

Lloyd's Register Superannuation Fund Association (LRSFA)

Chairman's Annual Governance Statement

1 April 2020 to 31 March 2021

Money Purchase Section of LRSFA

1. Introduction

I am pleased to present the Trustee's Statement of Governance, covering the period 1st April 2020 to 31st March 2021, the 2020/21 Fund year ("the Fund 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 Market Advantage Fund
 - BlackRock Market Advantage Fund
 - iShares 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"). The Statement of Investment Principles ("SIP") was reviewed and updated in February 2021 by the Trustee Board.

2.2 Review

The Trustee undertakes a review of the strategy and performance of the default arrangement on a quarterly basis. This includes consideration of the extent to which the default arrangement has performed in line with the aims and objectives of the SIP. The 2021 triennial review of the default strategy commenced in May 2021, this being three years after the last triennial review was carried out. Any changes to the investments will be communicated in due course.

During the Fund Year 1 April 2020 to 31 March 2021 the Trustee reviewed the self-select fund range and made a number of changes to consolidate the range and move to passively managed funds. These changes included:

- Removal of the Stewart Investors Global Emerging Markets Leaders Pension Fund, with proceeds reinvested into the iShares Emerging Markets Equity Index Pension Fund within the LR Emerging Markets Equity Fund.
- Restructure of the LR Global Equity Fund to passively managed funds, and consolidation of the LR SL BlackRock ACS 50:50 Global Equity Tracker and LR SL BlackRock ACS 30:70 Global Equity Tracker (Hedged) into the LR Global Equity Fund.
- Removal of the Schroder ISF Global Diversified Growth Hedged Pension Fund, with proceeds reinvested into the BlackRock Market Advantage Pension Fund within the LR Moderate Fund and LR Diversified Growth Fund.
- Removal of the LR Pre Retirement Fund, with proceeds reinvested into the underlying funds, BlackRock Cash Pension Fund and iShares Index Linked Gilt Index Pension Fund.

The default arrangement has an AMC of 0.33% and was reviewed against the Charge Cap regulation and was confirmed to be within the regulations of this.

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 for accuracy and timeliness against a service level agreement (SLA) put in place between the scheme and the administrator. This monitoring is carried out on a quarterly basis.

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 2020 to 31 March 2021) 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 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 (%)	2020/21 Transaction costs (%)	2019/20 Transaction costs (%)	2018/19 Transaction costs (%)	Average transaction costs (%)	Total costs (%)
LR Adventurous	0.33	0.17	0.09	0.05	0.10	0.43
LR Diversified Growth	0.52	0.22	0.48	0.97	0.56	1.08
LR Emerging Markets Equity	0.39	0.05	0.18	0.49	0.24	0.63
LR Fixed Income	0.21	0.02	0.12	-0.02	0.04	0.25
LR Global Equity - Passive	0.24	0.14	0.08	0.11	0.11	0.35
LR Moderate	0.31	0.13	0.16	0.08	0.12	0.43
LR Property	0.31	0.23	0.36	0.50	0.36	0.67
LR SL BlackRock Cash	0.27	0.01	0.01	0.00	0.01	0.28
LR SL iShares Index Linked Gilt Index	0.21	0.04	0.06	0.09	0.06	0.27

LR SL iShares Over 15 Year Gilt Index	0.21	-0.04	-0.03	0.07	0.02	0.23
LR SL iShares UK Equity Index	0.23	0.43	0.11	0.25	0.26	0.49
LR Standard Life Long Corporate Bond	0.22	-0.26	0.20	-1.21	0.07	0.29
LR Sustainable Investments	0.30	0.03	0.00	0.00	0.01	0.31

The Trustee is also required to disclose the level of any transaction costs. These are incurred when the Fund'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, based on information provided by Standard Life as 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.

Illustrations about the cumulative effect of costs and charges on member savings within the Fund are set out in the Appendix.

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, Isio, 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.

In line with previous years, 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, contributions and associated benefits, administration and education and engagement. This is also an increase in weighted score from the last assessment, with continued improvement within 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 0.33%;
- 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 governing the Fund;
- There is a wide range of funds for members to invest in, including main and alternative asset classes;
- The quality of administration provided by Standard Life was of a high standard relative to other providers over the year
- The Fund has a flexible and very competitive contribution structure;

- Members have access to Salary Exchange and the full employer National Insurance saving is passed back to the member through additional salary; and
- The Fund's communications are clear and informative, and are supplemented by the Trustee through a specialist communications consultant.

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 changes relating to pensions and trust law and requirements in order to meet its objectives.

During each scheme year the Trustee meets 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 Fund 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.

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 advisers of the Fund.

During the Scheme 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 Scheme 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 Fund 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 Fund 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 Fund.

Key points to note

The tables below illustrate the potential impact that costs and charges might have on different investment options provided by the Fund. 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 lowest expected return (LR SL iShares Over 15 Year Gilt Index Fund)
4. The fund with the highest expected return (LR SL Sustainable Investments)

Member projections – the default lifestyle arrangement

The table sets out how the pension pot of members currently aged 19 and 45 will increase over time, with and without charges. Please see the Notes below for more details.

Active member – ongoing contributions assumed invested in the default lifestyle strategy				
	19-year-old member		45-year-old member	
Years from 31/3/21	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,813	3,804	52,590	52,394
3	10,741	10,669	79,815	79,009
5	18,091	17,892	108,302	106,533
10	38,484	37,633	184,094	177,963
15	62,125	60,042	260,613	246,737
20	89,532	85,478	325,552	300,745
25	121,304	114,352		
30	157,462	146,363		
35	195,327	178,204		
40	231,128	206,008		
46	258,832	222,963		

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 £39,500 for the 45-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 45-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:
 - 3.0% for periods up to 20 years to retirement
 - 2.6% when a member is 15 years from retirement
 - 2.1% when a member is 10 years from retirement
 - 0.9% when a member is 5 years from retirement
 - 0.0% 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 31/3/21	LR Diversified Growth		LR SL iShares Over 15 Year Gilt Index	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,750	3,727	3,707	3,702
3	10,250	10,077	9,931	9,894
5	16,750	16,292	15,908	15,812
10	33,000	31,252	29,835	29,490
15	49,250	45,425	42,425	41,707
20	65,500	58,851	53,805	52,620
25	81,750	71,571	64,091	62,367
30	98,000	83,621	73,389	71,074
35	114,250	95,036	81,794	78,851
40	130,500	105,850	89,391	85,797
46	150,000	118,078	97,551	93,161

45-year-old member				
Years from 31/3/21	LR Diversified Growth		LR SL iShares Over 15 Year Gilt Index	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	51,230	50,742	50,322	50,216
3	74,690	72,864	71,321	70,936
5	98,150	94,512	91,489	90,741
10	156,800	146,627	138,483	136,511
15	215,450	195,998	180,962	177,394
20	274,100	242,770	219,359	213,912

The tables above show the projected pots for a member aged 19 and a member aged 45 invested in the above funds. The LR Diversified Growth Fund has the highest charges of all funds available, while the LR SL iShares Over 15 Year Gilt Index 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 31/3/21	LR Sustainable Investments		LR SL iShares Over 15 Year Gilt Index	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,834	3,828	3,707	3,702
3	10,909	10,856	9,931	9,894
5	18,560	18,413	15,908	15,812
10	40,533	39,883	29,835	29,490
15	67,266	65,616	42,425	41,707
20	99,791	96,459	53,805	52,620
25	139,363	133,427	64,091	62,367
30	187,508	177,736	73,389	71,074
35	246,083	230,842	81,794	78,851
40	317,350	294,494	89,391	85,797
46	423,532	387,774	97,551	93,161

Notes on member illustrations

1. The illustrations show the how the pots grow for a 19-year-old member (the youngest member) and a 45-year-old member (which is the average age of Scheme members). The projections are to age 65 (i.e. in 46 and 20 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 45, we have used the median sized pot which is currently £39,500.
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 45-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	0.0%
LR SL iShares Over 15 Year Gilt Index Fund	-2.0%
LR Sustainable Investments	4.0%