

LLOYDS REGISTER SUPERANNUATION FUND ASSOCIATION

Lloyd's Register Superannuation Fund Association (LRSFA)

Chairman's Annual Governance Statement

1 April 2022 to 31 March 2023

Money Purchase Section of LRSFA



LLOYDS REGISTER SUPERANNUATION FUND ASSOCIATION

1. Introduction

I am pleased to present the Trustee's Statement of Governance, covering the period 1st April 2022 to 31st March 2023, the 2022/23 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 2023, 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:
 - 63% abrdn Sustainable Index World Equity Fund
 - 30% BlackRock Market Advantage Fund
 - 7% SL Vanguard Emerging Markets Index
 - 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.

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 March 2023 by the Trustee Board. Changes include incorporating the Fund's stewardship priorities into manager monitoring and engagement as well as the addition of two new policies in relation to the investment management arrangements of the Fund, a Voting Policy and an Engagement policy.

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. Due to the market volatility and cost of living crisis, the Trustee issued a communication to members in January 2023 to encourage them to review their investment choices to ensure their arrangements were still suitable. The Trustee actively chose to retain the Fund's default arrangement.

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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 included 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 was to take a more global approach and investing in a sustainable fund within the equity allocation. These changes were implemented during the Fund year.

The default arrangement has an AMC of 0.33% p.a. and was reviewed against the Charge Cap regulation and was confirmed to be compliant with the regulations.

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 Trustee) who meet and carry out this monitoring on a quarterly basis. 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 2022 to 31 March 2023) promptly and accurately, within the agreed SLA and demonstrated to the Trustee 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.

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.

Fund	TER (%)	Average transaction costs (%)	Total costs (%)
LR Adventurous	0.33	0.13	0.46
LR Diversified Growth	0.51	0.47	0.98
LR Emerging Markets Equity	0.41	0.26	0.67
LR Fixed Income	0.21	0.07	0.28
LR Global Equity - Passive	0.24	0.12	0.36
LR Moderate	0.31	0.14	0.45
LR Property	0.31	0.30	0.61
LR SL BlackRock Cash	0.26	0.01	0.27
LR SL iShares Index Linked Gilt Index	0.20	0.07	0.27
LR SL iShares Over 15 Year Gilt Index	0.20	0.02	0.22
LR SL iShares UK Equity Index	0.22	0.20	0.42
LR Standard Life Long Corporate Bond	0.22	0.14	0.36
LR Sustainable Investments	0.30	0.03	0.33

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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.

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 and the Trustee 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

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- 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 has previously won two external awards for its communications.

The assessment noted that the Fund does not provide access to the full range of retirement options from within the scheme, with members having to transfer out if they wish to draw an income directly from their fund (known as Flexi Access Drawdown). A Joint Working Group made up of Trustees and Company representatives have been assessing the position and will continue to look into the options available to address the position.

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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 Trustee are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges. The Trustee calculated the return on investments, having regard to the statutory guidance, as far as they were able to do so.

Below are the annualised net investment returns to 31 March 2023 for all funds where no lifestyling takes place.

Fund	1 Year (%)	*Since inception (% p.a.)
LR Adventurous Fund	-4.1	4.4
LR Diversified Growth	-9.3	-0.3
LR Emerging Markets Equity Fund	-4.8	-0.6
LR Fixed Income Fund	-24.5	-3.5
LR Global Equity	-1.3	8.8
LR Moderate Fund	-12.7	1.0
LR Property Fund	-16.9	0.4
LR SL BlackRock Cash Pension Fund	2.2	0.8
LR SL iShares Index Linked Gilt Index Pension Fund	-29.7	-4.6
LR SL iShares Over 15 Year Gilt Index Pension Fund	-30.1	-7.0
LR SL iShares UK Equity Index Pension Fund	1.7	3.2
LR Standard Life Long Corporate Bond Pension Fund	-19.6	-2.8
LR Sustainable Investments	-6.1	7.0

*Note – Since inception net investment returns from 23 September 2018 to 31 March 2023.

Below are the annualised net investment returns to 31 March 2023 for all arrangements where lifestyling takes place.

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Default lifestyle

Age of member at beginning of period (years)	1 Year (%) 1 April 2022 – 31 March 2023	4 Years (% p.a.) 1 April 2019 – 31 March 2023
25	-4.1	5.5
45	-4.1	5.2
55	-5.6	2.4

Legacy lifestyles

5-year legacy

Age of member at beginning of period (years)	1 Year (%) 1 April 2022 – 31 March 2023	4 Years (% p.a.) 1 April 2019 – 31 March 2023
25	-4.1	5.5
45	-4.1	5.5
55	-4.1	5.5

10-year legacy

Age of member at beginning of period (years)	1 Year (%) 1 April 2022 – 31 March 2023	4 Years (% p.a.) 1 April 2019 – 31 March 2023
25	-4.1	5.5
45	-4.1	5.5
55	-4.1	2.0

15-year legacy

Age of member at beginning of period (years)	1 Year (%) 1 April 2022 – 31 March 2023	4 Years (% p.a.) 1 April 2019 – 31 March 2023
25	-4.1	5.5
45	-4.1	5.5
55	-9.2	1.4

Notes:

- Longer term returns (5 years) are not available from Standard Life due to the inception date of the funds

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- 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. Where gaps are identified in TKU relevant training is organised and provided (please see below for relevant examples for this scheme year).

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, in addition to the sessions described below, meets for a training session covering a specific topic, the topics change from year to year with a continued focus 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. In particular, specific DC training topics discussed during the Fund year included:

- Market update including the merits of Master Trust options
- Decumulation options in trust based schemes
- Combined Code of Practice
- Investing in illiquid assets
- Value for member consultation
- DWP request for evidence on small pots

The Trustee is advised by a number of specialist advisers and regularly seeks input from them where specialist knowledge is required. The Trustee carries out a regular review of its advisers to ensure that its advisers remain appropriate to the needs 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. The Trustee considers that the combined knowledge and understanding of its trustee directors, along with the advice it receives from its advisers, allows it to properly exercise its functions.



Nicholas Godden

Chairman to the Board of the Trustee

Lloyd's Register Superannuation Trustees Limited

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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 (LR SL iShares Over 15 Year Gilt Index Fund)
4. The fund with the lowest expected return (LR SL BlackRock Cash)
5. 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 20 and 46 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		46-year-old member	
Years from 31/3/23	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,432	3,423	64,741	64,464
3	9,608	9,539	92,862	91,772
5	16,224	16,033	122,526	120,221
10	34,898	34,076	202,637	195,108
15	57,078	55,034	284,328	267,986
19	77,783	74,213	344,788	318,846
20	83,420	79,378		
25	114,707	107,655		
30	150,454	138,921		
35	189,168	171,156		
40	226,039	199,653		
45	255,241	219,312		

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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 £51,279 for the 46-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 £2,865 each year, this is based on a salary of £22,038 and total contributions of 13%. The 46-year-old member is assumed to contribute £11,538 each year, this is based on an average salary of £50,166 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:
 - 3.5% for periods up to 20 years to retirement
 - 3.2% when a member is 15 years from retirement
 - 2.8% when a member is 10 years from retirement
 - 1.8% when a member is 5 years from retirement
 - 0.9% 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

20-year-old member				
Years from 31/3/23	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	3,384	3,365	3,355	3,351
3	9,240	9,097	9,023	8,991
5	15,212	14,832	14,634	14,551
10	30,675	29,177	28,419	28,102
15	46,927	43,535	41,862	41,172
20	64,008	57,907	54,973	53,777
25	81,960	72,292	67,759	65,934
30	100,828	86,690	80,228	77,658
35	120,658	101,102	92,389	88,966
40	141,499	115,527	104,249	99,872
45	163,404	129,965	115,815	110,391

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46-year-old member				
Years from 31/3/23	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	63,388	62,828	62,532	62,406
3	87,969	85,932	84,869	84,419
5	113,045	109,044	106,984	106,115
10	177,961	166,863	161,310	159,002
15	246,189	224,735	214,291	210,010
19	303,268	271,071	255,730	249,507

The tables above show the projected pots for a member aged 20 and a member aged 46 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

20-year-old member				
Years from 31/3/23	LR Sustainable Investments		LR SL BlackRock Cash	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	3,451	3,445	3,336	3,331
3	9,758	9,709	8,881	8,842
5	16,645	16,506	14,260	14,160
10	36,765	36,143	27,019	26,650
15	61,838	60,233	38,849	38,072
20	93,083	89,788	49,818	48,516
25	132,020	126,046	59,989	58,066
30	180,544	170,528	69,420	66,799
35	241,012	225,100	78,164	74,784
40	316,367	292,048	86,271	82,086
45	410,273	374,182	93,789	88,764

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46-year-old member				
Years from 31/3/23	LR Sustainable Investments		LR SL BlackRock Cash	
	Before charges (£)	After all costs and charges deducted (£)	Before charges (£)	After all costs and charges deducted (£)
1	65,381	65,195	61,961	61,805
3	95,519	94,795	82,847	82,300
5	128,430	126,916	103,111	102,075
10	224,573	219,709	151,171	148,524
15	344,386	333,549	195,733	190,997
19	461,148	442,947	229,035	222,343

The tables above show the projected pots for a member aged 20 and a member aged 46 invested in the above funds. The LR Sustainable Investments Fund has the highest expected return of all funds available, while the LR SL BlackRock Cash has the lowest expected return 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 20-year-old member (the youngest member) and a 46-year-old member (which is the average age of Scheme members). The projections are to age 65 (i.e. in 45 and 19 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 46, we have used the median sized pot which is currently £51,279.
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 £2,865 each year; this is based on a salary of £22,038 and total contributions of 13%. For the 46-year-old member, the illustrations assume ongoing contributions of £11,538 each year; this is based on an average salary of £50,166 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.

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Fund	Return assumption above inflation (p.a.)
LR Diversified Growth	1.0%
LR SL iShares Over 15 Year Gilt Index Fund	-0.5%
LR Sustainable Investments	4.5%
LR SL BlackRock Cash	-1.5%