation to the default investment arrangements as well as our policies relating to matters such as risk and diversification. In addition to the default funds and the wider fund range, the main SIP, and accompanying Investment Policy Implementation Document ("IPID"), covers alternate investment choices under the Scheme, covering a range of funds that our members can choose, which was designed with their needs in mind, the full SIP is available on the Urenco website.

1.2 The investment strategy was reviewed in detail during 2019 and 2020, the Trustee has held several workshops with their investment consultant to discuss and change the default strategy, as well as the other investment options available to members within the Scheme. The investment strategy review and workshops covered:

- The level of risk taken during the "growth" phase of the default investment strategy.
- A review of the default arrangement and if it remains appropriate, based on the current and future needs of the membership, expected retirement pot sizes and current industry trends.
- The choice of funds and underlying investment managers used in the Scheme's the investment strategy.
- Environmental, social and governance risks and opportunities, and the approach the Trustee's selected investment managers take to managing these issues.

As a result of the review and workshops, the Trustee decided to make a number of changes to the Scheme's investment strategy. These included introducing a number of new self-select funds and changing the investment strategy and at-retirement allocation for the default investment strategy. These changes were communicated to members in September 2020. Much of the work set out above took place prior to this Scheme year, but has been included for context. During this Scheme year, the Trustee's focus was on the possible inclusion of specialist funds within the fund range, and working with Aegon and the Trustee's advisors to implement the changes.

1.3 The performance of the default investment arrangement is reviewed regularly; the Trustee considers the performance of all the Scheme investment funds on a quarterly basis, furthermore, the Trustee's investment advisor produces a 'dashboard' which illustrates how the advisor rates each of the Scheme's investment funds, and amongst other data points, how the more complex and expensive elements of the default investment strategy compares vs. alternatives within the market.

1.4 The default investment arrangement follows a pre-set investment route that transitions members' savings gradually over the six years and nine months prior to the Selected Retirement Date ("SRD"). During the growth phase, 50% of a member's assets is invested in the "Urenco PS Passive Global Equity". This fund is composed of the Aegon BlackRock MSCI Currency Hedged World Index (85%) and the Aegon BlackRock Emerging Markets Equity Index (15%). The remaining 50% is invested in the "Urenco PS Diversified Growth Fund". This fund is currently composed of the Aegon Insight Broad Opportunities Fund but the Trustee has flexibility over future changes due to the white-labelled nature of the fund.

1.5 The default investment arrangement's growth phase invests predominantly in equities and through the Urenco PS Diversified Growth Fund, the Trustee introduces other asset types such as bonds, commodities, infrastructure, real estate and currency. Overall these investments are expected to provide long term (above inflationary) growth, albeit with volatility. Long-term returns in excess of earnings inflation are generally one of the required elements for members to attain an adequate income in retirement.



- 1.6 As members' funds grow, investment risk will have a greater impact on member outcomes. Also, falls in the values of investments could potentially inflict significant losses to members' savings at a time when they have insufficient years remaining to recover from such losses, particularly if members choose to make early withdrawals from their pension savings. Therefore, the Trustee believes that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the six year and nine-month period prior to a member's retirement date.

## 2. Core Financial Transactions

- 2.1 The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately. The Trustee monitors this by:

- Having service level agreements ("SLAs") in place with the administrator which cover all core administration processes. The Trustee monitors these SLAs on a regular basis, with the provider being asked to account for shortfalls in performance. A table showing the Scheme's SLAs is set out below.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer. The Trustee has sight of Aegon's Business Continuity Statement, which was included within the March 2021 Trustee meeting papers.
- Maintaining and monitoring a Risk Register, which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is monitored and reviewed on a regular basis. The DC specific Risk Register was discussed during the March 2021 Trustee meeting.
- Appointing a professional firm to undertake an annual audit to confirm that contributions and benefit payments have been made in a timely manner and in line with the required timescales.

SLA	Target	SLA	Target
Auto enrolment new joiner	95% in 3 days	Member general details request	95% in 3 days
AE contribution refund*	95% in 5 days	Bacs Payment In*	100% in 2 days
Drawdown Application	95% in 1 day	Pension sharing enquiry/claim	95% in 5 days
New Joiner Application	95% in 4 days	Account Porting Request	98% in 5 days
Change Member Group*	95% in 3 days	Possible claim identified*	90% in 1 day
Change Beneficiary	95% in 5 days	Contribution refund*	95% in 5 days
Change personal details	95% in 3 days	Retirement*	90% in 5 days
Change payment details*	95% in 3 days	Contribution schedule in - Auto*	100% in 1 day
Change salary details*	95% in 3 days	Contribution schedule in - Part Auto*	95% in 3 days
Change target retirement age*	95% in 3 days	Scheme leaver	95% in 8 days



Complaint	100% in 1 day	Single contribution*	95% in 4 days
Death claim*	95% in 5 days	Statement request	100% in 5 days
Changes via DTM	95% in 3 days	Switch Request*	100% in 1 day
DTM New Joiners	95% in 3 days	Transfer out claim*	90% in 1 day
Fund value request	95% in 3 days	Transfer out*	95% in 5 days
General work	95% in 5 days	Transfer In*	95% in 5 days
Illustration request	95% in 5 days	Transaction Reversal*	98% in 6 days
Internet information	100% in 3 days	Trustee instructed claim*	95% in 2 days
Information request	95% in 5 days		

\* Core financial transactions

- 2.2 As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. This includes:
- Investment of contributions paid to the Scheme;
  - Transfer of members' assets into and out of the Scheme;
  - Transfers of members' assets between different investment options available in the Scheme; and
  - Payments from the Scheme to, or in respect of, members.
- 2.3 Core transactions require liaising with the providers and investment managers. The Trustee has delegated the day-to-day investment management of the DC Section and Shift Pay Plan assets to underlying providers, Aegon and Prudential respectively. The AVC policies are held with Clerical Medical and Prudential. The remainder of this section relates to Aegon – further details on Clerical Medical and Prudential are included later in this Statement.
- 2.4 The Trustee receives administration reports produced by Aegon, which are reviewed by the Trustee regularly, enabling them to assess if the requirements for the processing of financial transactions are being met. Aegon is also invited to attend Trustee's meetings and reports are provided to support their attendance.
- 2.5 The SLAs with Aegon set out the approach (including timescales) to processing core financial transactions. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements.
- 2.6 The Trustee believes that performance against SLAs for work due between the periods of this statement were a little lower than expected, averaging 94.8% over the year. The Pensions Secretary and Trustee contacted Aegon about this, and performance will be closely monitored going forwards.
- 2.7 Aegon is aware of the statutory deadlines for the processing of all member-related services, including core financial functions, and has confirmed that all core financial transactions over the year for the Scheme were invested on time and within the statutory deadlines. The Trustee will continue to monitor processes.
- 2.8 The Trustee appoints an independent auditor to carry out an annual audit of the Scheme, including the material financial transactions that have taken place during the Scheme year. The auditors carry out spot checks to ensure that contributions to the Scheme or payments made by the Scheme are paid in accordance with the Scheme's rules.
- 2.9 The Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the period to which the Statement relates.



- 2.10 The Scheme's Risk Register details the key risks to Scheme members and is monitored and reviewed on at least an annual basis. The risk register sets out controls to mitigate the effects of these risks.

### 3. Charges and Transaction Costs

- 3.1 As required by regulation 25 of the Administration Regulations, the Trustee is required to report on charges and transaction costs for the investments used in the default investment arrangements and its assessment as to the extent to which these charges and costs represent good value for members.
- 3.2 The levels of charges and transaction costs applicable to the default investment arrangements during the period are detailed in this section. In relation to transaction costs, we note that when buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority ("FCA") has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain (on average) from trading activity, whilst a positive figure is effectively a cost from trading activity.
- 3.3 Charges relating to investment management are deducted from members' funds. The Scheme is used as a qualifying arrangement for auto enrolment and, as such, must comply with regulations on charge controls introduced from April 2015. Specifically, all of the default investment arrangements under the Scheme must have a total expense ratio equal to, or below, the charge cap of 0.75% p.a. of savings. The Trustee can confirm this threshold is adhered to.
- 3.4 The table below shows the annual management charge ("AMC"), which is the core charge covering the cost of managing a fund, the total expense ratio ("TER"), which is the AMC plus variable costs associated with managing a fund (such as administrative, audit and legal fees), and the total transaction costs for each of the funds underlying the Scheme's default investment arrangements. The overall charge deducted from a member's fund, if in the default investment arrangements, will reflect the member's allocations to each of the underlying funds.

Aegon have been unable to provide part year transaction cost data. The transaction costs shown in the tables below were provided by Aegon, and reflect transactions over the year from 1 April 2020 to 31 March 2021.

Fund	AMC %p.a.	TER %p.a.	Total Transaction Cost %p.a.	Management Type
Urenco PS Diversified Growth	0.65	0.82	0.19	Active
Urenco PS Global Equity	0.22	0.24	0.00	Passive
Aegon ASI Corporate Bond	0.45	0.47	0.05	Active
Aegon BlackRock Cash (BLK)	0.15	0.18	0.01	Active

Source: Aegon as at 31 March 2021. The TER includes the AMC plus additional expenses, which can change from year to year.



- 3.5 The table below shows the same charges and costs in each of the self-select funds. The overall charge deducted from a member's fund will reflect their allocations to each of the underlying funds.

Fund	AMC % p.a.	TER %p.a.	Total Transaction Cost %p.a.	Management Type
LGIM Pre-Retirement	0.30	0.30	0.04	Passive
MFS Global Equity	0.78	0.83	0.07	Active
BlackRock Emerging Markets Equity Index	0.28	0.34	0.00	Passive
BlackRock European Equity Index	0.18	0.20	0.00	Passive
BlackRock Index-Linked Gilt	0.18	0.18	-0.01	Passive
BlackRock MSCI Currency Hedged World Index	0.20	0.21	0.00	Passive
BlackRock Japanese Equity Index	0.18	0.19	0.00	Passive
BlackRock Long Gilt	0.18	0.18	-0.04	Passive
BlackRock Pacific Rim Equity Index	0.18	0.19	0.00	Passive
BlackRock UK Equity Index	0.18	0.19	0.00	Passive
BlackRock US Equity Index	0.18	0.19	0.03	Passive
BlackRock UK Equity Optimum	0.65	0.65	0.15	Active
Aegon UK Ethical Equity	0.90	0.93	0.05	Active
Aegon Property	0.76	0.78	0.11	Active

Source: Aegon as at 31 March 2021. TER includes the AMC plus additional expenses, which can change from year to year.

#### 4. Impact of Costs and Charges

- 4.1 In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples. The below illustration has taken into account the following elements:

- Pot size;
- Investment returns (in real terms) gross of costs and charges;
- An adjustment for the effect of costs and charges; and
- The time period over which the member is invested

To make this representative of the membership, the Trustee has based this on the average member age of 43, using an average pot size of members of £71,600 and assumes an overall contribution level of 22%. An assumed average salary of £64,200 has been used.



Projected DC Account In Today's Money (£)										
	Default investment arrangement		Most Expensive Fund		Least Expensive Fund		Highest Expected Return		Lowest Expected Return	
	Default Arrangement		Aegon UK Ethical Equity		BlackRock Index-Linked Gilt		BlackRock Pacific Rim Equity Index		BlackRock Cash	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	87,900	87,350	88,210	87,170	84,390	84,240	88,010	87,840	84,400	84,240
2	104,650	103,430	105,340	103,050	96,970	96,640	104,900	104,530	96,990	96,640
3	121,860	119,860	123,020	119,250	109,330	108,810	122,290	121,670	109,370	108,810
4	139,560	136,640	141,260	135,760	121,480	120,750	140,190	139,280	121,530	120,750
5	157,750	153,780	160,080	152,600	133,420	132,470	158,610	157,380	133,490	132,460
10	256,560	245,130	263,530	241,890	190,140	187,820	259,130	255,530	190,320	187,810
15	369,900	346,670	384,490	340,330	242,180	238,140	375,250	367,830	242,490	238,130
20	485,000	445,780	525,930	448,860	289,930	283,900	509,400	496,330	290,400	283,880
22	524,090	478,330	588,990	495,320	307,900	301,020	568,730	552,780	308,440	301,000

**Notes:**

- Salaries and price inflation are assumed to increase at 2.5% per year
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- When allowing for the transaction costs within the growth assumptions, the Trustee has used an average of the transaction costs provided by Aegon over the last three Scheme years.
- Starting pot size is assumed to be £71,600 and future contributions of 22% have been assumed
- Starting salary is assumed to be £64,200
- Values are illustrations only and are not guaranteed
- The projected growth rates assumed for each fund, after the effect of charges, are as follows:
  - Default Investment Arrangement (Most Popular Fund): between 2.14% and 0.33% per year net expected real return above inflation.
  - Aegon UK Ethical Equity (Most Expensive Fund): 1.97% per year net expected real return above inflation.
  - Aegon BlackRock Index-Linked Gilt (Least Expensive Fund): -1.88% per year net expected real return above inflation.
  - Aegon BlackRock Pacific Rim Equity Index (Highest Expected Growth): 2.73% per year net expected real return above inflation.
  - Aegon BlackRock Cash (Lowest Expected Return): -1.88% per year net expected real return above inflation

4.2 The Trustee has presented a further illustration below. This is based on a member of age 18, using a starting pot size of £3,300 and a salary of £14,200. It also assumes an overall contribution level of 19% per annum. The purpose of this illustration is to demonstrate how charges would affect a member's pension pot over their working life.

Projected DC Account in Today's Money (£)										
	Default investment arrangement		Most Expensive Fund		Least Expensive Fund		Highest Expected Return		Lowest Expected Return	
	Default Arrangement		Aegon UK Ethical Equity		BlackRock Index-Linked Gilt		BlackRock Pacific Rim Equity Index		BlackRock Cash	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	6,120	6,090	6,140	6,070	5,920	5,910	6,130	6,120	5,920	5,910
2	9,030	8,930	9,070	8,890	8,500	8,470	9,040	9,010	8,500	8,470
3	12,010	11,840	12,100	11,770	11,030	10,980	12,040	11,990	11,030	10,980
4	15,080	14,810	15,220	14,710	13,520	13,450	15,130	15,050	13,520	13,450
5	18,230	17,840	18,440	17,710	15,960	15,870	18,310	18,190	15,970	15,870
10	35,350	34,000	36,150	33,590	27,580	27,290	35,640	35,220	27,600	27,290
15	54,990	51,960	56,850	51,100	38,240	37,680	55,670	54,710	38,280	37,680
20	77,520	71,930	81,050	70,400	48,020	47,130	78,810	77,010	48,090	47,130
25	103,360	94,120	109,350	91,680	56,990	55,720	105,540	102,530	57,090	55,720
30	133,000	118,800	142,450	115,140	65,230	63,530	136,420	131,720	65,360	63,530
35	166,990	146,220	181,140	141,000	72,780	70,630	172,090	165,130	72,950	70,630
40	205,990	176,710	226,390	169,520	79,710	77,090	213,310	203,360	79,920	77,080
45	243,010	204,090	279,290	200,950	86,070	82,960	260,920	247,100	86,320	82,960
47	253,750	211,450	302,880	214,410	88,460	85,160	281,970	266,310	88,730	85,150



Notes:

1. Salaries and price inflation are assumed to increase at 2.5% per year
2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
3. When allowing for the transaction costs within the growth assumptions, the Trustee has used an average of the transaction costs provided by Aegon over the last three Scheme years.
4. Starting pot size is assumed to be £3,300 and future contributions of 19% have been assumed
5. Starting salary is assumed to be £14,200
6. Values are illustrations only and are not guaranteed
7. The projected growth rates assumed for each fund, after the effect of charges, are as follows:
  - a. Default Investment Arrangement (Most Popular Fund): between 2.14% and 0.33% per year net expected real return above inflation.
  - b. Aegon UK Ethical Equity (Most Expensive Fund): 1.97% per year net expected real return above inflation.
  - c. Aegon BlackRock Index-Linked Gilt (Least Expensive Fund): -1.88% per year net expected real return above inflation.
  - d. Aegon BlackRock Pacific Rim Equity Index (Highest Expected Growth): 2.73% per year net expected real return above inflation.
  - e. Aegon BlackRock Cash (Lowest Expected Return): -1.88% per year net expected real return above inflation

4.3 The Trustee acknowledges the requirement to publish these illustrations on a website and this Statement will be available in time for the deadline of seven months following the Scheme year-end.

5. **Value for Members**

5.1 When assessing the charges and transaction costs which are payable by DC members, the Trustee is required to consider the extent to which these represent good value for members.

5.2 The Trustee with support from its advisors, Mercer, has undertaken a value for members ("VfM") assessment.

5.3 The Trustee concluded that it believes the DC section's overall benefits and options represent good VfM in relation to the costs payable by members, relative to how the funds have performed. The reasons underpinning this conclusion includes:

- Charges for the Schemes default investment arrangement are below the charge cap of 0.75% per year and the four funds used within the default investment arrangement are comparatively cheap compared to alternate funds in the market.
- Although it has not been long enough to determine value in terms of performance for the new funds introduced as part of the default investment arrangement, the funds are highly rated by the Scheme's investment advisor.
- The performance of the funds used within the self-select range has been positive when comparing each funds to an appropriate benchmark over a period of three years (or the longest period available if the funds have been in use by the Scheme for less than three years).
- When comparing the Scheme's self-select range to a database of investment costs from the Trustee's investment advisors, the majority of the Scheme's funds are below the median, two funds lie in the mid-upper quartile range.
- The majority of funds used by the Scheme are rated by Mercer as having good prospects of achieving their objectives over the long term.

5.4 Additionally, the Company pays for governance costs, together with various member communication, administration and advisory costs associated with operating the Scheme, which further enhances the value that members receive.

5.5 The non-financial benefits of membership were also considered and included (amongst other things): the efficiency of administration processes and the extent to which Aegon as administrator met its SLAs for the year; the communications delivered to members including on-line access to information, literature and modelling tools; and the quality of Scheme governance. The assessment concluded that the Scheme also offers good value for members in these areas.



## AVC and Shift Pay Plan funds linked to the Defined Benefit Section

The Trustee commissioned a detailed AVC and Shift Pay Plan fund and performance review in 2015, and monitors the performance of these funds on an annual basis. The AVC and Shift Pay Plan are related to the Defined Benefit section of the Scheme only and no contributions are being paid into these arrangements.

### 6. Default Investment Arrangement

- 6.1 There is no requirement to operate a default strategy for the AVC and Shift Pay Plan investments. Members therefore invest their monies in any of the available funds, in the proportions they select, as they feel is appropriate.
- 6.2 At retirement, AVC and Shift Pay Plan members have the option of using their funds as additional tax-free cash (up to the HMRC maximum) or can transfer them to the DB section in order to purchase additional DB benefits. The exchange is made on the current DB Section terms for cash commutation, or on pre agreed guaranteed terms in respect of certain elements of Shift Pay Plan Funds.

### 7. Core Financial Transactions

- 7.1 The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties and within the sponsoring employer.
  - Maintaining and monitoring a Risk Register, which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is monitored and reviewed on a regular basis.
  - Appointing a professional firm to undertake an annual audit to confirm that contributions and benefit payments have been made in a timely manner and in line with the required timescales.
  - The AVC and Shift Pay Plan are related to the Defined Benefit Section of the Scheme only. There are no contributions being paid into these policies, so the requirement to process contributions promptly does not apply to these benefits.

### 8. Charges and Transaction Costs

- 8.1 The Trustee holds member AVC monies with Prudential and Clerical Medical. The Prudential monies are held in both unit-linked and with-profit funds, whilst the Clerical Medical monies are held in unit-linked funds only.

The total expense ratio and transaction costs associated with the AVC funds are shown in the table below:

Fund	TER %p.a.	Total Transaction Cost %p.a.
BlackRock Aquila World ex-UK Equity Index	0.75	*
Prudential All Stocks Corporate Bond	0.75	*
Prudential Cash	0.55	*
Prudential Discretionary	0.75	*
Prudential UK Equity	0.75	*
Prudential Fixed Interest	0.75	*



Prudential Global Equity	0.75	*
Prudential Index Linked	0.75	*
Prudential International Equity	0.75	*
Prudential Long Term Bond	0.65	*
Prudential Long Term Gilt Passive	0.65	*
Prudential UK Equity Passive	0.65	*
Baillie Gifford Diversified Growth	1.25	*
LGIM Ethical Global Equity Index	0.95	*
Prudential Dynamic Growth II	0.72	*
Prudential Dynamic Growth IV	0.72	*
Prudential Positive Impact	0.75	*
Prudential Dynamic Global Equity Passive	0.64	*
Prudential UK Property	0.75	*
Clerical Medical Balanced	0.50	*
Clerical Medical Cautious Pension	0.50	*
Clerical Medical Ethical Pension	0.50	*
Clerical Medical European Pension	0.50	*
Clerical Medical Far Eastern Pension	0.50	*
Clerical Medical International Growth Pension	0.50	*
Clerical Medical UK Growth Pension	0.50	*
Clerical Medical UK Equity Income Pension	0.50	*
Clerical Medical UK Property Pension	0.50	*

Source: Prudential and Clerical Medical. \*At the time of writing, neither AVC provider had responded with transaction costs. The Trustee continues to request this information from the providers.

- 8.2 Where AVC funds are concerned, the Trustee has taken a proportionate approach to a market review of price and performance, given the number of members using the policies and the level of member savings invested. The assets with Prudential that are invested in with-profits funds are deemed to be good value, due to the limited availability of, and suitability of, alternative options associated with this type of arrangement and further due to potentially significant penalties for members if disinvesting before retirement.
- 8.3 For the with-profits funds, there are no explicit charges, with costs being deducted from the annual bonus before distribution. The Trustee has therefore considered how the with-profits funds have



performed in comparison to other providers based on data provided to the Prudential Regulation Authority. The figures show that performance, when compared with other similar funds, has been above market averages in the short to medium term (3 to 10 years), but below market averages over the longer term (15+ years).

- 8.4 The Shift Pay Plan funds are held in a with-profits arrangement with Prudential.
- 8.5 For the unit-linked funds, the Trustee has considered the TER deducted from funds when making comparisons. Members have AMCs that do not exceed the DC charge cap of 0.75% p.a., with the exception of the LGIM Ethical Global Equity Index and the Baillie Gifford Diversified Growth funds. These charges are comparable with the wider AVC market, having regard to the funds under management.

## 9. Impact of Costs and Charges

- 9.1 The Trustee has presented further illustrations below, which are designed to be representative of members with AVCs. They are based on a member of age 36 (the youngest member with AVCs), using a starting pot size of £10,400 based on the average for members aged between 36 and 40. As at the date of writing, no member data has been provided by Prudential, as such the member data from the 2020 Chair's Statement has been used.

Projected DC Account in Today's Money (£)								
	Most Popular & Lowest Expected Growth Fund		Most Expensive Fund		Least Expensive Fund		Highest Expected Growth	
	Prudential Index Linked		Baillie Gifford Diversified Growth		Prudential Cash		Clerical Medical Ethical Pension	
Year End	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	10,230	10,150	10,690	10,520	10,220	10,170	10,720	10,650
2	10,070	9,900	10,980	10,640	10,050	9,940	11,040	10,910
3	9,910	9,660	11,290	10,770	9,880	9,710	11,370	11,170
5	9,590	9,190	11,920	11,020	9,540	9,280	12,070	11,720
10	8,840	8,120	13,670	11,670	8,750	8,290	14,020	13,200
15	8,150	7,170	15,670	12,360	8,030	7,390	16,270	14,870
20	7,520	6,340	17,970	13,090	7,370	6,600	18,890	16,750
25	6,930	5,600	20,600	13,870	6,760	5,890	21,930	18,870
29	6,490	5,070	22,990	14,520	6,310	5,380	24,720	20,760

### Notes:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Starting pot size is assumed to be £10,400 and no future contributions have been assumed
- When allowing for the transaction costs within the growth assumptions, the Trustee, where available, has used an average of the transaction costs provided by Prudential and Clerical Medical in 2019 and 2020. This is because the transaction cost for each will fund will fluctuate, so using an average is likely to be more accurate over a long time period.
- Values are illustrations only and are not guaranteed
- The projected growth rates assumed for each fund, after the effect of charges, are as follows:
  - Prudential Index-Linked (Most Popular and Lowest Expected Growth Fund): -2.45% per year net expected real return above inflation
  - Baillie Gifford Diversified Fund (Most Expensive Fund): 1.16% per year net expected real return above inflation.
  - Prudential Cash (Least Expensive Fund): -2.25% per year net expected real return above inflation.
  - Clerical Medical Ethical Pension (Highest Expected Growth): 2.41% per year net expected real return above inflation.



## **10 Value for Members**

10.1 As part of the 2021 VFM assessment, the Trustee concluded that the AVC and Shift Pay Plan funds' overall benefits and options represent satisfactory value for money in comparison with the costs payable by members (subject to the above comments regarding the with-profits funds). The reasons underpinning this conclusion include:

- Member charges for the unit-linked investment funds are comparable to other AVC providers;
- Where rated by Mercer, the funds used by the Scheme are generally considered as having good prospects of achieving their objectives over the long term;
- The Prudential unit-linked funds performed well against their respective benchmarks over a 3, 5 and 10 year period.
- The Clerical Medical unit-linked generally underperformed against their respective benchmarks over a 1, 3 and 5 year periods, however, their investment performance was better than over the 2019/20 Scheme year. The Trustee will continue to review the performance of the AVC funds.

10.2 Additionally, the member option to use the funds as additional tax free cash or to purchase extra benefits from the DB section at retirement, and the Company funding of the costs associated with operating the arrangements, further enhances the value that members can potentially receive.

10.3 Assessing the value for money of a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a with-profits fund provided guarantees; whether that is a guaranteed pension, investment return or "just" capital security. Therefore, the Trustee did not consider it appropriate to reach an overall conclusion as this will vary by member perception.

## **11 Trustee Knowledge and Understanding**

11.2 In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.

11.3 This requirement has been met during the course of the Scheme year and the Trustee has undertaken regular training throughout the year.

- As part of the investment strategy changes, the Trustee received training on complex self-select asset classes and discussed whether to include them within the self-select range at the May 2020 Trustee meeting. This training helped the Trustee fully understand the benefits of the changes and the proposed funds, to enable the Trustee to be able make an informed decision as to what the DC Section's investments should be.
- The Trustee received a training session on investment beliefs and how their investment consultant rates different investment managers from an Environmental, Social and Governance perspective in July 2020.
- The Trustee received topical DC updates from their advisors, and also discussed with their advisors a way to measure retirement outcomes for members versus the Pension and Lifetime Savings Associations 'Retirement Living Standards'.
- A training session on new requirements relating to how the Trustee is required to set objectives for their investment consultancy provider.

11.4 The Trustee is conversant with, and has a working knowledge of, the Trust Deed and Rules. If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Scheme's legal advisors.



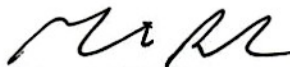
- 11.5 The Trustee is conversant with, and has a working knowledge of, the current SIP. The Trustee undertakes regular training on investment matters and reviews the investments held by the Scheme quarterly. The Trustee has sufficient knowledge of investment matters to be able to challenge their advisors.
- 11.6 The Trustee receives professional advice from Mercer and other advisors to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules, and the relevant skills and experience of Mercer is a key criterion when evaluating advisor performance or selecting new advisors. The advice received by the Trustee along with its own experience allows them to properly exercise their function as Trustee.
- 11.7 The Trustee also reviews and assesses, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pension Regulator's Code of Practice 13.
- 11.8 The Trustee periodically carries out a 'Trustee Knowledge and Understanding Survey' measuring the confidence of individual Trustee Directors to suitably carry out the role. In areas that score low (relative to other areas), the Trustee carry out training with their professional advisors. The last survey took place in December 2019.
- 11.9 The Trustee has a robust training programme in place for newly appointed Trustee Directors. Upon appointment, a Trustee Director is required to undertake completion of the Pensions Regulator's online training programme. The Trustee toolkit is expected to be completed within six months of appointment.
- 11.10 The Trustee undertook a number of activities over the past year which demonstrates how they have a working knowledge of pension & trust law, funding & investment principles, Trust Deed and Rules and the SIP. These activities include:
- The Trustee exercised its discretionary power relating to the payment of death benefits during the Scheme year.
  - The Trustee implemented a number of changes relating to the Scheme's investments, described in Section 1.
  - The Trustee reviewed and updated the Scheme's DC Section Risk Register.
  - Over the period to which this Statement relates, the SIP was updated following implementation of the investment changes, and to include the Trustee's policy on implementation and engagement with investment managers.
- 11.11 The Trustee believes that the best run pension schemes utilise the combined skill and knowledge of both the Trustee and its professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:
- The Trustee's professional advisors and independent Trustee attend their formal meetings;
  - The Trustee Board contains Trustee Directors with wide ranging skills and experience, including pension experience;
  - The Trustee receives briefings from their advisors on all legislative and regulatory developments at each meeting.



This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee and is correct to the best of my knowledge.

Signed for and on behalf of The URENCO UK Pension Scheme

Chair of the URENCO UK Pension Scheme



MICHAEL ROBERTS FOR THE TRUSTEES OF THE URENCO UK PENSION SCHEME

Date 20/10/2021

#### Appendix 1 – Statement of Investment Principles – Default Option