

Lloyd's Register Superannuation Fund Association (LRSFA)

Chairman's Annual Governance Statement

1 April 2019 to 31 March 2020

Money Purchase Section of LRSFA

1. Introduction

I am pleased to present the Trustee's Statement of Governance, covering the period 1st April 2019 to 31st March 2020, the 2019/20 scheme year ("the Scheme Year").

This statement has been prepared by the Trustee of the Fund (the "Trustee") in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended). It describes how the Trustee has met the statutory governance standards in relation to:

- The default arrangement(s);
- The requirements for processing financial transactions;
- The assessment of charges and transaction costs; and
- The requirement for trustee knowledge and understanding,

2. Default arrangement

The following arrangement is the Fund's "default arrangement" for the purposes of Administration Regulations:

- Flexible Retirement Strategy, which is a lifestyle strategy containing:
 - Lloyd's Register Adventurous Fund:
 - 42% Standard Life Overseas Tracker*
 - 21% SL Vanguard FTSE UK All Share Index*
 - 7% SL Vanguard Emerging Markets Index*
 - 30% BlackRock Aquila Life Market Advantage Fund
 - BlackRock Aquila Life Market Advantage Fund
 - BlackRock Over 5-year Index-Linked Gilt

The fund 20 years out from the Selected Retirement Age, moves out of the Adventurous Fund and into new holdings in the other two detailed funds. A full breakdown of the switching process is detailed in the Statement of Investment Principles.

2.1 Statement of Investment Principles

Appended to this statement is a copy of the Fund's latest Statement of Investment Principles governing decisions about investment for the purposes of the default arrangement(s), prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Statement of Investment Principles").

2.2 Review

The Trustee undertakes a review of the strategy and performance of the default arrangement on a quarterly basis.

During the Fund Year 1 April 2019 to 31 March 2020 the Trustee completed the previously reported switch of the Default fund removing the LR SL SLI Global Absolute Return Strategies (GARS) and also no longer available as a self-select fund. With any money currently invested in this fund being transferred to the LR SL BlackRock Market Advantage Pension Fund. Whilst also changing the Global Equity 50:50 fund to a 30:60:10 equity fund split between UK, Overseas and Emerging Markets. This was finalised in May 2019 which saw the Annual Management Charge (AMC) of the fund reduced.

The default arrangement has an AMC of 0.32% and was reviewed against the Charge Cap regulation and was confirmed to be within the regulations of this. This was a reduction of 9 basis points from 2019.

3. Requirements for processing financial transactions

The Trustee regularly monitors core financial transactions of the Fund via the Fund administrator's administration report. These include the investment of contributions, fund switches, transfers in and out of the Fund and payments out of the Fund. As part of this monitoring, all financial transactions are measured against a service level agreement (SLA) put in place between the scheme and the administrator.

The Trustee's Annual Report and Financial Statements are independently audited annually by the Fund's auditor, Crowe U.K. LLP.

Based upon the above, the Trustee is satisfied that the Fund's core financial transactions have been processed during the Scheme Year (covering from 1 April 2019 to 31 March 2020) within the agreed SLA and demonstrated to the Trustee on a quarterly basis.

4. Assessment of member-borne charges and transaction costs

4.1 Level of member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs. This is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude administration costs since these are not met by members.

Fund	TER (%)	2019/20 Transaction costs (%)	2018/19 Transaction costs (%)	Average transaction costs (%)	Total costs (%)
LR Adventurous	0.33	0.09	0.05	0.07	0.40
LR Diversified Growth	0.77	0.48	0.97	0.73	1.50
LR Emerging Markets Equity	0.55	0.18	0.49	0.34	0.89
LR Fixed Income	0.21	0.12	-0.02	0.06	0.27
LR Global Equity - Active	0.58	0.08	0.11	0.09	0.67
LR Moderate	0.39	0.16	0.08	0.12	0.51
LR Pre Retirement	0.22	-0.02	0.06	0.03	0.25
LR Property	0.31	0.36	0.50	0.43	0.74
LR SL BlackRock ACS 50:50 Global Equity Tracker	0.23	-0.02	-0.05	0.00	0.23
LR SL BlackRock Cash	0.27	0.01	0.00	0.00	0.27
LR SL BlackRock Market Advantage	0.52	0.09	0.01	0.05	0.57
LR SL Blackrock ACS 30:70 Global Equity Tracker (Hedged)	0.23	0.06	0.02	0.04	0.27
LR SL iShares Index Linked Gilt Index	0.21	0.06	0.09	0.07	0.28
LR SL iShares Over 15 Year Gilt Index	0.21	-0.03	0.07	0.04	0.25
LR SL iShares UK Equity Index	0.23	0.11	0.25	0.18	0.41
LR Standard Life Long Corporate Bond	0.22	0.20	-1.21	0.10	0.32
LR Sustainable Investments	0.30	0.00	0.00	0.00	0.30

The Trustee is also required to disclose the level of any transaction costs. These are incurred when the Plan's investment managers buy and sell assets within funds but are exclusive of any costs incurred when members invest in and switch between funds. The charges and transaction costs have been supplied by ISIO, the Plan's investment managers, and Standard Life the appointed investment platform provider. When preparing this section of the statement the Trustee has taken account of statutory guidance. Where the transaction cost is a negative number, this means the returns on the fund have been positively affected by the transaction costs.

4.2 Value assessment

In accordance with regulation 25(1) (b) of the Administration Regulations, the Trustee assesses the extent to which charges and transaction costs set out in 4.1 above represent good value for members.

The Trustee is committed to ensuring that members receive value for money from the Fund. The Trustee, with the support of its advisers, KPMG, undertook a value for members' assessment. In addition, the Trustee's objective in respect of targeting "best member outcomes" applies when providing value for members.

There were seven areas of DC governance categories that the Trustee reviewed, and a weighted score was applied to each. Using this balanced scorecard demonstrated that LRSFA should be placed in the top grouping of DC Funds, with particular strengths in Fund design and administration. This is also an increase in weighted score from the last assessment, with specific improvement within the Governance of the scheme, education and engagement.

The assessment which took place looked at whether the total costs of the Fund membership represent value for money. In accordance with the Pensions Regulator's DC Code of Practice, with relevant legislation available at the time of this statement, the Trustee concluded that the Fund's overall benefits and options represent value for money in comparison to the costs payable by members for the following reasons:

- Charges for the Fund's default investment strategy are below the charge cap of 0.75% per year, currently 0.32% which reduced further after the scheme year;
- Members have access to low investment fund management charges, which the Trustee believes balances low charges with a sophisticated investment strategy;
- Members do not pay professional adviser costs or any costs associated with running the Fund;
- There is a wide range of funds for members to invest in, including main and alternative asset classes;
- Members have access to flexibility at retirement which has been reviewed against the market;
- Members have access to Salary Exchange and the full employer National Insurance saving is passed back to the member through additional salary;
- The quality of communications issued to members on a regular basis allows support to be provided on all legislative change; and
- A comparison against the charges of similar pension Funds found that the level on offer is providing value for members.

5. Trustee knowledge and understanding

The Trustee's own knowledge and understanding (TKU), together with the advice which is available to it through its adviser, enables it to properly exercise its functions as Trustee of the Fund.

The Trustee has quarterly meetings in order to discuss legislative change and requirements in order to meet its objectives.

During each scheme year the Trustee's meet for a training session covering a specific topic, the topics change from year to year with this year focusing on the funding principles with past years covering investment and legal scenarios.

All the key documents and policies relating to the Scheme including its Trust Deed and Rules and Statement of Investment Principles, are kept electronically, are kept up to date and are available to the Board for reference at all times, and consulted as necessary, including during meetings. The Trustee reviews all documents setting out the Trustee's current policies as appropriate to ensure they have a good working knowledge of these documents.

During the scheme year the Trustee Board carried out an annual Board effectiveness review. This involved each of the Trustee Board members completing an effectiveness review questionnaire. The responses from the review are collated by the scheme secretary and formed into an action plan response to achieve greater Board effectiveness.

The Trustee board have also kept their TKU up to date from attendance at a number of training sessions/seminars, both during board meetings as well as externally run sessions by advisors of the scheme.

During the Fund Year, the Trustee has met the requirements of sections 247 and 248 of the 2004 Act (requirements for knowledge and understanding) and will be putting in place further training requirements for the next Fund Year by formally adopting an enhanced training schedule.

Nicholas Godden
Chairman to the Board of the Trustee
Lloyd's Register Superannuation Trustees Limited

APPENDIX

Illustrations of the effect of costs and charges

Background

The next few pages contain the required illustrations about the cumulative effect of costs and charges on member savings within the Scheme over a period of time. The illustrations have been prepared having regard to statutory guidance.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained in the Notes section below the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future. This means that the information contained in this Chair's Statement is not a substitute for the individual and personalised illustrations which are provided to members each year by the Scheme.

Key points to note

The tables below illustrate the potential impact that costs and charges might have on different investment options provided by the Scheme. Not all investment options are shown - the Trustee has chosen illustrations which it believes will provide an appropriate representative sample of the different investment choices that members can make.

In each of the illustrations, the "Before charges" column gives the hypothetical value of the investments if members were able to invest in funds at no cost. However, there will always be some cost to investing. This is because the organisations which manage the funds charge fees for their services, and because buying and selling the stocks and shares which drive the funds' performance also has a cost. The "After all costs and charges deducted" column reflects the performance of the funds after these costs have been deducted.

In the illustrations, we have shown the projections for the following:

1. The default lifestyle strategy
2. The fund with the highest charges (LR Diversified Growth)
3. The fund with the lowest charges and the highest expected return (LR SL BlackRock ACS 50:50 Global Equity Tracker (hedged))
4. The fund with the lowest expected return (LR SL BlackRock Cash)

Member projections – the default lifestyle arrangement

Active member – ongoing contributions assumed invested in the default lifestyle strategy				
	19-year-old member		44-year-old member	
Years from 31/3/20	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,803	3,794	51,851	51,671
3	10,658	10,592	78,496	77,786
5	17,861	17,678	106,275	104,779
10	37,503	36,737	180,083	175,324
15	59,727	57,881	257,028	246,950
20	84,871	81,340	327,232	310,118
21	90,283	86,331	339,811	321,142
25	113,319	107,366		
30	145,090	135,819		
35	178,581	164,929		
40	211,284	192,274		
46	240,355	214,674		

The table sets out how the pension pot of members currently aged 19 and 44 will increase over time, with and without charges. Please see the Notes below for more details.

NOTES

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65.
3. The starting pot size is assumed to be £500 for the 19-year-old member and £39,000 for the 44-year-old member.
4. Inflation is assumed to be 2.5% each year.
5. Gross contributions for the 19-year-old member are assumed to be £3,250 each year, this is based on a salary of £25,000 and total contributions of 13%. The 44-year-old member is assumed to contribute £11,730 each year, this is based on an average salary of £51,000 and total contributions of 23%. Contributions are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates (gross of fees, reduced for inflation) for the default strategy at various periods to retirement are:
 - 2.5% for periods up to 20 years to retirement
 - 2.2% when a member is 15 years from retirement
 - 1.9% when a member is 10 years from retirement
 - 1.0% when a member is 5 years from retirement
 - 0.1% when a member is at their retirement age

The projected growth rate is not shown for every period to retirement above. The projected growth rate which would apply at a point in time is the weighted average of the underlying funds held by the member.

8. The charges assumed for each fund are the current charges as shown in the Chair's Statement.

Individual fund projections – the funds with the highest and lowest charges

19-year-old member				
Years from 31/3/20	LR Diversified Growth		LR SL BlackRock ACS 50:50 Global Equity Tracker	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,761	3,729	3,824	3,819
3	10,331	10,090	10,825	10,786
5	16,967	16,325	18,324	18,217
10	33,850	31,377	39,494	39,026
15	51,159	45,693	64,637	63,467
20	68,905	59,310	94,498	92,175
25	87,099	72,261	129,965	125,893
30	105,753	84,580	172,088	165,497
35	124,877	96,296	222,117	212,014
40	144,485	107,440	281,535	266,650
46	168,669	120,097	367,736	344,943

44-year-old member				
Years from 31/3/20	LR Diversified Growth		LR SL BlackRock ACS 50:50 Global Equity Tracker	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	50,954	50,283	52,299	52,196
3	75,042	72,511	80,308	79,895
5	99,372	94,299	110,313	109,436
10	161,269	146,896	195,010	192,167
15	224,728	196,922	295,604	289,338
20	289,790	244,504	415,078	403,470
21	302,999	253,738	441,539	428,584

The tables above show the projected pots for a member aged 19 and a member aged 44 invested in the above funds. The LR Diversified Growth Fund has the highest charges of all funds available, while the LR SL BlackRock ACS 50:50 Global Equity Tracker has the lowest charges of all funds available. Please read the Notes below for more details around the assumptions used.

Individual fund projections – the funds with the highest and lowest expected returns

19-year-old member				
Years from 31/3/20	LR SL BlackRock ACS 50:50 Global Equity Tracker		LR SL BlackRock Cash	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,824	3,819	3,718	3,712
3	10,825	10,786	10,010	9,966
5	18,324	18,217	16,115	16,001
10	39,494	39,026	30,593	30,174
15	64,637	63,467	44,017	43,133
20	94,498	92,175	56,465	54,983
25	129,965	125,893	68,006	65,817
30	172,088	165,497	78,707	75,724
35	222,117	212,014	88,630	84,782
40	281,535	266,650	97,830	93,064
46	367,736	344,943	107,991	102,072

44-year-old member				
Years from 31/3/20	LR SL BlackRock ACS 50:50 Global Equity Tracker		LR SL BlackRock Cash	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	52,299	52,196	50,057	49,933
3	80,308	79,895	71,675	71,221
5	110,313	109,436	92,650	91,760
10	195,010	192,167	142,394	140,001
15	295,604	289,338	188,519	184,111
20	415,078	403,470	231,286	224,443
21	441,539	428,584	239,458	232,085

The tables above show the projected pots for a member aged 19 and a member aged 44 invested in the above funds. The LR SL BlackRock ACS 50:50 Global Equity Tracker Fund has the highest expected returns of all funds available, while the LR SL BlackRock Cash Fund has the lowest expected returns of all funds available. Please read the Notes below for more details around the assumptions used.

Notes on member illustrations

1. The illustrations show the how the pots grow for a 19-year-old member (the youngest member) and a 44-year-old member (which is the average age of Scheme members). The projections are to age 65 (i.e. in 46 and 21 years' time respectively).
2. The starting pot size for the 19-year-old member is assumed to be £500, which is the expected starting pot for a member who has just been auto-enrolled into the Scheme. For the member aged 44, we have used the median sized pot which is currently £39,000.
3. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
4. Inflation is assumed to be 2.5% each year.
5. For the 19-year-old member, the illustrations assume ongoing contributions of £3,250 each year; this is based on a salary of £25,000 and total contributions of 13%. For the 44-year-old member, the illustrations assume ongoing contributions of £11,730 each year; this is based on an average salary of £51,000 and total contributions of 23%.
6. Salary is assumed to increase each year at the same rate as inflation.
7. Values shown are estimates and are not guaranteed.
8. Transaction costs are based on data provided by Standard Life.
9. The projected growth rates (gross of fees, reduced for inflation) for each fund are shown in the table below. These are consistent with the rates used in the Statutory Money Purchase Illustration (SMPI) Assumptions when preparing the annual benefit statements.

Fund	Return assumption above inflation (p.a.)
LR Diversified Growth	0.5%
LR SL BlackRock ACS 50:50 Global Equity Tracker	3.5%
LR SL BlackRock Cash	-1.5%