

Lloyd's Register Superannuation Fund Association  
(LRSFA)

Chairman's Annual Governance Statement

1 April 2021 to 31 March 2022

Money Purchase Section of LRSFA

## 1. Introduction

I am pleased to present the Trustee's Statement of Governance, covering the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022, the 2021/22 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;
- Net returns of the investment options; and
- The requirement for trustee knowledge and understanding,

## 2. Default arrangement

As at 31 March 2022, the following arrangement was 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

20 years out from the Selected Retirement Age, a member's fund is moved out of the Adventurous Fund into new holdings in the other two detailed funds. A full breakdown of the switching process is detailed in the Statement of Investment Principles.

Shortly after the Fund year end, the Adventurous Fund was updated to invest in the following allocations:

- Lloyd's Register Adventurous Fund:
  - 63% SL ASI Sustainable Index World Equity
  - 7% SL Vanguard Emerging Markets Index
  - 30% BlackRock Market Advantage Fund

The trades to complete this restructuring were completed on 13 May 2022.

### 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, 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 2022 by the Trustee Board. Changes include an update to the strategic asset allocation for the Defined Benefit Section, as well as updating the underlying fund allocation for the LR Adventurous Fund (see details below).

## 2.2 Review of the default arrangement

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. As part of that review, the Trustee agreed to make a number of changes to the LR Adventurous Fund, which is used within the default strategy. This includes disinvesting from the Standard Life Overseas Tracker Equity and Vanguard FTSE UK All Share Equity Funds and reinvesting the proceeds in the ASI Sustainable Index World Equity Fund. The rationale for these changes were to take a more global approach and investing in a sustainable fund within the equity allocation. These changes were implemented shortly after the Fund year end.

The default arrangement has an AMC of 0.33% p.a. and was reviewed against the Charge Cap regulation and was confirmed to be within the regulations of this. The default AMC has been slightly reduced to 0.32% p.a. following the implementation of the default strategy changes.

## 3. Requirements for processing financial transactions

The Trustee regularly monitors core financial transactions of the Fund via the Fund administrator's administration report, which is provided on a quarterly basis. 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 Fund and the administrator. This monitoring is carried out through the Operations Committee (a sub-committee of the Trustees) who meet and carry out this monitoring on a quarterly basis. As an example, for the quarter ending 31 March 2022, 99.1% of tasks were completed within the Fund administrator's target of within 10 working days.

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 2021 to 31 March 2022) promptly and accurately, within the agreed SLA and demonstrated to the Trustee on a quarterly basis.

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## 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 (%)	2021/22 Transaction costs (%)	2020/21 Transaction costs (%)	2019/20 Transaction costs (%)	2018/19 Transaction costs (%)	Average transaction costs (%)	Total costs (%)
LR Adventurous	0.33	0.15	0.17	0.09	0.05	0.11	0.44
LR Diversified Growth	0.51	0.23	0.22	0.48	0.97	0.47	0.98
LR Emerging Markets Equity	0.39	0.19	0.05	0.18	0.49	0.23	0.62
LR Fixed Income	0.21	0.08	0.02	0.12	-0.02	0.05	0.26
LR Global Equity - Passive	0.24	0.12	0.14	0.08	0.11	0.11	0.35
LR Moderate	0.31	0.11	0.13	0.16	0.08	0.12	0.43
LR Property	0.31	-0.26	0.23	0.36	0.50	0.27	0.58
LR SL BlackRock Cash	0.27	0.02	0.01	0.01	0.00	0.01	0.28
LR SL iShares Index Linked Gilt Index	0.21	0.08	0.04	0.06	0.09	0.07	0.28
LR SL iShares Over 15 Year Gilt Index	0.21	0.04	-0.04	-0.03	0.07	0.03	0.24
LR SL iShares UK Equity Index	0.23	0.08	0.43	0.11	0.25	0.22	0.45
LR Standard Life Long Corporate Bond	0.22	0.50	-0.26	0.20	-1.21	0.18	0.40
LR Sustainable Investments	0.30	0.10	0.03	0.00	0.00	0.03	0.33

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. Transaction costs have been obtained for each year since 2018, which is when the new requirements were introduced, as Standard Life are unable to provide longer term data. 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 has assessed the extent to which the 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 based on Isio's assessment of the Fund compared to their knowledge of the wider market, 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 Trustees agreed to introduce a new ESG fund option into the default, and it is also noted that the Trustees received training on the Security of Assets during the Fund Year;
- The quality of administration provided by Standard Life was of a high standard relative to other providers over the year and the Trustees now have access to an online analytics tool so they have real time access to governance information on the Fund;
- 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. It is noted that an annual member survey is carried out and the Fund won two external awards for its communications during the Fund Year.

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## 5. Net investment returns

The Occupational Pension Schemes (Administration, Investment, Charges and Governance Amendment) Regulations 2021 introduces new requirements for Trustees of DC pension schemes. From 1 October 2021, the Trustees are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges. The Trustees calculated the return on investments, as far as they were able to do so.

Below are the annualised net investment returns to 31 March 2022 for all funds where no lifestyling takes place.

Fund	1 Year (%)	*Since inception (% p.a.)
LR Adventurous Fund	10.15	7.00
LR Diversified Growth	2.06	2.42
LR Emerging Markets Equity Fund	-4.02	0.97
LR Fixed Income Fund	-2.01	3.50
LR Global Equity	13.79	11.76
LR Moderate Fund	3.89	5.27
LR Property Fund	23.98	5.80
LR SL BlackRock Cash Pension Fund	0.26	0.39
LR SL iShares Index Linked Gilt Index Pension Fund	3.49	4.27
LR SL iShares Over 15 Year Gilt Index Pension Fund	-8.02	0.77
LR SL iShares UK Equity Index Pension Fund	12.97	3.91
LR Standard Life Long Corporate Bond Pension Fund	-7.46	2.46
LR Sustainable Investments	12.69	10.84

\*Note – Since inception net investment returns from 1 September 2018 to 31 March 2022.

Below are the annualised net investment returns to 31 March 2022 for all funds where lifestyling takes place.

### Default lifestyle

Age of member at beginning of period (years)	1 Year (%)	3 Years (% p.a.)
	1 April 2021 – 31 March 2022	1 April 2019 – 31 March 2022
25	10.15	8.94
45	10.15	8.73
55	7.80	6.31

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## Legacy lifestyles

### 5-year legacy

Age of member at beginning of period (years)	1 Year (%) 1 April 2021 – 31 March 2022	3 Years (% p.a.) 1 April 2019 – 31 March 2022
25	10.15	8.94
45	10.15	8.94
55	10.15	8.94

### 10-year legacy

Age of member at beginning of period (years)	1 Year (%) 1 April 2021 – 31 March 2022	3 Years (% p.a.) 1 April 2019 – 31 March 2022
25	10.15	8.94
45	10.15	8.94
55	10.15	7.22

### 15-year legacy

Age of member at beginning of period (years)	1 Year (%) 1 April 2021 – 31 March 2022	3 Years (% p.a.) 1 April 2019 – 31 March 2022
25	10.15	8.94
45	10.15	8.94
55	7.11	6.54

#### Notes:

- Longer term returns are not available from the Standard Life due to the inception date of the funds
- Returns are calculated as the annual geometric mean
- Age-related returns for members in lifestyle strategies assume annual switching in the glidepath and a retirement age of 65

## 6. 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 GMP equalisation and GMP rectification, Transfer Conditions and Pension Scams and TPR Single Code of Practice with past years covering funding principles, 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. In particular, specific DC training topics discussed during the Fund year included:

- Increasing Normal Minimum Pension Age
- Introduction of Pension dashboards
- Simplified Annual Benefit Statements
- Stronger "nudge" to pensions guidance
- New Value for Member requirements
- Options for dealing with small pension pots
- Introduction of Investment Retirement Pathways
- PLSA Responsible Investment Quality Mark

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)

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## Member projections – the default lifestyle arrangement

The table sets out how the pension pot of members currently aged 20 and 44 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				
	20-year-old member		44-year-old member	
Years from 31/3/22	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,824	3,815	47,146	46,964
3	10,825	10,751	68,491	67,786
5	18,324	18,119	91,171	89,669
10	39,494	38,604	153,525	148,465
15	64,637	62,421	221,508	210,016
20	94,498	90,111	285,268	264,308
21	101,112	96,168	296,821	273,645
25	129,965	122,306		
30	171,249	158,747		
35	217,024	197,335		
40	262,636	233,341		
45	298,508	258,087		

## 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 20-year-old member and £37,000 for the 44-year-old member.
4. Inflation is assumed to be 2.5% each year.
5. Gross contributions for the 20-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 £8,700 each year, this is based on an average salary of £43,500 and total contributions of 20%. 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:
  - 3.5% for periods up to 20 years to retirement
  - 3.2% when a member is 15 years from retirement
  - 2.9% when a member is 10 years from retirement
  - 1.8% when a member is 5 years from retirement
  - 0.8% 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.

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

20-year-old member				
Years from 31/3/22	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	3,782	3,761	3,718	3,713
3	10,494	10,334	10,010	9,972
5	17,409	16,976	16,115	16,015
10	35,624	33,884	30,593	30,227
15	55,247	51,237	44,017	43,244
20	76,387	69,045	56,465	55,167
25	99,160	87,322	68,006	66,089
30	123,694	106,079	78,707	76,093
35	150,123	125,328	88,630	85,257
40	178,596	145,083	97,830	93,650
45	209,268	165,357	106,361	101,338

44-year-old member				
Years from 31/3/22	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	46,320	45,915	45,080	44,980
3	65,382	63,884	60,877	60,526
5	85,019	82,041	76,204	75,536
10	136,749	128,265	112,554	110,835
15	192,478	175,704	146,258	143,167
21	265,065	234,278	183,482	178,400

The tables above show the projected pots for a member aged 20 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 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.

# LLOYDS REGISTER SUPERANNUATION FUND ASSOCIATION

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

20-year-old member				
Years from 31/3/22	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	3,845	3,838	3,718	3,713
3	10,993	10,937	10,010	9,972
5	18,799	18,641	16,115	16,015
10	41,602	40,893	30,593	30,227
15	70,019	68,188	44,017	43,244
20	105,432	101,669	56,465	55,167
25	149,563	142,737	68,006	66,089
30	204,558	193,113	78,707	76,093
35	273,092	254,905	88,630	85,257
40	358,497	330,702	97,830	93,650
45	464,928	423,676	106,361	101,338

44-year-old member				
Years from 31/3/22	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	47,559	47,422	45,080	44,980
3	70,123	69,589	60,877	60,526
5	94,763	93,643	76,204	75,536
10	166,746	163,124	112,554	110,835
15	256,450	248,351	146,258	143,167
21	393,702	376,487	183,482	178,400

The tables above show the projected pots for a member aged 20 and a member aged 44 invested in the above funds. The LR Sustainable Investments Fund has the highest expected return of all funds available, while the LR SL iShares Over 15 Year Gilt Index has the lowest expected return of all funds available. Please read the Notes below for more details around the assumptions used.

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## Notes on member illustrations

1. The illustrations show the how the pots grow for a 20-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 45 and 21 years' time respectively).
2. The starting pot size for the 20-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 £37,000.
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 20-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 £8,700 each year; this is based on an average salary of £43,500 and total contributions of 20%.
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.

<b>Fund</b>	<b>Return assumption above inflation (p.a.)</b>
LR Diversified Growth	1.5%
LR SL iShares Over 15 Year Gilt Index Fund	-1.0%
LR Sustainable Investments	4.5%