

Statement regarding DC governance

This is the Trustee's statement regarding DC Governance as required under regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended (the 'Regulations').

The Scheme is primarily a defined benefit scheme, but holds a number of money purchase benefits. This statement sets out how the Scheme has met the governance standards required by legislation in respect of those money purchase benefits during the Scheme year ended 31 March 2021.

The money purchase benefits held in the Scheme arise from the historic payment of AVC contributions and the transfer of money purchase benefits from the Corah Pension and Life Assurance Plan. The money purchase benefits are held in 16 different investment arrangements. No further money purchase contributions are being paid to the Scheme. The Scheme is not being used as a qualifying scheme for automatic enrolment purposes.

The Trustee publishes this statement to the Scheme's website annually to ensure it is accessible to members.

Default arrangement

The Scheme has no default (investment) arrangements for the purposes of the Regulations and so the aspects of the Regulations applying to default arrangements are not dealt with in this statement.

Processing financial transactions

The Trustee has a duty to ensure that core financial transactions (including the transfer of member assets into and out of the Scheme, switches between investments and payments to and in respect of members) relating to the money purchase benefits are processed promptly and accurately.

Such transactions were undertaken over the year under review on the Trustee's behalf by the Scheme's administrators: the Coats Pensions Office (CPO) and XPS Administration. The Trustee has agreed service levels (SLs) with the administrators which cover all administration tasks including the accuracy and timeliness of the processing of financial transactions. The existing service levels were reviewed by the Trustee in June 2018 after the Scheme was set up and the Trustee is satisfied that they are within the market norms. The Trustee agreed that the administration of the Scheme would be carried out by CPO in future and that migration was completed on 5 July 2021. The existing service levels continue to apply to all members of the Scheme.

A key element of accuracy in processing financial transactions is data quality, and the Trustee carried out a review to assess whether any additional work was required to improve the Scheme's data quality. As a result of that review the Trustee commissioned a review of scheme-specific data from the administrators, and prepared an action plan of tasks to improve that data, which is part of their ongoing commitment to review and improve data quality. The Trustee agreed that CPO should further review the data as part of their work on migrating the administration, with the work on data improvements, taking place after that date. An update on the progress of the Plan review will be provided in next year's report.

The administrators are also responsible for ensuring that the transactions processed by the third party providers of the money purchase benefits are completed promptly and accurately and to report to the Trustee on any deficiencies in the service from these providers. The providers manage the switches for those arrangements where members can choose their own funds, no members have reported any issues with this process.

The key processes the administrators have in place to ensure that the SLs are met are;

- a task-logging system which is reviewed weekly for forthcoming workloads, with tasks allocated daily;
- daily review of bank balances;
- weekly reconciliation of bank balances;
- protocols to ensure each payment goes through an agreed multi-level review and sign off process (which varies by amount and administrator).

The Trustee's Audit, Risk and Administration Committee (ARAC) review the administrators' internal controls on behalf of the Board and the SLs and agreements in place. The administrators prepare quarterly administration reports which are reviewed by the ARAC, which include performance against SLs, highlight any issues or failure to meet the agreed service levels and provide reasons for and details of the resolution of any SL breaches (if applicable).

At the beginning of the period under review, due to the impact of COVID-19, the Trustee agreed an extension to service levels and carried out a review of the Trustee's transfer value calculation methodology, suspending the issue of transfer value quotations from 2 April 2020 whilst that review was carried out. Members were kept informed of any delay in providing them with details of their benefit and transfer values were reinstated on 27 April 2020. The ARAC continues to monitor the quarterly reports provided by Administrators to check ongoing compliance against the agreed service levels.

The ARAC further monitored core financial transactions during the year by considering member feedback (if any) including complaints.

Based on the above, the Trustee is satisfied that over the year covered by this statement:

- the administrators were operating appropriate procedures, checks and controls and operating within the agreed SLs;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately.

The Trustee is also satisfied that there have been no material administration service issues during the year covered by this statement. As noted earlier in the report, on 5 July 2021 the administration of the Scheme was moved to Coats Pensions Office, with XPS no longer providing administration services. The Trustee continues to monitor, with no issues to report since the date of the change.

Member-borne charges and transaction costs

The Regulations require the Trustee to set out the charges and transaction costs incurred by members in this statement. The Trustee requested details of the charges and transaction costs from each of the providers of the 17 money purchase arrangements.

The information which has been obtained by the Trustee for the providers of the unitised funds is detailed below. The information provided by with profits funds is dealt with overleaf.

Former Coats Pension Plan members' AVC funds held with Aviva:

Fund Name	Fund charges	Total Transaction Costs
Aviva Pension Multi-Asset Index Growth Fund	0.59%	0.1036%
Aviva Pension Stewardship	0.59%	0.0786%
Aviva Pension BlackRock UK Equity Index Tracker	0.59%	0.2548%
Aviva Pension BlackRock Over 15 Year Gilt Index Tracker	0.59%	0.0206%
Aviva Pension BlackRock Japanese Equity Index Tracker	0.59%	0.1478%
Aviva Pension BlackRock World ex UK Equity Index Tracker	0.59%	0.0420%
Aviva Pension BlackRock Pacific Rim Equity Index Tracker	0.59%	0.1002%
Aviva Pension BlackRock European Equity Index Tracker	0.59%	0.0669%
Aviva Pension BlackRock Corporate Bond All Stocks Index Tracker	0.59%	0.0998%
Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker	0.59%	0.0311%
Aviva Pension Cash	0.59%	0.0011%
Aviva Pension BlackRock US Equity Index Tracker	0.59%	0.0679%
Aviva Pension Multi-Asset Index Cautious Fund	0.59%	0.1012%
Aviva Pension BlackRock (50:50) Global Equity Index Tracker	0.59%	0.0856%
Aviva Pension M&G Feeder of Property	1.44%	0.4526%

Fund charges - Fund's administration cost for the scheme.

Total Transaction Cost - The total annual fund transaction costs. This is the total of the 'Buying and Selling' costs and 'Lending and Borrowing' costs as described below;

- Where is it an internal fund, which is a fund managed to an investment mandate set by Aviva UK Insurance, these are the costs incurred in buying and selling units in the Aviva insured fund and the costs incurred by this fund in buying and selling its holdings.
- Where the Aviva insured fund invests in an external fund these are the annual costs incurred in buying and selling units in the underlying external fund and the annual costs incurred by the underlying fund in buying and selling its holdings.
- The annual costs incurred by either the Aviva insured fund and / or the underlying fund in lending and borrowing its holdings.

Former Staveley Industry Retirement Benefits Scheme members' AVC funds held with Clerical Medical:

Fund Identifier	Fund Name	Fund charges	Total Transaction Costs
GB0002039955	Clerical Medical Balanced Pension	0.5%	0.44%
GB0002042116	Clerical Medical UK Growth Pension	0.5%	0.39%
GB0002109626	Clerical Medical Managed Retirement Protection Plan	0.5%	0.08%
GB0002677531	Clerical Medical Halifax Pension	0.5%	0.00%
GB0002024197	Clerical Medical Cautious Pension	0.5%	0.24%
GB0008525916	Clerical Medical Non-Equity Pension	0.5%	0.05%

Fund charges - Fund's administration cost for the Scheme.

Total Transaction costs - This is the total transaction cost figure for the fund (i.e. for Buy & Sell transactions and Lending & Borrowing transactions).

Former Brunel Holdings Pension Scheme members' AVC funds previously held with Legal and General now with Reassure:

On 7 September 2020 the funds held with L&G transferred to Reassure as part of the bulk transfer agreed between the two providers. There were no changes to the charges deducted under the funds. The only charges being the annual management charge (AMC of 0.75%) on the investment and the investment charge (of 0.02%), this charge of 0.77% is deducted from the unit prices before they are published.

Former Staveley Industry Retirement Benefits Scheme members' AVC funds and Brunel Holdings Pension Scheme members' AVC funds held with Utmost

The transaction costs and charges for Utmost are 0.75% plus explicit costs of between 0.0061% and 0.0076%. In addition the Open Ended Investment Company (OEIC) held by each fund have implicit costs of 0.5% to 0.625%. Utmost advised that these funds were launched in January 2020 as part of the Scheme of Arrangement when taking on Equitable Life funds and have had significant inflows of funds which have impacted the calculation of these estimated costs.

The other 12 arrangements are conventional with-profits funds. Investors in with-profits funds do not get to see the actual value of the underlying assets. The value of the underlying fund changes daily, but customers' fund values grow by a steady rate, called the regular bonus rate, which is calculated annually. Whilst the fund value grows steadily with regular bonus, it may be lower or higher than the value of the underlying assets. The charges are applied to the underlying assets, which adds complexity when providing details of the charges applicable to the members' funds.

The results of our enquiries to the providers of these with-profits funds is below:

Provider	Provider details	Fund charge	Total Transaction costs
Prudential	Corah DC section only	0.80%	0.18%
Aviva Life	Sun Life	With Profits note (1)	With Profits note (1)
	Wilton	With Profits note (1)	With Profits note (1)
Prudential	Corah AVCs only	0.80%	0.18%
	Corah	With Profits note (2)	With Profits note (2)
	Atkins	1.00%	0.03%
Aviva Life (formerly Friends Life)		0.79%	With Profits note (1)
Phoenix		1.00%	With Profits note (2)
Prudential	Policy 1	With Profits note (2)	0.00%
	Policy 2	With Profits note (2)	0.00%
Scottish Friendly		With Profits note (2)	With Profits note (2)
Scottish Widows		0.875%	With Profits note (2)

Fund charges - Fund's administration cost for the Scheme.

Total Transaction costs - This is the total transaction cost figure for the fund (i.e. generally including buying and selling transactions and lending and borrowing transactions).

With Profits Notes

Where information was not available the providers either referred us to their Principles and Practices of Financial Management, the document which all providers must prepare and follow when managing its with-profits business (With Profits Note 1) or advised that any charges are implicit and taken from the underlying assets (With Profits Note 2)

Over the course of the year the Trustee engaged their investment adviser, Redington, to carry out a review of the DC funds on their behalf as detailed below.

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

Illustration of charges and transaction costs

The legislation requires the Trustee to provide an illustrative example of the cumulative effect over time of the application of the charges and transaction costs noted in the previous section, on the value of a member's accrued rights to money purchase benefits. The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. The funds used in the illustration are funds available under the Aviva AVC arrangement. The majority of members' money purchase benefits are held in the Aviva AVC arrangement. As Aviva must source information from third party investment managers, the figures as at 31 March 2021 were not available in time to prepare the report. The illustration to 31 December 2020 has therefore been shown instead.

To best illustrate the potential effect on members' money purchase benefits of the charges being applied, the Aviva funds with the lowest and highest charges are included, together with funds with a range of investment returns. In determining the example illustration, the Trustee analysed the Scheme's money purchase benefits, taking into account the range of member fund sizes, the range of investment returns and costs and charges across the various money purchase arrangements and the range of the expected periods of Scheme membership and the time it will take members to reach the Scheme's normal pension age.

Under each fund there are two columns. The first shows the projected pension values assuming no charges are taken. The second shows the projected pension values after costs and charges are taken.

Illustration of effect of cost and charges for typical funds with Coats UK Pension Scheme										
	Av Cash		Av Multi-Asset Index Growth		Av M&G Feeder of Property		Av BlackRock UK Equity Index		Av Pension BlackRock (50:50) Global Equity Index	
	Assumed growth rate 0.5%		Assumed growth rate 3.6%		Assumed growth rate 3.5%		Assumed growth rate 5%		Assumed growth rate 4.5%	
	Assumed costs and charges 0.59%		Assumed costs and charges 0.71%		Assumed costs and charges 1.88%		Assumed costs and charges 0.97%		Assumed costs and charges 0.72%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,170	£1,170	£1,190	£1,190	£1,190	£1,180	£1,200	£1,190	£1,200	£1,190
2	£2,320	£2,310	£2,400	£2,380	£2,400	£2,350	£2,420	£2,400	£2,420	£2,400
3	£3,450	£3,420	£3,620	£3,580	£3,610	£3,510	£3,670	£3,610	£3,670	£3,630
4	£4,560	£4,510	£4,850	£4,780	£4,840	£4,660	£4,940	£4,840	£4,940	£4,870
5	£5,640	£5,560	£6,100	£5,990	£6,080	£5,800	£6,230	£6,080	£6,230	£6,120
10	£10,800	£10,500	£12,500	£12,100	£12,500	£11,300	£13,100	£12,500	£13,100	£12,600
15	£15,400	£14,800	£19,300	£18,300	£19,200	£16,600	£20,700	£19,200	£20,700	£19,500
20	£19,600	£18,600	£26,500	£24,600	£26,200	£21,700	£29,000	£26,200	£29,000	£26,900
25	£23,400	£21,900	£34,000	£31,000	£33,600	£26,500	£38,200	£33,500	£38,200	£34,700
30	£26,900	£24,800	£42,000	£37,600	£41,300	£31,200	£48,300	£41,300	£48,300	£43,000
35	£30,000	£27,400	£50,400	£44,200	£49,500	£35,600	£59,400	£49,400	£59,400	£51,800

Notes:

- Starting pot size used is £0.
- Contributions are assumed to be paid £100 monthly increasing at 2.5% each year.
- The figures illustrate the pension pot value in "today's money" which means that they take inflation into account by discounting values at 2.5% a year (i.e. essentially treating each pound as though it has 2.5% less purchasing power than it did the previous year).
- Transaction costs may not have been included where data was not made available to Aviva from the fund managers.

Value for members' assessment

The Trustee is required to assess the extent to which the charges and transaction costs borne by members represent good value, taking into account the nature and needs of the members. In assessing value the Trustee has considered that value does not necessarily mean the lowest fee, and thus the quality of the other provisions was also considered.

In making the assessment and the statements below the Trustee considered any changes to operations as a result of COVID-19 as mentioned in the Trustee report section of the Annual Report and Financial Statements. Both Administrators, Coats Pensions Office and XPS put their business continuity plans into operation at the end of the previous Scheme year due to the lockdown arrangements in place at that time. The contingency plans ensured that priority was given to the paying of pensions, settlement of retirement benefits and the management of the Scheme's financial requirements. They continued to have individuals working from home and have kept members up to date regarding COVID-19 via the website www.coatspensionsuk.com and with more detailed information for those members wishing to access their benefits.

All the Scheme's other suppliers have in place arrangements to provide working from home facilities for their staff and have confirmed to the Trustee that this will not impact normal service. The Trustee continues to monitor the operational impact of the developments and has no significant concerns regarding the Scheme's ongoing ability to fulfil its operational, cashflow or benefit payment requirements.

Whilst the Trustee did consider the calculation of transfer values as part of their review due to COVID-19 these were only put on hold for a short time, this did not affect DC section transfer values and all such requests were dealt with in line with statutory requirements.

Charges and investment governance – over the year the Trustee commissioned a review of the DC investment funds by their investment adviser Redington. Redington reviewed the policies overall and reported in March 2021, confirming that they were comfortable with the current policies; that whilst some work could be done to consolidate the relatively large number of providers, given the small size of assets and number of members, and the guarantees within the with-profits policies, that these should be left to mature. Since the date of the last report (Sept 2020) a number of the policies have been closed due to the small number of members retiring over the year. In general and for the main provider Aviva, Redington confirmed that in their view that members have a broad enough range of AVC options to choose from (and which cover all the main assets classes) to build portfolios to suit a range of risk/return requirements. They also noted that, although the charges for the Aviva fund are reasonable overall, due to the passive nature of the funds that lower charges may be achievable and have approached Aviva to negotiate these on the Trustee's behalf: the results of the discussions will be confirmed in next year's report. Separately Redington reviewed the charges for the Corah DC section confirming that the charges are competitive and in line with expectations for the asset mix.

Administration – The administrators are responsible for ensuring that the transactions processed by the third party providers of the money purchase benefits are accurate and timely and to report on any issues. The Trustee reviews the administration services, services levels and processes in place for the administrators which therefore include the provision of the DC benefits. The Trustee is happy that there are robust processes and procedures for logging and reporting issues with third party providers in place which ensure that the administration is carried out efficiently, and that all transactions were carried out in a timely manner with no issues to report.

Scheme management and governance – the Trustee is committed to the Scheme and ensures that the administration and operation of the money purchase benefits is monitored and regularly reviewed by the ARAC.

Communications – the administrators have a communications schedule and comprehensive procedures in place to review communications from a technical and member experience point of view to ensure that member communications are clear, tailored and communicative. Members receive timely and appropriate information about their money purchase benefits.

The majority of money purchase benefits are AVC's additional to the accrued DB Scheme pension. AVC's are typically used to fund tax-free cash in conjunction with the DB pension. Over the course of the year the Trustee reviewed, with the help of the Scheme Actuary, the threshold under which members are allowed to use their AVC fund as part of the tax free cash element of their benefits. They agreed that the threshold would be raised to help simplify the process for members; where the AVC fund is still too high to be used in the lump sum allowed the Trustee will continue to provide and pay for a third party service to enable annuity purchase. The member-borne charges for the Scheme's money purchase benefits relate to the investment services and some communication services. All other charges in relation to the money purchase benefits and the Scheme are borne by the Sponsoring Employer.

Taking account of money purchase benefits under the Scheme and these services to our money purchase members relative to the costs incurred, the Trustee considers that, in general, the money purchase arrangements delivered good value for members for the year covered by this statement.

The Trustee's assessment has been limited as value for members in respect of charges and transaction costs for with-profits funds cannot be easily assessed due to the structure of such funds and the incorporation of many costs in the annual bonus calculations. However the Trustee with the help of its investment adviser has acknowledged that due to the nature of with-profit funds it is not generally possible for the Trustee to improve the value of the funds.

The Trustee has agreed to review the DC funds every 3 years and has included this on its Business Plan for action at the relevant time.

Trustee's knowledge and understanding

The law requires the Trustee Board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively.

The two professional independent Trustee firms on the Trustee Board, Independent Trustee Services Limited, and Capital Cranfield Pension Trustees Limited, each have experience of sitting on major DC schemes. Their representatives have used their experience since appointment in 2018 to ensure that they understand the details of the Scheme and therefore bring to the Scheme extensive understanding and experience of DC governance and best practice.

The Trustee takes its training and development responsibilities seriously and keeps a record of the training completed by each member of the Board. The Trustee uses these logs to monitor the reviews of Scheme documents and policies thereby ensuring that each Trustee Director has a good working knowledge of Scheme documents. The Trustee ensures that training requirements are reviewed regularly, with the next review taking place in December 2021, to identify any gaps in the knowledge and understanding across the Board as a whole, and the Trustee continues to work with its professional advisers to fill in any gaps, either individual or collective.

Specific actions include:

- An induction process is in place for new Trustee Directors covering the law relating to pensions and trusts, and the relevant principles relating to the funding and investment of occupational pension schemes. This includes completing the Pension Regulator's Trustee Knowledge and Understanding toolkit and training with the Scheme's actuarial and investment advisors.
- A schedule of training requirements is maintained and monitored at quarterly meetings to ensure the Trustee Board is up to date on current pension issues, emerging regulation and governance best practice including DC. This includes an annual training day, which this year was held on 7 and 8 December 2020.
- Throughout the year, the Trustee Directors have access to various training and seminar events.
- Where appropriate, the Trustee's professional advisers attend Trustee Board and sub-committee meetings supporting the Trustee in ensuring that it exercises its functions properly and advising on applicable laws, and funding and investment principles, as appropriate.
- Reference is made at Trustee Board and sub-committee meetings to relevant sections of the Scheme's trust deed and rules, Statement of Investment Principles and Trustee policy documents (including CUKPS DC benefits principles) to maintain Trustee Directors' understanding of these documents.

The Trustee's training logs detail the quarterly updates from their legal advisers who provide quarterly updates on DC pension topics which are relevant to the Trustee Board, along with any additional training completed over the year. This year the logs included the following training including DC topics:

18 Jun 2020	Sackers Q2 2020 Quarterly briefings
30 Sep 2020	Sackers Q3 2020 Quarterly briefings
7+8 Dec 2020	Sackers pension horizon training and Q4 2020 Quarterly briefings
25 Mar 2021	Sackers Q1 2021 Quarterly briefings
22 Jun 2021	TKU CUKPS DC update paper

As a result of the training activities which have been completed by the Trustee Directors individually and collectively as a Board, and taking into account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enables us to exercise properly our function as the Trustee of the Scheme.

The statement regarding DC governance was approved by the Trustee and signed on its behalf by:

Mr C Martin
Independent Trustee Services Limited

Date: 22 September 2021