

## **A T Mays Limited Pension and Life Assurance Scheme**

**Annual Report for the year ended 5 April 2019**

### **Annual Statement regarding Governance of the Money Purchase Section**

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#### **A T MAYS LIMITED PENSION AND LIFE ASSURANCE SCHEME CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR PERIOD 5 APRIL 2018 TO 5 APRIL 2019**

##### **Annual statement regarding the governance of the Money Purchase Section**

I am pleased to present the Trustee's statement of governance, covering the year to 5 April 2019. This statement describes how the Trustee seeks to ensure that the Money Purchase Section of the A T Mays Limited Pension and Life Assurance Scheme (the 'Scheme') is well-managed and delivers excellent value to members. The statement examines four key areas of the Trustee's governance, namely:

- The investment strategy;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme including the pounds and pence illustration of the compounding effect of charges; and
- The Trustee's compliance with the statutory knowledge and understanding requirements.

In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

Monitoring the overall quality of the Scheme arrangements is a complex task that the Trustee takes seriously, and is supported in this process, as well as the day-to-day business of running the Scheme, by a professional third party administrator and an independent advisor, covering governance, investment advice and wider DC matters.

This Statement does not contain advice in respect of actions that members should or should not take and is not intended to be used for that purpose. If members need advice, an adviser can be found at The Personal Finance Society - [www.thepfs.org/yourmoney/find-an-adviser/](http://www.thepfs.org/yourmoney/find-an-adviser/).

A copy of this Statement will be posted online together with a copy of the Scheme's Statement of Investment Principles at <https://microsite.ehr.com/thomascookpensions/at.mays>.

#### **Investment arrangements**

As the Scheme was not used by Thomas Cook UK Travel Limited ('the Company') for automatic enrolment there is no legal requirement for a default investment arrangement and the Scheme does not currently have one. For completeness, a copy of the latest Statement of Investment Principles (SIP) dated September 2019 which covers the Money Purchase Section is in Appendix 1 of this Statement.

There is no default option, but the Trustee offers two funds, the M&G Discretionary Fund and the M&G Cash Fund. The Trustee has monitored investment performance over the year covered by this Statement and has received professional advice in relation to the two funds which are available to members from their investment adviser, Barnett Waddingham. No changes have been made to the investment arrangements during the year.

The future of the Money Purchase Section is uncertain given the insolvency of the Principal employer. The Trustee will, however, keep the investment arrangements under review, and decisions will be taken about the future investment opportunities to be made available as part of the future decisions to be made in connection with the Money Purchase Section benefits.

#### *Environmental, Social and Governance considerations in investments*

The Trustee acknowledges and supports the DWP's requirements which came into force on 1 October 2019 and the SIP appended to this Statement sets out how the Trustee takes account of financially and non-financially material considerations, including Environmental, Social and Governance (ESG) issues.

The Trustee has instructed its investment adviser to review how ESG issues are taken into account for each of the Scheme's mandates, and to report back against its beliefs so that this can form part of the Trustee's implementation report that will be produced annually.

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##### Core financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. As the Scheme is closed, core financial transactions cover:

- Transfers out of the Scheme of assets relating to members;
- Switches of members' investments between difference funds within the Scheme; and
- Payments from the Scheme to or in respect of members (e.g. payment of death benefits and on retirement).

The Trustee recognises that delay and error can cause significant losses for members. They can also cause members to lose faith in the Scheme, which may impair future retirement outcomes. The Trustee therefore operates measures and controls aimed at ensuring that all financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately.

The Trustee currently delegates the day to day administration of Scheme member records to Mercer Limited, and this Statement covers the processes and arrangements for the year to 5 April 2019. The administrator is tasked with operating suitable measures and controls, more details of which are set out below.

However, the Trustee is aware that the responsibility for the running of the Scheme remains with it and it has implemented adequate internal controls, which are reviewed periodically.

Core financial transactions have been processed promptly and accurately as a result of the following actions:

- The Trustee uses a professional pensions administrator, Mercer.
- The Trustee has appropriate service agreements in place with the administrator and is aware of their key contacts such service agreements cover all core administration processes and incorporate performance standards, including timescales for completing tasks.
- These standards are monitored by the Trustee on a quarterly basis through administration reports and in more detail at its bi-annual meetings. The Trustee is committed to monitoring service to ensure that members receive service in line with expectations.

The Trustee has agreed minimum timescales for processing requests, including core financial transactions, which are well within any applicable statutory timescales. The following Service Level Agreements (SLAs) for the Scheme with the current administrator have been agreed:

Process Description	Service Level Agreement
Death - Settle Fund Benefits	2 working days
Retirement Annuity - Quotation	8 working days
Retirement Annuity - Settle	11 working days
Retirement Annuity - Purchase	11 working days
Transfer Out Quotation	17 working days
Transfer Out Settlement	13 working days

Mercer records all member transactions and benefit processing activities in a work management system which assigns the relevant timescales to the task.

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From 6 April 2018 to 5 April 2019, an overall service level of 90% was achieved for the Money Purchase Section. There were no issues in relation to the administration of the Money Purchase Section during the reporting year.

As a wider review of the Scheme administrator in general, the Trustee receives details of the administrators control procedures which govern the accuracy of their processes. The administrator employs an independent reporting accountant to report on their internal controls (AAF01/06/ISAE 3402). The report to 31 December 2018, which has been shared with the Trustee confirmed that the administrator's description of their control procedures over their administration and governance activities was fairly presented and that controls were suitably designed and operated efficiently in the year; no exceptions were noted. The Administrator undertakes a unit reconciliation for the Money Purchase Section on a monthly basis.

The processes adopted by the administrator to help meet the SLA's promptly and accurately include:

- Transactions are recorded and monitored on the Workflow system.
- Each transaction is peer reviewed.
- A monthly unit reconciliation.
- A monthly DC bank account reconciliation.

In addition to the above processes:

- The Trustee identifies, evaluates, manages and monitors risk. By incorporating risks identified in relation to core financial transactions into the risk register they are categorised and prioritised.
- Any administration errors will be resolved and managed within timescales agreed with the Trustee.
- The Trustee requires the administrators to provide quarterly stewardship reports.
- All documents are scanned and saved electronically. All electronic files are backed up on a daily basis with copies stored off site.
- All financial transactions are subject to annual audit requirements as part of the Trustee's Annual Report and Accounts.
- Detailed disaster recovery plans are in place with the administrator and other relevant third parties.
- Privacy and Information Security teams, policies, programs and procedures are in place to protect personal information from loss or abuse, and to support, where appropriate, the privacy rights and requests of the individuals whose information is processed. The Trustee and the Company review these processes on an ongoing basis, acknowledging that cyber security approaches must evolve as the cyber threat landscape changes.

Taking the above processes and controls into consideration, the Trustee is confident that all core financial transactions over the reporting year have been processed promptly and accurately. The Trustee notes that there were no issues relating to core financial transactions over the reporting year.

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##### AVC administration

The Trustee has delegated the administrative oversight of the separate AVC arrangements held with Prudential to Mercer. Mercer report back to the Trustee with any specific issues relating to the administration of the separate AVC policy. There were no issues reported to, or identified by, the Trustee in connection with the promptness or accuracy of the processing of core financial transactions for the AVC policies in the reporting year.

##### Costs and charges borne by members

The levels of charges and transaction costs applicable to the investment arrangements are detailed in this section. Although there is no default option, both of the funds offered to members have charges well within the 0.75% p.a. charge cap on default investment arrangements.

Charges relating to investment management are deducted from member's funds. The employer meets the costs of administration and the other costs of operating the Scheme.

Explicit charges known as the Total Expense Ratio (TER) consist principally of the manager's annual management charge (or AMC) for managing and operating a fund. The TER also includes the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. These are known as Additional Fund Expenses (or AFEs). However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs.

In addition to the charges above, transaction costs are incurred in the day-to-day operation of the investment funds, e.g. in relation to an investment fund's trades and switching between investment funds. Transaction costs in particular will vary significantly depending on a fund's investment remit and on the market environment.

Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity. The Trustee has requested details of the transaction costs applicable to the investment funds from M&G.

The table below shows the charges for each of the underlying funds available to members

Fund	Annual Management Charge (% p.a.)	Additional Fund Expenses (% p.a.)	Total Expense Ratio (% p.a.)	Transaction Cost (% p.a.)
M&G Discretionary	0.40	0.08	0.48	0.005
M&G Cash	0.10	0.00	0.10	-0.000

Source: M&G (31 March 2019)

The Trustee is aware that the Regulations require the transaction costs data to be based on an average of the past 5 years, however such data was not available for this timeframe. The Trustee, in conjunction with its professional advisers, will continue to remind the investment managers of their legal duty to provide such information.

##### AVC arrangement

Scheme members that hold AVC benefits with Prudential are invested in the With-Profits Cash Accumulation Fund. There is no explicit TER for this Fund as charges are deducted before bonuses are applied to members' benefits, however they are estimated to be in the region of 1%. For the year to 5 April 2019, the transaction costs were estimated to be 0.05%.

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As the assets invested in this fund were not material, we have not considered the impact of costs and charges further.

#### Illustration of the compounding effect of charges and transaction costs on members' benefits

Using the charges and transaction cost data and, in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared illustrations detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

For each individual illustration, the savings pot has been projected twice; first to allow for the assumed investment return gross of the costs and charges of the fund, and then again, but adjusted for the cumulative effect of the costs and charges of the fund as outlined above.

To determine the parameters used in these illustrations, the Trustee has analysed the membership data of those invested in the Money Purchase Section of the Scheme and ensured that the illustrations take into account the following:

- A representative pot size;
- The real terms investment returns (gross of costs and charges) for both funds
  - ◆ The M&G Discretionary Fund which has the highest charges, the highest assumed future investment return assumption and is the most popular fund by the number of members investing in it.
  - ◆ The M&G Cash Fund which has the lowest charges and the lowest assumed future investment return assumption.
- Representative years of Scheme membership, covering the approximate duration that a typical member would take to reach target retirement age. The youngest member is aged 46 and the illustrations to NRS therefore cover a maximum 20 year period.
- Future investment growth per annum is in line with the Financial Reporting Council's Actuarial Standard guidance Technical Memorandum 1 which is used in the illustrations in the annual benefit statements.

#### Projected Pension Pot (in today's money)

This isn't a personal illustration; it is based on the assumptions detailed later on in this document. The purpose of the illustration is to show how fund related costs and charges can affect the overall value of the funds you invest in over time.

Years	Impact of transaction costs and charges on fund values (£)			
	M&G Discretionary Fund		M&G Cash Fund	
	Before charges	After all charges	Before charges	After all charges
0	£10,000	£10,000	£10,000	£10,000
5	£11,717	£11,456	£10,000	£9,951
10	£13,728	£13,124	£10,000	£9,903
15	£16,085	£15,035	£10,000	£9,855
20	£18,847	£17,224	£10,000	£9,807

The 'Before Charges' column shows each fund value without any transaction costs, charges or expenses being applied to the fund's holdings.

The 'After all charges' column shows the fund's holdings after transaction costs, charges and expenses have been deducted.

If a member has invested £10,000 in the M&G Discretionary Fund on 5 April 2019, then when they came to retire in 10 years, the fund could be worth £13,728 if no charges are applied but £13,124 with charges applied.

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#### About the illustrations

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- The assumed Normal retirement age is 65.
- All members are deferred and thus there is no future contributions.
- The assumed existing fund value is £10,000 which is based on the average value of the total fund holdings within the Money Purchase Section of the Scheme.
- We have shown the two investment options which are available to members.
- The assumed growth rate used for each fund is in line with the guidance given in the Financial Reporting Council's AS TM1 guidance that is used for the annual benefit statements, as shown in the table below.

Future investment return assumptions	
M&G Discretionary Fund (% p.a.)	M&G Cash Fund (% p.a.)
3.3	0.00

The assumed future investment return assumptions are the growth rate for the fund after taking into account assumed price inflation of 2.5% per annum.

- Values shown are estimates and are not guaranteed.
- The charges for each fund used in the illustrations are those outlined in this statement.

#### Value for members

The Trustee is committed to ensuring that members receive good value from the Scheme. There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation.

In conjunction with its professional adviser at the time, the Trustee undertook a value for money assessment in 2017 which concluded that the Scheme's overall benefits and options provide members with good value. The assessment was based on Mercer's "the three P's framework" which strikes a balance between Price, Performance and Productivity. The reasons for this conclusion include:

- Charges for the Scheme's investments are significantly below the charge cap of 0.75% per annum;
- Based on Mercer's fee survey the charges on both funds were lower than the median fee for each mandate from the survey;
- Transaction charges reflected the true costs of trading assets and appeared reasonable and fair value relative to similar funds;
- Charges on the funds have been assessed by the Trustee as comparing favourably with those of peer funds and this is still believed to be the case.

Additionally, all administration, member communication and advisory costs associated with the operation of the Scheme are paid for from the Final Salary Section assets.

As mentioned above, the Scheme also has AVC assets with Prudential. The AVCs are invested in a with-profits fund, where all costs are met by the member. Assessing the value for money of a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a with-profits fund provides guarantees; whether this is a guaranteed pension or in the case of the Prudential fund, a guaranteed investment return and a capital guarantee.

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Therefore the Trustee feels it inappropriate to reach a general conclusion on value for member from the with-profits fund, as this will vary by member. The Trustee will keep the charges of this arrangement and the services provided by Prudential under review.

Given the uncertain position of the Scheme, the Trustee will seek to ensure that, if the Money Purchase Section benefits are to be discharged or the Scheme wound up, value for members is one of the key criteria in deciding how those benefits will be secured.

#### **Trustee Knowledge and Understanding**

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question.

The Trustee Directors are also required to explain how their combined knowledge and understanding, together with the advice which is available to them, enables them properly to exercise their functions as Trustee of the Scheme. Examples of the arrangements put in place under the Scheme to ensure this are as follows:

- The Trustee Directors receive regular training from their professional advisers and a trustee knowledge gap analysis was undertaken during one of the Trustee meetings during the reporting year to assess any gaps in the knowledge to be built into the training programme.
- The Trustee Directors received training which was specific to the actions being taken during the reporting year.

The Trustee received training on:

- ◆ DC governance statements;
  - ◆ The legal and actuarial implications of the proposed Scheme merger;
  - ◆ The Environmental, Social and Governance requirements for the Money Purchase Section; and
  - ◆ The revised requirements for the Statement of Investment Principles.
- In addition, the Trustees received a regular update on current topics, covering such items as industry trends and important legislative requirements.
  - The Trustee maintains a training register to keep a log of all training undertaken. The log is updated regularly. The ongoing training programme ensures a good level of knowledge around the law relating to pensions and trusts and the procedures and the principles of investment and funding.
  - The Trustee takes regular investment advice from their Investment Consultant on matters relating to the Scheme investments.
  - The Trustee also receives advice from professional advisors and the relevant skills and experience of those advisors is a key criterion to helping the Trustee ensure it is conversant with, and can thus demonstrate a working knowledge of, the Scheme documents. In the reporting period, the Trustee took advice on and referred to :
    - ◆ the Trust Deed and Rules in relation to the proposed Scheme merger
    - ◆ the Statement of Investment Principles as it was updated to reflect new legislative requirements.
    - ◆ updates to the Scheme's risk register.

Based on these actions, taken individually and as a Trustee body, and the professional advice available to them, the Trustee considers that it has sufficient skills and resources to properly exercise its function as a Trustee.

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**Chair's declaration**

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee of the A T Mays Limited Pension and Life Assurance Scheme.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

**Chair of the A T Mays Limited Pension and Life Assurance Scheme**

Date: 11 DECEMBER 2019