

# *Chair's DC Governance Statement, covering the period 1 October 2022 to 30 September 2023*

## **1. Introduction**

The Cooper-Avon Tyres Limited Pension Plan (the "Plan") is a Defined Benefit ("DB") occupational pension scheme with a defined contribution ("DC") Section in respect of DC Additional Voluntary Contributions ("AVCs") in the Plan and transfer values brought into the Plan, which are invested on a DC basis. A DC pension scheme is where employee and employer contributions are paid into it, and the member chooses their investments (or is invested in the default option) and bears the investment risk.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustee Directors of the Plan, are required to produce a yearly statement (signed by the Chair of Trustee) covering:

- processing of core financial transactions (i.e. administration of the Plan, such as investment of contributions);
- the charges and transaction costs borne by members for the default option, if there is one, and any other investment options members can select or have assets in, such as 'legacy' funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- how the value members obtain from the Plan is assessed; and
- Trustee knowledge and understanding.

The DC benefits in the Plan relate to:

- AVCs, which are linked to membership of the DB section of the Plan;
- contribution refund amounts linked to extinguished Protected Rights; and
- funds transferred into the Plan from other registered pension schemes, which were invested together with the AVCs.

The Plan's DC transfer-in facility was established on 1 August 1997 for the sole purpose of accepting transfer values brought into the Plan by members. Any funds transferred in were invested, at the choice of each member, with either Utmost Life and Pensions (previously Equitable Life) or Clerical Medical.

Protected Rights contribution refund amounts are not invested in an investment fund. They are recorded within the Plan and accrue notional interest in line with Bank of England Base Rate.

The DC arrangements closed to further contributions when the Plan closed to future accrual on 5 April 2012.

After a period uncertainty regarding the future of the Plan, the Trustee intends to review the Plan's DC holdings in more depth.

## **2. Default arrangements**

The Plan does not have a 'default' investment strategy in place, because it closed prior to 6 April 2015 and was never used as a 'Qualifying Scheme' for automatic-enrolment purposes. Members make their own investment choices from the range of funds that the Trustee makes available to members. The Trustee is not therefore required to provide a statement on the Plan's default investment strategy, or details of any review as part of this Statement.

Nevertheless, the Trustee is responsible for investment governance, which includes setting and monitoring investment strategy. The Plan's Statement of Investment Principles ('SIP') states that the Trustee's objective is to provide a range of funds which will provide a suitable long-term return for members, consistent with members' reasonable expectations.

As the Plan does not have a default investment strategy, the Trustee is also not required to attach the Plan's SIP to this Statement. The SIP contains further details of the Plan's investment objectives and the Trustee's investment policies. It can be obtained from the Plan's administrator, LCP, at [CooperAvonAdmin@lcp.uk.com](mailto:CooperAvonAdmin@lcp.uk.com)

The Trustee is also responsible for reviewing the Plan's investments, which means that it reviews the DC funds' investment performance (after charges) and their continued appropriateness for the membership. A full review of the DC arrangements is normally carried out triennially. The last full review of the DC arrangements was carried out on 20 March 2018: it concluded that most the Plan's unit-linked funds had performed well and broadly in line with their respective benchmark returns over 1, 3 and 5-year periods. The review found

that charges across each provider were competitive for the mandate's size and that the fund options offered were appropriate, in terms of range and asset classes. The range of retirement options available to members was also found to be suitable and members receive regular and timely communications.

A high-level review of the Plan's investment performance was undertaken by the Plan's advisor (LCP) on 18 February 2021, which considered the Plan's DC fund performance over the previous year: this confirmed that funds had generally performed in line with respective sector benchmarks. A further high-level review was carried out on 29 November 2021, which concluded similarly that the funds generally performed well over the previous 12 months and in accordance with their stated investment objectives.

The Trustee will continue to monitor the Plan's DC investments periodically to ensure they remain appropriate for the Plan's membership. The Trustee remains satisfied that the investment options are appropriate for most of the Plan's membership. As the sponsoring employer has now completed the assessment of the Plan's financial future, the Trustee has decided to carry out a full review of the Plan's DC arrangements in the coming months. In the meantime, any consistent investment underperformance will be flagged by the Plan's advisors to the Trustee, which will take any appropriate action.

### 3. Requirements for processing core financial transactions

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

The Trustee recognises that delay and error can cause significant issues for members. We have received assurance from LCP that there are adequate internal controls to support prompt and accurate processing of core financial transactions.

The Plan has a Service Level Agreement ("SLA") in place with LCP which covers the accuracy and timeliness of the processing of all core financial transactions. The key processes adopted by LCP to help it meet the SLAs are as follows:

- Plan administration is dealt with by a single team at LCP which is familiar with the features of the Plan.

- LCP has a maximum ten working day SLA, with certain tasks (such as payment of death benefits), subject to a five working day turnaround. LCP has confirmed that most of the Plan's transactions are completed comfortably within this period.

- Cases are logged onto a work control tool called 'Work Management', which automatically highlights the agreed SLAs, along with statutory/whistle-blowing deadlines.
- Bank accounts are monitored by LCP's accounts team, assisted by a tool called 'Navision', which mirrors movements in and out of the Plan's bank account. This gives the team real time confirmation as to how much money is in the account on any given date.
- All DC cash movements (such as transfers out and benefit payments) are subject to a vigorous three stage peer review process, to ensure accuracy.

As the Plan has been closed for some time and there are relatively few DC members, at present few core financial transactions are carried out.

To help the Trustee monitor whether service levels are being met, the Trustee receives regular reports about LCP's performance and compliance with the SLA. These summarise the transactions that have taken place, turnaround times and any delays against SLA or errors during the period. They also include details on LCP's performance and compliance with the SLA. These reports are reviewed at each Trustee meeting to enable the Trustee to monitor delivery against the agreed SLA. Any issues identified as part of the review processes would be raised with LCP immediately, and steps would be taken to resolve these.

Based on the review processes, the Trustee is satisfied that, over the period covered by this Statement:

- LCP was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Plan year.

The Trustee is comfortable that LCP has adequate internal controls in place such as the AAF (Audit & Assurance Faculty) 01/06 accreditation which helps ensure that core financial transactions relating to the Plan are processed promptly and accurately.

Additional accreditations for LCP include the Cyber Essentials Plus certification and certification for information management security systems that meet the ISO/IEC 27001 standard. LCP is a member of the Pensions Administration Standards Association.

#### 4. Member-borne charges and transaction costs

The Trustee has to set out the on-going charges incurred by Plan members over the period covered by this Statement, which are annual fund management charges, plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges are shown as a per annum ("pa") figure and exclude administration charges, since these are not met by the members.

The Trustee is also required to disclose transaction cost figures, which are those incurred when the Plan's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The TER and transaction costs are the only costs borne by members.

The charges and transaction costs have been supplied by the Plan's current DC investment managers:

- ReAssure;
- Utmost Life & Pensions;
- Standard Life;
- Santander<sup>1</sup>; and
- Clerical Medical.

When preparing this section of the Statement, we have taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed.

We have shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations we have used zero where a transaction cost is negative to give a more realistic projection (i.e. we would not expect transaction costs to be negative over the long term).

#### Default arrangements

As mentioned above, there is no default arrangement in place, so there is no requirement to include details on this.

#### Self-select and AVC options

The level of charges for each self-select funds and the transaction costs over the period covered by this Statement are set out in the following table.

#### Self-select fund charges and transaction costs (% per annum)

Fund name	TER	Transaction costs
<b>Unit-linked funds</b>		
Clerical Medical Balanced Pension	0.50	0.37
Clerical Medical Cautious Pension	0.50	0.24 <sup>2</sup>
Clerical Medical Adventurous Pension	0.50	0.30
Clerical Medical UK Growth	0.50	0.31
Clerical Medical International Growth	0.50	0.28
ReAssure Managed Fund	0.56	0.05 <sup>3</sup>
ReAssure European Fund	0.57	0.15
ReAssure UK Equity Index Fund	0.51	0.01 <sup>3</sup>
ReAssure Distribution Fund	0.59	0.06 <sup>3</sup>
Utmost UK Equity	0.75	0.22
Utmost Managed	0.75	0.15
Utmost Multi-Asset Moderate	0.75	0.23

<sup>1</sup> Since 2 December 2022, there have been no members invested with Santander and the arrangement has now closed. Santander has been included as one member was invested throughout some of the Plan year (1 October 2022 – 2 December 2022).

<sup>2</sup> Clerical Medical was unable to provide the transaction costs for the Cautious Fund so we have shown the figure from the previous year's Chair Statement.

<sup>3</sup> Transaction costs for ReAssure are as of 15 January 2024.

Fund name	TER	Transaction costs
Utmost Multi-Asset Cautious	0.75	0.28
Utmost UK FTSE All Share Tracker	0.50	0.05
Utmost Global Equity	0.75	0.08
Utmost Money Market	0.50	0.02
<b>Deposit funds</b>		
ReAssure Special Deposit Fund <sup>4</sup>	No charges <sup>5</sup>	N/A
Santander Cash Fund	No charges <sup>6</sup>	N/A
<b>With-profits funds</b>		
Clerical Medical With-Profits Fund	N/A <sup>7</sup>	0.36
ReAssure Legal & General With-Profits Fund	0.24	0.11
Standard Life Heritage With-Profits Fund	No explicit charge	N/A

### Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example Plan member's pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.

<sup>4</sup> With-Profits members who remain in the Plan beyond Normal Retirement Age are moved into the Special Deposit Fund. It is not available as a normal self-select option.

<sup>5</sup> This is like a standard deposit account with a bank which earns daily interest, funds are not subject to explicit fees.

- The transaction cost figures used in the illustration are those provided by the fund managers over the past four years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past four years as this is the longest period over which figures were available and should be more indicative of longer-term costs, compared to only using figures over the most recent Plan year.

- The illustration is shown for Utmost Life Multi-Asset Moderate Fund, since this is where most members are invested, as well as two funds from the Plan's self-select fund range. The two self-select funds shown in the illustration are:

- the fund with highest annual member borne costs (TER plus transaction costs) – the Utmost Multi-Asset Cautious Fund
- the fund with the lowest annual member borne costs – the Santander Cash Fund.

<sup>6</sup> This fund is a deposit / cash account which does not incur explicit charges. Santander has confirmed that members receive interest daily, currently equivalent to 4.5% per annum.

<sup>7</sup> Clerical Medical has not confirmed the scheme specific charge for the With-Profits Fund. We are following up with Clerical Medical on this.

## Projected pension pot in today's money

Years invested	Ultmost Multi-Asset Moderate Fund		Ultmost Multi-Asset Cautious Fund		Santander Cash Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£12,100	£11,900	£12,100	£11,900	£11,700	£11,700
3	£12,200	£11,800	£12,200	£11,800	£11,100	£11,100
5	£12,300	£11,700	£12,300	£11,600	£10,600	£10,600
10	£12,600	£11,400	£12,600	£11,300	£9,300	£9,300
15	£12,900	£11,100	£12,900	£11,000	£8,200	£8,200

### Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. The long-term annual inflation assumption used is 2.5%.
- The starting pot size used is £12,000. This is the approximate average (median) pot size for members aged 50 years and younger (rather than using a whole membership average, we have taken this approach to provide a more realistic 15-year projection).
- The projection is for 15 years, being the approximate duration that the youngest Plan member has until they reach the Plan's Normal Retirement Age.
- The contribution rate (employer and employee) is assumed to be zero as the Plan is closed to future contributions.
- The projected annual returns used are as follows:
  - Ultmost Life Multi-Asset Moderate Fund: 0.5% above inflation
  - Ultmost Multi-Asset Cautious Fund: 0.5% above inflation
  - Santander Cash Fund: -2.5% below inflation
- No allowance for active management outperformance has been made.

### 5. Investment returns

This section shows the returns over one and five year periods, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the Plan year. We have had regard to the statutory guidance in preparing this Section.

The With-Profits fund returns stated are that of the underlying investments, which are the only figures that can be quoted. With Profits Funds are designed to smooth the returns members receive over their investment term and underlying investment returns are not the only factor determining the return members receive.

### Self-select fund net returns over periods to scheme year end

Fund name	1 year (%)	5 years (% pa)
Clerical Medical Balanced Pension	7.1	1.3
Clerical Medical Cautious Pension <sup>8</sup>	7.2	0.5
Clerical Medical Adventurous Pension	9.6	3.3
Clerical Medical UK Growth	18.7	1.1
Clerical Medical International Growth	9.4	7.1
ReAssure Managed Fund	7.6	2.9
ReAssure European Fund	8.9	0.2
ReAssure UK Equity Fund	13.8	5.4
ReAssure Distribution Fund	6.5	3.2
Utmost Life UK Equity	13.7	2.5
Utmost Life Managed	9.8	2.6
Utmost Life Multi-Asset Moderate <sup>9</sup>	7.5	N/A
Utmost Life Multi-Asset Cautious <sup>9</sup>	2.3	N/A
Utmost UK FTSE All Share Tracker	13.9	3.2
Utmost Global Equity	11.7	8.2
Utmost Money Market	3.7	0.7

<sup>8</sup> Performance for the Clerical Medical Cautious Pension Fund has been shown net of a generic charge.

<sup>9</sup> Utmost launched the multi-asset funds underlying the Investing by Age Strategy on 1 January 2020, so five-year returns are not yet available.

### Fund name

1 year (%)

5 years (% pa)

#### Deposit funds

ReAssure Special Deposit Fund	4.1	2.1
Santander Cash Fund <sup>10</sup>	N/A	N/A
<b>With Profits funds</b>		
Clerical Medical With Profits Fund <sup>11</sup>	-8.0	1.9
ReAssure Legal & General With Profits Fund <sup>11</sup>	-10.0	2.4
Standard Life Heritage With Profits Fund	-7.0	1.4

## 6. Value for members assessment

Each year, the Trustee has to assess the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value', which means that determining this is subjective. The general policy in relation to value for member considerations is set out below.

The Trustee typically reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Plan. The date of the last review was 29 November 2021. We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's adviser has confirmed that the Plan's fund charges are competitive for the types of funds available to members.

<sup>10</sup> Performance is not available for the Santander Cash Fund, as this is an interest-bearing account. Santander has confirmed that members receive interest daily, currently equivalent to 4.5% per annum.

<sup>11</sup> Performance for the Clerical Medical & ReAssure with profits funds shown as of 31 December 2022.

The Trustee has agreed to work with its investment advisor to conduct a review of the Plan's AVC and DC arrangements in 2024.

During the Plan year, one member had AVCs with Santander held in a cash account, which credits interest. It does not deduct explicit charges, so provides a potentially valuable capital guarantee. The Santander AVC arrangement has now closed.

The Standard Life With-Profits Fund, in which one AVC member is invested, provides a guaranteed fund value at the member's Normal Retirement Age. This is a potentially valuable benefit, providing protection against any adverse market movements.

The Clerical Medical arrangement is the second largest AVC holding by fund value and third largest by member numbers. It provides a wide range of investment options for members and has a competitive charging structure, applying a 0.505% pa Plan discount against its standard TERs.

In carrying out the assessment, we also consider the other benefits members receive from the Plan, which include:

- the Trustee's oversight and governance, ensuring compliance with relevant legislation, and ongoing review with timely action to address any material issues that may impact members;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services; and
- the efficiency of LCP's administration processes and the extent to which it met or exceeded its service level standards.

As detailed in the earlier section covering the processing of core financial transactions, we are comfortable with the quality and efficiency of the administration processes.

The Trustee believes that the transaction costs provide value for members, as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

Overall, the Trustee believes that members of the Plan are receiving reasonable value for money for the charges and cost that they incur, for the reasons set out

in this section. The Trustee aims to improve value for members in future by taking the following steps:

- continuing to monitor the costs borne by members, with a review of the Plan's DC investments to be carried out during 2024;
- conducting a review of the member experience with the Plan's administrator to ensure LCP's service levels remain at current high levels; and
- continuing to ensure that Trustee training is kept up to date, including developments in both DB and DC matters.

## 7. Financial security of pension assets

This section describes our understanding of the protections that generally apply to members' assets, should the DC platform provider, or a fund manager on it, experience financial difficulties. However, this is a complex area which is untested in practice and a future situation may lead to an unexpected outcome.

There are several safeguards designed to reduce the risk of default by a DC platform provider, or a fund manager used by it, and potential protections that apply should this happen:

- There is internal oversight carried out by the provider and fund managers. This comprises several elements such as independent internal audits, as well as the work conducted by compliance and risk functions.
- There is external oversight, carried out by the relevant regulatory bodies, whose role it is to ensure that the provider and fund managers discharge their financial liabilities in a responsible manner.
- A custodian will normally be appointed for pooled investment funds. The custodian's primary function is the safekeeping of assets. In practice this means keeping investors' funds legally separate from the provider's / fund manager's own monies, so they may not be used for meeting creditors' demands not relating to the investment funds.

Thus, the only circumstances in which a default would occur appear to be in the event of dishonesty, fraud or negligence. If a valid claim arose, in the first instance, we would expect the manager and/or provider to make good any shortfall. The Financial Services Compensation Scheme may be able to pay compensation if a firm is unable to pay claims against it. Our understanding is that this would cover 100% of the claim in the event of the provider defaulting but would not apply in relation to externally managed investment funds.

## 8. Trustee knowledge and understanding

The Trustee is required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. It has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. Its advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them, and typically deliver training on such matters at Trustee meetings, if they are material. During the period covered by this Statement, the Trustee Directors received training on topics including:

- Structured equities (July 2023)
- TPR's new single code of practice (December 2022)
- Capital market assumptions (November 2022)
- Pensions Dashboards (November 2022)
- Market volatility and implications (October 2022)

Additionally, the Trustee receives quarterly updates on topical pension issues from its advisers.

The Trustee is familiar with and has access to copies of the Plan's governing documentation and documentation setting out its policies, including the Trust Deed and Rules and SIP. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Plan, and the SIP is formally reviewed annually and as part of making any change to the Plan's investments. Further, the Trustee believes that it has sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil its duties.

The Trustee has to commit to completing the training, either at the relevant meetings or by personal study. Four of the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (which is an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law). Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other

training relates to topical items or specific issues under consideration during the Plan year.

A training log is maintained in line with best practice and a training programme is considered annually, to ensure it is up to date. Additionally, the Plan has a structured induction process for new Trustee Directors, including relevant training from the Chair of Trustee and support from advisers. The Plan has a strong and effective leadership, with a wealth of experience to oversee the governance of the Plan, as follows:

- Quentin Woodley, Chair of Trustee: professional independent trustee 10+ years as a trustee and 35+ years in financial services (he is an accountant and former director and senior partner at McKinsey and Company. He has passed the Pensions Management Institute's exam to achieve its Professional Trustee Award);
- Julian Baldwin: 11+ years as a Trustee and 35+ years' finance experience (he was the Plan's sponsoring employer's Managing Director until his retirement in 2013);
- Terry Fell: 24+ years as a Trustee (with pensions experience in his former union role);
- John Cash: 25+ years as a Trustee (with pension experience in his former HR manager role at the Plan's sponsoring employer); and
- Toni Hulbert: 13+ years as a Trustee.

Regular evaluations of the Trustee's knowledge to help to identify training needs are undertaken. The Trustee carries out evaluations of the performance and effectiveness of the Trustee Board as a whole. Trustee Board effectiveness reviews have been carried out by the Trustee's pension advisors, using interactive questionnaires. Output helps inform future training needs and business plans.

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



\_\_\_\_\_ Date: \_\_\_\_\_

**Signed by Quentin Woodley, representative for Woodley Pension Trustees Ltd**

**Chair of the Cooper-Avon Tyres Limited Pension Plan**