# THE GUEST MOTORS LIMITED PENSION AND ASSURANCE SCHEME
## Annual governance statement by the Chair of Trustees

**Introduction**

The Guest Motors Limited Pension and Assurance Scheme ("the Scheme") is and always has been operated as a Defined Benefit ("DB") pension scheme. Therefore, it was the view of the Trustees that the Scheme was exempt from the new DC governance rules on the basis that we already review and assess our systems, processes and controls across key governance functions to ensure they are consistent with those set out in The Pension Regulator's Codes of Practice governing DB pension schemes.

Nevertheless, an investigation has revealed that there are a number of Scheme members who have been left with DC only benefits, further details are provided later in this statement. This means that, as the appointed Chair of the Trustees, I have to provide you with a yearly statement which explains what steps have been taken by the Trustee Board, with help from our professional advisers, to meet the DC governance standards. The law sets out what information has to be included in my statement and this is covered in sections 1 to 6 below.

I welcome this opportunity to explain to you what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact the Scheme consultants at the following address:

Mr Nicholas Atkin
Atkin Pensions
Cornwall House, Blythe Valley Park, Solihull. B90 8AF
Tel: 0121 506 8200

**1. Setting an appropriate investment strategy**

The Trustee Board is responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme, including the investment strategy for the Scheme's default investment arrangement where appropriate (i.e. the investment arrangement for members who join the Scheme and who do not choose an investment option for their contributions).

The Scheme has a default investment arrangement only to the extent that, under the rules of the Scheme all invested assets (excluding any benefits derived from Additional Voluntary Contributions – AVCs) are 'pooled' together and are used to meet the DB liabilities of the Scheme. The extent to which members have separate non-AVC DC investment accounts under the Scheme is only in respect of any post -1997 'protected rights' benefits plus member contributions in excess of National Insurance rebate payments and the investment growth achieved on these payments over time.

The rules state that members should only derive a DC entitlement under the Scheme if the value of their DC investment account is sufficient to secure benefits, at normal pension age, greater than their DB entitlement under the Scheme.

Members have no say in how the non-AVC assets of the Scheme are invested.

In setting the investment strategy for the Scheme the Trustees have regard to the best interests of the members and their beneficiaries as a whole rather than the needs of any particular group of members. Nevertheless, as stated above, the Trustees recognise that there are a number of 'short service' members who have been left with a DC only entitlement under the Scheme. The performance of the Scheme's investment strategy is of direct relevance to these members.

Before preparing the SIP the Trustees took advice from our investment adviser, Capital Professional Limited (trading as Bellpenny) who are authorised and regulated by the Financial Conduct Authority, and consulted with the Scheme Actuary and Guest Motors Limited as the Principal Employer of the Scheme.

**2. Reviewing the investment arrangement**

We review and update the Scheme's SIP at regular intervals and at least once every three years (in line with the valuation cycle for the DB liabilities). We also review the performance of the Scheme's investment strategy at each regular Trustee Meeting.

The three year performance of all of the funds used by the Scheme as at 31st March 2022 is as follows;

| Fund | 12 Months | | 3 Years | |
|---|---|---|---|---|
| | Fund % | Index % | Fund % | Index % |
| Legal & General UK Equity Index Fund | 13.16 | 13.03 | 5.40 | 5.31 |
| Legal & General North America Equity Index Fund | 19.70 | 19.68 | 18.45 | 18.42 |
| Legal & General Europe (ex UK) Equity Index Fund | 6.20 | 6.21 | 9.60 | 9.62 |
| Legal & General Japan Equity Index Fund | (2.42) | (2.32) | 6.43 | 6.47 |
| Legal & General Asia Pacific (ex Japan) Index Fund | 2.17 | 2.20 | 8.19 | 8.18 |
| Legal & General Diversified Fund | 6.11 | 12.95 | 6.71 | 14.61 |
| Legal & General Active Corporate Bond – Over 10 Years Fund | (6.24) | (7.60) | 2.39 | 1.17 |
| Legal & General AAA-AA Fixed Interest – Over 15 Years Target Fund | (7.65) | - | (0.31) | - |
| Legal & General Over 15 Year Index Linked Gilt Fund | 3.94 | 3.93 | 3.17 | 3.16 |
| **Overall** | **5.02** | | **5.62** | |

We are satisfied that each fund is performing in line with its objectives and the expectations for the relevant investment sector.

Furthermore, we are satisfied that the Scheme's investment strategy fully complies with the requirements of the Occupational Pension Scheme (Investment) Regulations 2005. For example,

- The assets are invested in the best interests of the Scheme members and beneficiaries, and;
- The assets of the scheme are properly diversified in such a way so as to avoid the accumulation of risk in the portfolio as a whole.

**3. Charges and transaction costs paid by members**

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer.

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

Members who have a DB entitlement do not incur any charges or transaction costs. This is because;

- All the expenses of the Scheme, other than the annual management charges applicable to each of the funds used by the Scheme and the annual PPF levy, are paid by the Principal Employer, Guest Motors Limited.
- It is expected that the benefits they will derive from the Scheme will be in respect of their DB entitlement and not in respect of their DC investment account.

Those members who do not have a DB entitlement will only be impacted by the annual management charges applicable to each of the funds used by the Scheme. These charges are deducted on a regular basis from the units held in each fund.

The current annual management charges for the funds used by the Scheme range between 0.10% and 0.30%. This is because the majority of the funds used by the Scheme are low cost index tracker funds. Transaction costs are typically less than 0.02%.

## 4. Good value for members

The Trustee Board is required to assess the charges and transaction costs which are payable by members and to consider the extent to which the investments options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our adviser and considered regulatory guidance.

Firstly, we compared the annual management charges applicable to all funds used by the Scheme with Government requirements for default arrangements under qualifying workplace pension schemes (i.e. schemes that are used for automatic enrolment). We determined that all these charges are significantly below the maximum of 0.75% permitted for qualifying workplace pension schemes.

Secondly, we compared the Scheme's investment strategy with Government requirements for default funds used by qualifying workplace schemes. We determined that the Scheme's investment strategy;

- Does have a high-level objective, which explains in broad terms what it aims to do and the principles adopted in order to achieve this aim.
- Does have a clear description of how it manages risk
- Does manage risk through the appropriate and diversified allocation of assets.
- Does have clearly disclosed charges.
- Does as far as is reasonable take account of the needs of the members.

Thirdly, we considered the Scheme's investment strategy in relation to the benefits of membership. We concluded that;

- The benefits of membership for the majority of members are much greater than the value of their individual DC investment accounts under the Scheme.
- The minority of members who do not have a DB entitlement under the Scheme still benefit from the extremely low charges applicable to all the funds used by the Scheme.
- The overall investment performance of the Scheme is reasonable in relation to the outcomes expected from investment.

We recognise that the benefit options under the Scheme are limited for those members with DC only entitlements. Nevertheless, based on our assessment, we determined that the Scheme represents good value for members.

The Trustees do not believe that it is practical to transfer these benefits to an alternative investment arrangement and, therefore, best value for money for members will be achieved by providing them with a more generous DB underpin and are working to achieve this objective.

## 5. Cumulative effects of charges and transaction costs over time

The table below shows projected pension pot values in today's prices after allowing for inflation, before and after charges and costs are deducted.

**ILLUSTRATIVE EXAMPLE**

| Projected pension pot in today's money | | |
|---|---|---|
| Years | Before charges | After all charges + costs deducted |
| 1 | **100,000** | **100,000** |
| 3 | **106,121** | **105,187** |
| 5 | **110,408** | **108,794** |
| 10 | **121,899** | **118,361** |
| 15 | **134,587** | **128,770** |
| 20 | **148,595** | **140,094** |
| 25 | **164,061** | **152,414** |
| 30 | **181,136** | **165,817** |

**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. It is assumed that the member is aged 35 at the start of the projection and retires after 30 years at age 65.
3. The starting pot size is assumed to be £100,000.
4. Inflation is assumed to be 2.5% each year.
5. It is assumed that no further contributions are paid.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rate used is 2% above inflation.
8. As an illustration, the impact of expenses of 0.3% p.a. is shown.

All costs relating to the administration of the Scheme, including any transaction costs and the costs of settling benefits, are met by the employer.

The Trustees are satisfied that the charges and transaction costs represent good value for money

## 6. Core financial transactions

The Trustee Board is required to report to you about the processes and controls in place in relation to the "core financial transactions". The law specifies that these include the following:

- investing contributions paid into the Scheme*;
- transferring assets related to members into** or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

* *Member contribution to the Scheme ceased with effect from 31st April 2012.*
** *Transfers into the Scheme are not permitted*

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme's administrator, Atkin Pensions.

Atkin Pensions provides regular reports to the Trustee board which allows us to assess how quickly and effectively the core scheme financial transactions are completed. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

A Service Level Agreement is in place with Atkin Pensions which specifies agreed timescales for carrying out key tasks and transactions. Atkin Pensions reports its performance against these SLA targets on a bi-annual basis.

I am pleased that in the last scheme year there have been no material administration service issues which need to be reported here by the Trustees. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

In addition, noting that we need accurate member data in order to ensure that the right benefits are paid to the right members at the right time Atkin Pensions undertook a detailed data cleanse at the time of their appointment in 2015.

We are currently working with Atkin Pensions and HM Revenue and Customs to investigate any issues with the member data received from the previous Scheme administrator.

## 7. Trustee knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07. The comments in this section relate to the Trustees as a body in dealing with the whole scheme and are not restricted to the DC section.

The Trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. In addition, the Trustees receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

All the Trustees are aware of the need to comply with the Pension Regulator's Trustee Toolkit and new Trustees are asked to complete this within six months of taking up office.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

Signed on behalf of the Chair of Trustees